

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF HISTORY, ARTS AND LIBRARIES

October 1, 2001 through September 30, 2002

AND THE

LIBRARY OF MICHIGAN

October 1, 2000 through September 30, 2001



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Department of History, Arts and Libraries

October 1, 2001 through September 30, 2002

Library of Michigan

October 1, 2000 through September 30, 2001

Report Number:
 25-100-03

Released:
 June 2003

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Background:

The Department of History, Arts and Libraries (HAL) was created in August 2001 by Act 63, P.A. 2001 (Sections 399.701 - 399.722 of the *Michigan Compiled Laws*). The Library of Michigan, initially created under the control of the Legislative Council, was created within HAL by Act 62, P.A. 2001, effective October 1, 2001.

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Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on HAL's and the Library of Michigan's financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify a reportable condition (Finding 1).

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**Noncompliance Material to
 the Financial Schedules**

We did not identify any instances of noncompliance applicable to the financial

schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 3 programs as major programs and issued 3 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not report any findings related to internal control over major programs.

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Required Reporting of Noncompliance

We identified an instance of noncompliance that is required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Finding 2).

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Systems of Accounting and Internal Control:

We determined that HAL and the Library of Michigan were in substantial compliance with Sections 18.1483 - 18.1487 of the Michigan Compiled Laws.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
15.904	Historic Preservation Fund Grants-In-Aid	Unqualified
45.025	Promotion of the Arts - Partnership Agreements	Unqualified
45.310	State Library Program	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 27, 2003

Dr. William M. Anderson, Director
Department of History, Arts and Libraries
702 West Kalamazoo Street
Lansing, Michigan

Dear Dr. Anderson:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of History, Arts and Libraries for the period October 1, 2001 through September 30, 2002 and the Library of Michigan for the period October 1, 2000 through September 30, 2001.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Department of History, Arts and Libraries and the Library of Michigan financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains the summary schedule of prior audit findings, the corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

March 28, 2003

Dr. William M. Anderson, Director
Department of History, Arts and Libraries
702 West Kalamazoo Street
Lansing, Michigan

Dear Dr. Anderson:

We have audited the financial schedules of the Department of History, Arts and Libraries for the fiscal year ended September 30, 2002 and the Library of Michigan for the fiscal year ended September 30, 2001, as identified in the table of contents. These financial schedules are the responsibility of management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the financial schedules include only the revenues and the sources and disposition of authorizations for the Department of History, Arts and Libraries' and Library of Michigan's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do purport to, and do not, constitute a complete financial presentation of the Department of History, Arts and Libraries; the Library of Michigan; or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the Department of History, Arts and Libraries for the fiscal year ended September 30, 2002 and of the Library of Michigan for the fiscal year ended September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2003 on our tests of compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of General Fund Revenues
Fiscal Year Ended September 30, 2002

REVENUES

From federal agencies:

Institute of Museum and Library Services	\$ 4,683,963
U.S. Department of the Interior	889,520
National Endowment for the Arts	599,850
National Endowment for the Humanities	7,385
Other federal funds	<u>20</u>
Total from federal agencies	\$ 6,180,738

From services	<u>1,084,100</u>
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Total Revenues	<u><u>\$ 7,264,838</u></u>
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The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30, 2002

SOURCES OF AUTHORIZATIONS (Note 2)	
General purpose appropriations	\$ 64,920,600
Budgetary transfers in (out)	3,394,713
Balances carried forward	899,560
Restricted financing sources	8,385,015
Less: Intrafund expenditure reimbursements	<u>(1,135,030)</u>
 Total	 <u><u>\$ 76,464,858</u></u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)	
Gross expenditures and transfers out	\$ 73,431,526
Less: Intrafund expenditure reimbursements	<u>(1,135,030)</u>
Net expenditures and transfers out	<u>\$ 72,296,496</u>
Balances carried forward:	
Multi-year projects	\$ 153,163
Encumbrances	935,998
Restricted revenues - authorized	499,283
Restricted revenues - not authorized	535,415
Total balances carried forward	<u>\$ 2,123,859</u>
Balances lapsed	<u>\$ 2,044,503</u>
 Total	 <u><u>\$ 76,464,858</u></u>

The accompanying notes are an integral part of the financial schedules.

LIBRARY OF MICHIGAN
Schedule of General Fund Revenues
Fiscal Year Ended September 30, 2001

REVENUES

From federal agencies:	
Institute of Museum and Library Services	\$ 4,183,493
National Endowment for the Humanities	<u>46,453</u>
Total from federal agencies	<u>\$ 4,229,946</u>
From services	346,776
Miscellaneous	<u>716</u>
Total Revenues	<u><u>\$ 4,577,438</u></u>

The accompanying notes are an integral part of the financial schedules.

LIBRARY OF MICHIGAN
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30, 2001

SOURCES OF AUTHORIZATIONS (Note 2)	
General purpose appropriations	\$ 35,197,400
Budgetary transfers in (out)	(2,358,936)
Balances carried forward	791,449
Restricted financing sources	<u>4,577,438</u>
Total	<u><u>\$ 38,207,351</u></u>
DISPOSITION OF AUTHORIZATIONS (Note 2)	
Expenditures and transfers out	<u>\$ 37,321,104</u>
Balances carried forward:	
Multi-year projects	\$ 279,464
Encumbrances	275,709
Restricted revenues - authorized	<u>330,620</u>
Total balances carried forward	<u>\$ 885,793</u>
Balances lapsed	<u>\$ 454</u>
Total	<u><u>\$ 38,207,351</u></u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of History, Arts and Libraries (HAL) for the fiscal year ended September 30, 2002 and of the Library of Michigan for the fiscal year ended September 30, 2001. The financial transactions of HAL and the Library of Michigan are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to HAL and to the Library of Michigan. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; and Pension Benefits and Other Postemployment Benefits.

The financial schedules do not include the financial activities of the Mackinac Island State Park Commission (MISPC), a component unit of the State of Michigan. MISPC issues separate financial statements and is audited separately.

HAL was created by Act 63, P.A. 2001 (Sections 399.701 - 399.722 of the *Michigan Compiled Laws*), effective August 6, 2001. The Library of Michigan, which was initially created in 1837 and shifted to the control of the Legislative Council by Act 540, P.A. 1982, was created within HAL by Act 62, P.A. 2001, effective October 1, 2001. All of the programs and financial operations of the Library of Michigan during fiscal year 2000-01 became part of HAL for fiscal year 2001-02. Other major programs that were transferred to HAL, effective for fiscal year 2001-02, include the Michigan Council for Arts and Cultural Affairs, which was transferred from the Department of Consumer and Industry Services; the Michigan Film Office, which was transferred from the Michigan Economic Development Corporation; the Michigan Historical Center, which was transferred from the Department of State; and MISPC, which was transferred from the Department of Natural Resources.

The mission of HAL is to enrich the quality of life for Michigan residents by providing access to information preserving and promoting Michigan's heritage and fostering cultural creativity.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules include only the revenues and the sources and disposition of authorizations for HAL's General Fund accounts for the fiscal year ended September 30, 2002 and for the Library of Michigan's General Fund accounts for the fiscal year ended September 30, 2001. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of HAL, the Library of Michigan, or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are

approved by the Office of Financial Management, Department of Management and Budget. Significant transfers in to HAL for fiscal year 2001-02 included \$1,925,551 from the Department of Consumer and Industry Services, \$885,337 from the Department of State, and \$555,173 from the Library of Michigan. Significant transfers out of the Library of Michigan for fiscal year 2000-01 included \$2,564,436 to the Legislative Service Bureau for Michigan Library and Historical Center building operations.

- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for restricted revenues - not authorized. Significant balances carried forward into HAL in fiscal year 2001-02 included \$395,910 from Heritage Publications magazine subscriptions, \$330,620 from Library of Michigan user fees, and \$159,555 from Museum Store operations. Significant balances carried forward into the Library of Michigan in fiscal year 2000-01 included \$683,270 from the Library of Michigan operations.

- d. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized. HAL's significant restricted financing sources for fiscal year 2001-02 included \$4,703,963 from State Library Program federal grants; \$868,622 from MISPC; \$599,850 from the National Endowment for the Arts, and \$537,085 from Heritage Publications magazine subscriptions. The Library of Michigan's significant restricted financing sources for fiscal year 2000-01 included \$4,183,492 from State Library Program federal grants and \$393,496 from Library of Michigan user fees.

- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations. Significant encumbrances as of September 30, 2002 for HAL included \$567,542 for Michigan Historical Center administration and services and \$269,134 for library automation projects. Significant encumbrances as of September 30, 2001 for the Library of Michigan included \$165,613 for library automation projects.
- g. Restricted revenues - authorized: Revenues that, by statute or the State Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization. Significant restricted revenues - authorized for HAL in fiscal year 2001-02 included \$302,591 from Library of Michigan user fees and \$173,727 from Museum Store operations. Significant restricted revenues - authorized for the Library of Michigan in fiscal year 2000-01 included \$330,620 from collected gifts and fees.
- h. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, HAL had not received legislative authorization to expend the revenues. Significant restricted revenues - not authorized for HAL in fiscal year 2001-02 included \$420,748 from Heritage Publications magazine subscriptions and \$110,579 from the Mann House Trust.
- i. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of Certain General Fund Assets and Liabilities
As of September 30, 2002

ASSETS

Accounts Receivable:		
Due from federal agencies	\$	783,998
Due from other funds		59,065
Miscellaneous		46,968
Total Accounts Receivable	\$	890,031

LIABILITIES

Accounts payable	\$	4,383,356
Due to other funds	\$	2,233
Due to component units	\$	654,666
Deferred revenue - current	\$	71,980
Deferred revenue - long-term	\$	165,881

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of History, Arts and Libraries. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

LIBRARY OF MICHIGAN
Schedule of Certain General Fund Assets and Liabilities
As of September 30, 2001

ASSETS

Accounts Receivable:	
Due from federal agencies	\$ 604,365
Miscellaneous	<u>59,545</u>
Total Accounts Receivable	\$ 663,910

LIABILITIES

Accounts payable	\$ 1,505,067
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This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Library of Michigan. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of Disposition of General Fund Authorizations by Line Item
Fiscal Year Ended September 30, 2002

Line Item	Total Authorizations	Expenditures and Transfers Out	Balances Carried Forward	Balances Lapsed
Departmental Operations:				
Unclassified	\$ 122,400	\$ 122,400	\$	\$
Management services	133,100	131,525	1,575	
Building occupancy charges and rent	182,700	179,845	2,855	
Workers' compensation	29,788	29,788		
Office of Film and Television Services	143,500	143,500		
Michigan Library and Historical Center operations	2,633,964	2,633,964		
Michigan Council for Arts and Cultural Affairs:				
Administration	859,500	790,487	62,522	6,492
Arts and cultural grants	25,599,501	25,567,832		31,669
Arts and cultural supplemental grants	2,000,000			2,000,000
Museum of African-American History	1,000,000	1,000,000		
Art grants - Application fees	43,757	43,757		
Library of Michigan:				
Operations	8,683,596	8,622,758	60,838	
State aid to libraries	13,327,000	13,327,000		
Grant to Detroit Public Library	2,877,100	2,877,100		
Subregional State aid	561,200	561,200		
Grant to Wayne County Library	46,600	46,600		
Library Services and Technology	4,703,963	4,703,963		
National Endowment for the Humanities	7,385	7,385		
Library automation	646,013	507,120	138,893	
Book distribution centers	308,400	308,400		
Grant to Grand Rapids Public Library	199,200	199,200		
Renaissance Zone reimbursement	806,412	806,363		49
User fees - State restricted	355,688	53,097	302,591	
Statewide database access	1,024,300	954,897	69,403	
Michigan Historical Center:				
Historical administration and services*	5,970,335	5,158,558	811,777	
Federal programs	944,816	944,816		
Less: Intrafund expenditure reimbursements	(109,721)	(109,721)		
Heritage Publications*	920,331	499,583	420,748	
Private grants and gifts*	59,729	55,640	4,089	
Museum Store	550,335	376,608	173,727	
Historical marker repair and preservation	76,492	53,528	22,965	
Mackinac Island State Park Commission:				
Mackinac Island Park operation	1,543,661	1,508,190	29,179	6,293
Less: Intrafund expenditure reimbursements	(40,309)	(40,309)		
Historical facilities systems	1,239,122	1,216,422	22,700	
Less: Intrafund expenditure reimbursements	(985,000)	(985,000)		
Total	\$ 76,464,858	\$ 72,296,496	\$ 2,123,859	\$ 2,044,503

* The balances carried forward for these line items include not authorized amounts as follows:

Historical administration and services for Mann House - \$110,579

Heritage Publications - \$420,748

Private grants and gifts - \$4,089

LIBRARY OF MICHIGAN
Schedule of Disposition of General Fund Authorizations by Line Item
Fiscal Year Ended September 30, 2001

Line Item	Total Authorizations	Expenditures and Transfers Out	Balances Carried Forward	Balances Lapsed
Operations	\$ 9,338,974	\$ 9,248,424	\$ 90,096	\$ 454
State aid to libraries	14,289,185	14,289,185		
Grant to Detroit Public Library	5,871,600	5,871,600		
Subregional State aid	604,300	604,300		
Grant to Wayne County Library	49,200	49,200		
Library Services and Technology	4,183,492	4,183,492		
National Endowment for the Humanities	46,453	46,453		
Library automation	816,731	651,118	165,613	
Book distribution centers	332,000	332,000		
Grant to Grand Rapids Public Library	406,400	406,400		
Renaissance Zone reimbursement	520,411	520,411		
Collected gifts and fees	384,326	53,706	330,620	
Michigan Library and Historical Center operations	279,464		279,464	
Statewide database access	1,084,815	1,064,815	20,000	
Total	\$ 38,207,351	\$ 37,321,104	\$ 885,793	\$ 454

LIBRARY OF MICHIGAN AND DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2000 through September 30, 2002

Federal Agency/Program	CFDA (Note 2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2001 (Note 3)		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Commerce</u>					
Pass-Through Program:					
Michigan Department of Environmental Quality					
Coastal Zone Management Administration Awards	11.419	02-CE-7.02	\$	\$	\$ 0
		01-CD-11.06			0
		01-CE-11.07			0
Total U.S. Department of Commerce			\$ 0	\$ 0	\$ 0
<u>U.S. Department of the Interior</u>					
Direct Program:					
Historic Preservation Fund Grants-In-Aid	15.904		\$	\$	\$ 0
Total U.S. Department of the Interior			\$ 0	\$ 0	\$ 0
<u>U.S. Department of Transportation</u>					
Pass-Through Program:					
Michigan Department of Transportation					
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	ENH200200261	\$	\$	\$ 0
		ENH200200272			0
Total U.S. Department of Transportation			\$ 0	\$ 0	\$ 0
<u>National Endowment for the Arts</u>					
Direct Program:					
Promotion of the Arts - Partnership Agreements	45.025		\$	\$	\$ 0
Total National Endowment for the Arts			\$ 0	\$ 0	\$ 0
<u>National Endowment for the Humanities</u>					
Direct Program:					
Promotion of the Humanities - Division of Preservation and Access	45.149		\$ 46,453	\$	\$ 46,453
Total National Endowment for the Humanities			\$ 46,453	\$ 0	\$ 46,453
<u>Institute of Museum and Library Services</u>					
Direct Program:					
State Library Program	45.310		\$ 3,309,907	\$ 1,753,585	\$ 5,063,492
Total Institute of Museum and Library Services			\$ 3,309,907	\$ 1,753,585	\$ 5,063,492
<u>U.S. National Commission on Libraries and Information Science</u>					
Direct Program:					
Library Statistics Program - Training and Technical Assistance	84 (Note 4)		\$	\$	\$ 0
Total U.S. National Commission on Libraries and Information Science			\$ 0	\$ 0	\$ 0
Total Expenditures of Federal Awards			\$ 3,356,360	\$ 1,753,585	\$ 5,109,945

See accompanying notes to the schedule of expenditures of federal awards.

<u>For the Fiscal Year Ended September 30, 2002</u>			Total Expended and Distributed for the Two-Year Period
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 4,206	\$	\$ 4,206	\$ 4,206
21,450		21,450	21,450
25,000		25,000	25,000
\$ 50,656	\$ 0	\$ 50,656	\$ 50,656
\$ 810,256	\$ 79,263	\$ 889,519	\$ 889,519
\$ 810,256	\$ 79,263	\$ 889,519	\$ 889,519
\$ 19,065	\$	\$ 19,065	\$ 19,065
40,000		40,000	40,000
\$ 59,065	\$ 0	\$ 59,065	\$ 59,065
\$	\$ 598,050	\$ 598,050	\$ 598,050
\$ 0	\$ 598,050	\$ 598,050	\$ 598,050
\$ 7,385	\$	\$ 7,385	\$ 53,838
\$ 7,385	\$ 0	\$ 7,385	\$ 53,838
\$ 2,927,910	\$ 1,752,680	\$ 4,680,590	\$ 9,744,082
\$ 2,927,910	\$ 1,752,680	\$ 4,680,590	\$ 9,744,082
\$ 20	\$	\$ 20	\$ 20
\$ 20	\$ 0	\$ 20	\$ 20
<u>\$ 3,855,292</u>	<u>\$ 2,429,993</u>	<u>\$ 6,285,285</u>	<u>\$ 11,395,230</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule includes the federal grant activity of the Library of Michigan for fiscal year 2000-01 and the Department of History, Arts and Libraries (HAL) for fiscal year 2001-02 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

Note 2 CFDA

CFDA is defined as *Catalog of Federal Domestic Assistance*.

Note 3 Program Transfers

This schedule includes programs that were transferred to HAL effective in fiscal year 2001-02. Those programs include:

- a. Coastal Zone Management Administration Awards (*CFDA* No. 11.419). This program was included in the Financial Audit, including the Provisions of the Single Audit Act, of the Department of Environmental Quality for fiscal year 2000-01.
- b. Historic Preservation Fund Grants-In-Aid (*CFDA* No. 15.904). This program was included in the Financial Audit, including the Provisions of the Single Audit Act, of the Department of State for fiscal year 2000-01.
- c. Highway Planning and Construction (*CFDA* No. 20.205). This program was included in the Financial Audit, including the Provisions of the Single Audit Act, of the Michigan Department of Transportation for fiscal year 2000-01.
- d. Promotion of the Arts - Partnership Agreements (*CFDA* No. 45.025). This program was included in the Financial Audit, including the Provisions of the Single Audit Act, of the Department of Consumer and Industry Services for fiscal year 2000-01.

Note 4 CFDA Number Not Available

The *CFDA* number was not available. The number shown was derived from the federal agency number and the grant or contract number, if available.



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

March 28, 2003

Dr. William M. Anderson, Director
Department of History, Arts and Libraries
702 West Kalamazoo Street
Lansing, Michigan

Dear Dr. Anderson:

We have audited the financial schedules of the Department of History, Arts and Libraries for the fiscal year ended September 30, 2002 and of the Library of Michigan for the fiscal year ended September 30, 2001, as identified in the table of contents, and have issued our report thereon dated March 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect management's ability to record, process,

summarize, and report financial data consistent with the assertions of management in the financial schedules. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition identified in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 28, 2003

Dr. William M. Anderson, Director
Department of History, Arts and Libraries
702 West Kalamazoo Street
Lansing, Michigan

Dear Dr. Anderson:

Compliance

We have audited the compliance of the Department of History, Arts and Libraries and the Library of Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the two-year period ended September 30, 2002. The major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

In our opinion, the Department of History, Arts and Libraries and the Library of Michigan complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the two-year period ended September 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

Reportable condition* identified that is not considered to be a material weakness? Yes

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.904	Historic Preservation Fund Grants-In-Aid
45.025	Promotion of the Arts - Partnership Agreements
45.310	State Library Program

Dollar threshold used to distinguish between type A and type B programs: \$341,857

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (250301)

1. Internal Control Over Cash Receipts

The Department of History, Arts and Libraries (HAL) should improve its internal control over mail opening and the processing of cash receipts.

HAL processed approximately \$480,000 in cash mail receipts during fiscal year 2001-02. Our review of HAL's mail opening and its processing of cash receipts disclosed:

- a. HAL did not require two employees to open the mail. Also, the employee opening mail did not record checks received on a cash receipts log.

Department of Management and Budget (DMB) Administrative Guide procedure 1270.02 provides that two persons should open mail under controlled conditions and that all cash receipts be recorded on a cash receipts log.

* See glossary at end of report for definition.

- b. HAL did not require that checks received in the mail be restrictively endorsed immediately upon receipt. Instead, checks were not restrictively endorsed until received by the cashier. DMB Administrative Guide procedure 1270.02 provides that all checks and money orders be restrictively endorsed immediately upon receipt.

DMB Administrative Guide procedure 1270.02 requires an agency to develop procedures that provide alternate controls if the agency determines that it is impractical to comply with any of the control features mentioned in the procedure. Justification for these alternate controls and internal operating procedures must be submitted to and approved by DMB prior to implementation. These weaknesses increase the risk that cash receipts could be lost or misappropriated.

RECOMMENDATION

We recommend that HAL improve its internal control over mail opening and the processing of cash receipts.

The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (250302)

2. Indirect Costs

U.S. Department of the Interior	CFDA: 15.904 Historic Preservation Fund Grants-In-Aid
Grant Number: 26-01-16422	Award Period: 10/01/01 - 09/30/02
	Questioned Costs: \$30,031

HAL applied its predetermined indirect cost rate against ineligible expenditures. As a result, HAL overdraw federal funds, as indirect costs, from the Historic Preservation Fund Grants-In-Aid Program (CFDA No. 15.904) totaling \$30,031.

In accordance with OMB Circular A-87, *Cost Principles for State and Local Governments*, departments should apply their indirect cost rate to salaries, wages,

and related expenditures only. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved.

For Historic Preservation Fund Grants-In-Aid grant expenditures incurred during fiscal year 2001-02, HAL applied its predetermined indirect cost rate of 14.2% to expenditures totaling approximately \$444,400. However, our review disclosed that approximately \$211,500 of these expenditures were not related to salaries and wages and, thus, were not eligible for indirect cost recovery. This resulted in questioned costs of \$30,031.

RECOMMENDATION

We recommend that HAL apply its predetermined indirect cost rate against only eligible expenditures.

OTHER SCHEDULES

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Summary Schedule of Prior Audit Findings
As of September 30, 2002

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 030101

Finding Title: Recording of Accounts Payable

Finding: The Library of Michigan should improve its procedures to ensure that accounts payable are properly recorded at fiscal year-end.

Comments: The Department of History, Arts and Libraries, which is responsible for the follow-up of the prior audit finding, will continue to review year-end closing instructions and schedules, issued by the Department of Management and Budget, with staff to ensure that procedures are followed to record accounts payable properly. Managers continue to monitor the documents processed at closing for accuracy in posting to the correct fiscal year.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards in the prior Single Audit.

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES

Corrective Action Plan

As of June 9, 2003

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 250301

Finding Title: Internal Control Over Cash Receipts

Management Views: The Department of History, Arts, and Libraries (HAL) processed approximately 18,000 transactions totaling \$480,000 in "cash mail receipts" during fiscal year 2001-02. Of the 18,000 transactions, only 13 were currency, which totaled \$262. The balance of "cash mail receipts" were in the form of checks.

HAL agrees that it was not in full compliance with all processes outlined in the Department of Management and Budget (DMB) Administrative Guide procedure 1270.02. However, it has procedures in place that provide alternate controls that fulfill the purposes of the DMB Administrative Guide procedure.

Corrective Action: HAL submitted justification for these alternate controls and internal operating procedures to the DMB Office of Financial Management for review and written approval.

Anticipated Completion Date: In process

Responsible Individual: Janet Laverty

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 250302
Finding Title: Indirect Costs

Management Views: HAL agrees and has received authorization from the grantor agency (the National Park Service - Heritage Preservation Services Division, U.S. Department of the Interior) to correct the total overdrawn indirect costs of \$30,031 through an accounting recode process. The process will reclassify expenditures of \$6,997 coded for State match and \$23,034 coded to the fiscal year 2001-02 award as eligible fiscal year 2000-01 continuation award expenditures. To reduce future risk of error, HAL has implemented a process that requires the review and approval of draw requests by the chief accountant prior to their release.

Corrective Action: HAL took corrective action related to this finding during fiscal year 2002-03.

Anticipated Completion Date: Completed
Responsible Individual: Janet Laverty

Glossary of Acronyms and Terms

CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
HAL	Department of History, Arts and Libraries.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MISPC	Mackinac Island State Park Commission.
OMB	U.S. Office of Management and Budget.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing this "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be

necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.