



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
 07-100-05

Department of Management and Budget

October 1, 2002 through September 30, 2004

Released:
 May 2005

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.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the Department of Management and Budget's (DMB's) financial schedules.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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**Noncompliance or Other Matters
 Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited one program as a major program and issued an unqualified opinion. The federal program audited as a major program is identified on the back of this summary.

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Internal Control Over Major Programs

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

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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 1).

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Systems of Accounting and Internal Control:

We determined that DMB was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following program as a major program:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
39.003	Donation of Federal Surplus Personal Property	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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

May 26, 2005

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Management and Budget (DMB) for the period October 1, 2002 through September 30, 2004.

This report contains our report summary; our independent auditor's report on the financial schedules; and the DMB financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's reports on internal control over financial reporting and on compliance and other matters, our independent auditor's report 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 DMB's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our finding and recommendation are contained in Section III of the schedule of findings and questioned costs. The agency preliminary response is 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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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Schedules

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

We have audited the financial schedules of the Department of Management and Budget for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents. These financial schedules are the responsibility of the Department's 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 1, the financial schedules present only the revenues and transfers and the sources and disposition of authorizations for the Department of Management and Budget's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of the Department; its special revenue, capital projects, internal service, and trust funds; or the State's General Fund in conformity 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 transfers and the sources and disposition of authorizations of the Department of Management and Budget for the fiscal years ended September 30, 2004 and September 30, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 18, 2005 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 Department's 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, are fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

February 18, 2005

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Transfers
Fiscal Years Ended September 30
(In Thousands)

	2004	2003
REVENUES (Note 2)		
Taxes	\$ 12,000	\$
From federal agencies	27,577	13,256
From local agencies		124
From services	4,475	3,543
From licenses and permits	1,000	
Miscellaneous	22,011	34,004
Total Revenues	\$ 67,063	\$ 50,927
 TRANSFERS (Note 2)		
From Counter-Cyclical Budget and Economic Stabilization Fund	\$	\$ 124,068
From Michigan Merit Award Trust Fund	63,000	151,300
From State Employees' Retirement Fund		58,211
From other funds	12,576	30,990
Total Transfers	\$ 75,576	\$ 364,569
 Total Revenues and Transfers	\$ 142,639	\$ 415,496

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

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>2004</u>	<u>2003</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 2,053,421	\$ 2,253,675
Budgetary transfers in (out)	113	(1,170)
Budgetary adjustments	1,609	9,324
Balances carried forward	82,976	94,662
Restricted financing sources	167,506	162,000
Less: Intrafund expenditure reimbursements	<u>(110,495)</u>	<u>(117,665)</u>
Total	<u>\$ 2,195,130</u>	<u>\$ 2,400,826</u>
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers out (Note 4)	\$ 2,233,259	\$ 2,426,570
Less: Intrafund expenditure reimbursements	(110,495)	(117,665)
Net expenditures and transfers out	<u>\$ 2,122,764</u>	<u>\$ 2,308,905</u>
Balances carried forward:		
Multi-year projects	\$ 7,919	\$ 8,028
Encumbrances	8,581	23,021
Restricted revenues - not authorized	47,543	51,928
Total balances carried forward	<u>\$ 64,043</u>	<u>\$ 82,977</u>
Balances lapsed (Note 4)	<u>\$ 8,323</u>	<u>\$ 8,944</u>
Total	<u>\$ 2,195,130</u>	<u>\$ 2,400,826</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 governmental operations of the Department of Management and Budget (DMB) for the fiscal years ended September 30, 2004 and September 30, 2003. The governmental operations of DMB 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 financial schedules do not include several other financial activities that are accounted for in various major, special revenue, capital projects, internal service, and trust funds of the State that are audited separately. Those funds include the Counter-Cyclical Budget and Economic Stabilization Fund, Vietnam Veterans' Memorial Monument Fund, Law Enforcement Officers' Memorial Fund, Advance Financing Funds, State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Risk Management Fund, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, and retirement funds administered by the Office of Retirement Systems.

The notes accompanying these financial schedules relate directly to DMB. The *SOMCAFR* provides more extensive disclosures regarding significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; pension and other postemployment benefits; leases; long-term obligations; transfers; fund balances; contingencies and commitments; and risk management.

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 present only the General Fund revenues and transfers and the sources and disposition of authorizations for DMB's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of DMB; its special revenue, capital projects, internal service, and trust funds; or the State's General Fund in conformity with generally accepted accounting principles.

Note 2 Schedule of General Fund Revenues and Transfers

Revenue from taxes consisted of transfers of tax revenue from the Commercial Mobile Radio Service Emergency Telephone Fund required by Act 237, P.A. 2003. Revenue from federal agencies reported on the schedule of General Fund revenues and transfers consisted mainly of federal reimbursements for capital outlay projects from the Department of Military and Veterans Affairs. This revenue was not federal assistance for DMB because the Department of Military and Veterans Affairs was responsible for compliance with federal requirements. Revenue from services consisted of revenue for employee parking and interagency billings for costs of special maintenance projects completed by DMB staff. Revenue from licenses and permits consisted of transfers of license fee revenue required by Act 276, P.A. 2004. Miscellaneous revenue consisted mainly of revenue for interagency billings for central services provided by DMB.

Transfers from other funds reported on the schedule of General Fund revenues and transfers included transfers made from the Counter-Cyclical Budget and Economic Stabilization Fund. The Counter-Cyclical Budget and Economic Stabilization Fund was created by Act 76, P.A. 1977, to assist in stabilizing revenues and employment during periods of economic recession. In general, the law requires payments into the Fund when real economic growth exceeds 2% and allows withdrawals from the Fund when real economic growth is less than 0%. Withdrawals can also be made when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects or for other purposes designated by the Legislature. In fiscal year 2002-03, the

State recorded a transfer from the Fund to the General Fund totaling \$124.1 million to ensure a balanced General Fund budget. This transfer was authorized by Act 504, P.A. 2002.

The transfers from other funds also included transfers from the Michigan Merit Award Trust Fund. This Fund was created by Act 94, P.A.1999, to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. In fiscal years 2003-04 and 2002-03, the State recorded transfers from the Fund to the General Fund totaling \$63.0 million and \$151.3 million, respectively. These transfers were authorized by Act 530, P.A. 2002; Act 39, P.A. 2003; and Act 237, P.A. 2003. Also, in fiscal year 2002-03, a transfer of \$58.2 million was made from the State Employees Retirement Fund health advance funding subaccount to the General Fund. This transfer was made in accordance with Act 743, P.A. 2002.

Note 3 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 DMB Office of Financial Management.
- 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 the restricted revenues - not authorized.
- 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.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. A significant intrafund expenditure reimbursement was from the rental of State buildings. The amount received from building rentals totaled \$74.8 million and \$80.9 million for fiscal years 2003-04 and 2002-03, respectively.
- f. Expenditures and transfers out: Charges incurred for work performed, supplies and materials delivered, services rendered, and grants, regardless of whether payment has been made. Operating grants to State colleges and universities are included as part of DMB in the schedule of sources and disposition of General Fund authorizations. Expenditures related to these colleges and universities totaled \$1.7 billion and \$1.9 billion for fiscal years 2003-04 and 2002-03, respectively. Transfers out are transfers to other State funds. Significant transfers out included the transfer of \$81.3 million to the Counter-Cyclical Budget and Economic Stabilization Fund in fiscal year 2003-04.
- g. 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.
- h. 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.
- i. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, DMB had not received legislative authorization to expend the revenues. Significant

carry-forwards of this type were amounts for employee severance pay and amounts collected for employee development.

- j. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are no longer available for DMB to expend but are available for legislative appropriation in the subsequent fiscal year.

Note 4 Payroll and Fringe Benefit Accrual

In fiscal year 2003-04, the DMB Office of Financial Management changed its method of computing and recording accrued payroll and fringe benefit expenditures. In the *SOMCAFR*, the expenditures are not reported at the agency level; instead, they are presented at the Statewide level. The Office of Financial Management has issued a waiver which allows departments to report these transactions in their financial schedules for the fiscal year ended September 30, 2004. Reporting these transactions at the department level resulted in an increase to DMB's expenditures and transfers out and a decrease to balances lapsed of \$0.2 million.

**SUPPLEMENTAL
FINANCIAL SCHEDULES**

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Transfers by Appropriation Unit
Fiscal Year Ended September 30, 2004
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES						
Taxes	\$	\$ 12,000	\$	\$	\$	\$ 12,000
From federal agencies		27,577				27,577
From local agencies						0
From services	4,475					4,475
From licenses and permits			1,000			1,000
Miscellaneous	15,798	6,069	21	123		22,011
Total Revenues	<u>\$ 20,273</u>	<u>\$ 45,646</u>	<u>\$ 1,021</u>	<u>\$ 123</u>	<u>\$ 0</u>	<u>\$ 67,063</u>
TRANSFERS						
From Counter-Cyclical Budget and Economic Stabilization Fund	\$	\$	\$	\$	\$	\$
From Michigan Merit Award Trust Fund			63,000			63,000
From State Employees' Retirement Fund						
From other funds	1,576		11,000			12,576
Total Transfers	<u>\$ 1,576</u>	<u>\$ 0</u>	<u>\$ 74,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,576</u>
Total Revenues and Transfers	<u>\$ 21,849</u>	<u>\$ 45,646</u>	<u>\$ 75,021</u>	<u>\$ 123</u>	<u>\$ 0</u>	<u>\$ 142,639</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Transfers by Appropriation Unit
Fiscal Year Ended September 30, 2003
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES						
Taxes	\$	\$	\$	\$	\$	\$ 0
From federal agencies		13,256				13,256
From local agencies		124				124
From services	3,543					3,543
From licenses and permits						0
Miscellaneous	18,294	15,687	(18)	41		34,004
Total Revenues	<u>\$ 21,837</u>	<u>\$ 29,067</u>	<u>\$ (18)</u>	<u>\$ 41</u>	<u>\$ 0</u>	<u>\$ 50,927</u>
TRANSFERS						
From Counter-Cyclical Budget and Economic Stabilization Fund	\$	\$	\$ 124,068	\$	\$	\$ 124,068
From Michigan Merit Award Trust Fund			151,300			151,300
From State Employees' Retirement Fund			58,211			58,211
From other funds	4,794		26,196			30,990
Total Transfers	<u>\$ 4,794</u>	<u>\$ 0</u>	<u>\$ 359,775</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 364,569</u>
Total Revenues and Transfers	<u>\$ 26,631</u>	<u>\$ 29,067</u>	<u>\$ 359,757</u>	<u>\$ 41</u>	<u>\$ 0</u>	<u>\$ 415,496</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2004
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>
SOURCES OF AUTHORIZATIONS			
General purpose appropriations	\$ 35,829	\$ 216,774	\$ 81,258
Budgetary transfers in (out)	113		
Budgetary adjustments		1,609	
Balances carried forward	35,398	47,573	
Restricted financing sources	117,457	50,049	
Less: Intrafund expenditure reimbursements	<u>(104,072)</u>	<u>(6,423)</u>	
 Total	 <u>\$ 84,725</u>	 <u>\$ 309,582</u>	 <u>\$ 81,258</u>
DISPOSITION OF AUTHORIZATIONS			
Gross expenditures and transfers out	\$ 149,220	\$ 283,138 *	\$ 81,258
Less: Intrafund expenditure reimbursements	<u>(104,072)</u>	<u>(6,423)</u>	
Net expenditures and transfers out	<u>\$ 45,148</u>	<u>\$ 276,715</u>	<u>\$ 81,258</u>
Balances carried forward:			
Multi-year projects	\$	\$ 7,916	\$
Encumbrances	50	8,531	
Restricted revenues - not authorized	34,968	12,575	
Total balances carried forward	<u>\$ 35,018</u>	<u>\$ 29,022</u>	<u>\$ 0</u>
Balances lapsed	<u>\$ 4,559</u>	<u>\$ 3,845</u>	<u>\$</u>
 Total	 <u>\$ 84,725</u>	 <u>\$ 309,582</u>	 <u>\$ 81,258</u>

* Gross expenditures and transfers out for Capital Outlay include \$238.6 million in rent paid to the State Building Authority to service the debt incurred by the State Building Authority to finance capital outlay projects.

<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Payroll Adjustments</u>	<u>Total</u>
\$ 1,719,560	\$	\$	\$ 2,053,421
			113
			1,609
	5		82,976
			167,506
			(110,495)
<u>\$ 1,719,560</u>	<u>\$ 5</u>	<u>\$ 0</u>	<u>\$ 2,195,130</u>
\$ 1,719,433	\$ 2	\$ 208	\$ 2,233,259
			(110,495)
<u>\$ 1,719,433</u>	<u>\$ 2</u>	<u>\$ 208</u>	<u>\$ 2,122,764</u>
\$	\$ 3	\$	\$ 7,919
			8,581
			47,543
<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 64,043</u>
<u>\$ 127</u>	<u>\$</u>	<u>\$ (208)</u>	<u>\$ 8,323</u>
<u>\$ 1,719,560</u>	<u>\$ 5</u>	<u>\$ 0</u>	<u>\$ 2,195,130</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2003
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>
SOURCES OF AUTHORIZATIONS			
General purpose appropriations	\$ 39,630	\$ 289,167	\$
Budgetary transfers in (out)	(1,170)		
Budgetary adjustments		9,324	
Balances carried forward	31,116	63,539	
Restricted financing sources	143,077	18,923	
Less: Intrafund expenditure reimbursements	(117,171)	(494)	
	<u>95,482</u>	<u>380,459</u>	<u>0</u>
Total	\$ 95,482	\$ 380,459	\$ 0
DISPOSITION OF AUTHORIZATIONS			
Gross expenditures and transfers out	\$ 175,368	\$ 326,434 *	\$
Less: Intrafund expenditure reimbursements	(117,171)	(494)	
Net expenditures and transfers out	<u>\$ 58,197</u>	<u>\$ 325,940</u>	<u>\$ 0</u>
Balances carried forward:			
Multi-year projects	\$	\$ 8,023	\$
Encumbrances	711	22,310	
Restricted revenues - not authorized	34,687	17,241	
Total balances carried forward	<u>\$ 35,398</u>	<u>\$ 47,574</u>	<u>\$ 0</u>
Balances lapsed	<u>\$ 1,887</u>	<u>\$ 6,945</u>	<u>\$ 0</u>
	<u>95,482</u>	<u>380,459</u>	<u>0</u>
Total	\$ 95,482	\$ 380,459	\$ 0

* Gross expenditures and transfers out for Capital Outlay include \$282.7 million in rent paid to the State Building Authority to service the debt incurred by the State Building Authority to finance capital outlay projects.

<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
\$ 1,924,878	\$	\$ 2,253,675
		(1,170)
		9,324
	7	94,662
		162,000
		(117,665)
<u>\$ 1,924,878</u>	<u>\$ 7</u>	<u>\$ 2,400,826</u>
\$ 1,924,767	\$ 1	\$ 2,426,570
		(117,665)
<u>\$ 1,924,767</u>	<u>\$ 1</u>	<u>\$ 2,308,905</u>
\$	\$ 5	\$ 8,028
		23,021
		51,928
<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 82,977</u>
<u>\$ 111</u>	<u>\$ 1</u>	<u>\$ 8,944</u>
<u>\$ 1,924,878</u>	<u>\$ 7</u>	<u>\$ 2,400,826</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2002 through September 30, 2004

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
<u>U.S. Department of Justice</u>					
Pass-Through Program:					
Violent Offender Incarceration Truth-In-Sentencing Incentive Grants	16.586	96-CV-VX-0026	\$ 34,291	\$	\$ 34,291
Total U.S. Department of Justice			\$ 34,291	\$ 0	\$ 34,291
Total Financial Assistance			\$ 34,291	\$ 0	\$ 34,291
<u>Nonfinancial Assistance</u>					
<u>General Services Administration</u>					
Direct Program:					
Donation of Federal Surplus Personal Property (3)	39.003		\$ 8,476,132	\$	\$ 8,476,132
Total General Services Administration			\$ 8,476,132	\$ 0	\$ 8,476,132
Total Nonfinancial Assistance			\$ 8,476,132	\$ 0	\$ 8,476,132
Total Expenditures of Federal Awards			<u>\$ 8,510,423</u>	<u>\$ 0</u>	<u>\$ 8,510,423</u>

- (1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Management and Budget (DMB) 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.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) For Donation of Federal Surplus Personal Property, the directly expended amount is the acquisition value of property donated (sold) during the fiscal year. Revenue is not recognized when property is received and expenditures are not recognized when property is donated because it is a noncash nonfinancial transaction. The donee does not pay for the property but does pay a small service charge to cover the operating costs of the program.
- (4) The Department of Management and Budget (DMB) recorded federal revenue of \$13.3 million and \$27.6 million in fiscal years 2002-03 and 2003-04, respectively, for capital outlay projects for the Department of Military and Veterans Affairs (DMVA). This revenue was not federal assistance for DMB because DMVA was responsible for compliance with federal requirements. Consequently, these projects were audited as part of the DMVA Single Audit.

For the Fiscal Year Ended September 30, 2004

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$	\$	\$ 0	\$ 34,291
\$ 0	\$ 0	\$ 0	\$ 34,291
\$ 0	\$ 0	\$ 0	\$ 34,291

\$ 7,617,972	\$	\$ 7,617,972	\$ 16,094,104
\$ 7,617,972	\$ 0	\$ 7,617,972	\$ 16,094,104
\$ 7,617,972	\$ 0	\$ 7,617,972	\$ 16,094,104
<u>\$ 7,617,972</u>	<u>\$ 0</u>	<u>\$ 7,617,972</u>	<u>\$ 16,128,395</u>

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INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

We have audited the financial schedules of the Department of Management and Budget for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents, and have issued our report thereon dated February 18, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

February 18, 2005



STATE OF MICHIGAN
OFFICE OF THE 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

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

Compliance

We have audited the compliance of the Department of Management and Budget 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, 2004. The Department's major federal program is 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 the Department's management. Our responsibility is to express an opinion on the Department's 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 the Department's 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 the Department's compliance with those requirements.

In our opinion, the Department of Management and Budget complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2004. 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 1.

Internal Control Over Compliance

The management of the Department 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 the Department's 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.

We noted a matter involving the internal control over compliance 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 the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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

February 18, 2005

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 conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance or other matters material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
A reportable condition identified that is not considered to be a material weakness?	Yes
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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
39.003	Donation of Federal Surplus Personal Property

Dollar threshold used to distinguish between type A and type B programs: \$483,852

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedules

We did not report any findings related to the financial schedules.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (070501)

1. Documentation of Nonprofit Status

General Services Administration	CFDA 39.003: Donation of Federal Surplus Personal Property
Award Number: Not applicable	Award Period: Not applicable
	Questioned Costs: \$300

The Department of Management and Budget's (DMB's) internal control did not ensure that nonprofit organizations receiving federal surplus property submitted required documentation of their nonprofit status.

We noted that 10 of 34 nonprofit organizations reviewed had paid service costs of \$6,285 for federal surplus property during our audit period but had not submitted documentation of their tax exempt status and other documentation, such as a copy of applicable State licenses. Consequently, DMB cannot document that the nonprofit organizations were eligible to receive federal surplus property. In response to the noted exceptions, DMB subsequently obtained required documentation for 9 of the nonprofit organizations.

Under the federal surplus property program, public agencies and qualified nonprofit organizations may receive federal surplus property. Title 41, Part 102-37, section 390 of the *Code of Federal Regulations* provides that a nonprofit organization purchasing surplus property must prove that it is tax exempt under Section 501 of the *Internal Revenue Code* and demonstrate that it meets any applicable licensing requirements for its program.

* See glossary at end of report for definition.

DMB procedures require nonprofit organizations to submit documentation at or before the time of purchase of their nonprofit status, including a copy of their tax-exempt certificate issued by the Internal Revenue Service and a copy of any applicable State licenses. In response to our prior audit finding, DMB developed a database to track donee eligibility; however, this control was not effective. DMB did not keep the database current and did not refer to the database prior to selling the surplus property.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DMB IMPROVE ITS INTERNAL CONTROL TO ENSURE THAT NONPROFIT ORGANIZATIONS RECEIVING FEDERAL SURPLUS PROPERTY SUBMIT REQUIRED DOCUMENTATION OF THEIR NONPROFIT STATUS.

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

OTHER SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET
Summary Schedule of Prior Audit Findings
As of September 30, 2004

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

There were no findings related to the financial schedules and financial statements in the prior Single Audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 070301

Finding Title: Federal Surplus Property Program

Finding: The Department of Management and Budget did not ensure that nonprofit organizations that purchase federal surplus property submitted required documentation of their nonprofit status.

Comments: We requested copies of current licenses and tax-exempt certificates for the file for all nonprofit organizations. We have established a database to track nonprofit organization licenses and tax-exempt certificate expiration dates.

DEPARTMENT OF MANAGEMENT AND BUDGET

Corrective Action Plan

As of April 26, 2005

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2002-03 and 2003-04.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 070501

Finding Title: Documentation of Nonprofit Status

Management Views: We agree with this finding and recommendation and have complied.

Corrective Action: We obtained all but one of the missing documents requested by the auditors. In the future, we will obtain all required documents prior to sales to nonprofit organizations.

Anticipated Completion Date: Completed

Responsible Individual: Cynthia Johnson, Financial Services

GLOSSARY

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
DMVA	Department of Military and Veterans Affairs.
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.
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 changes in financial position 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.
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) initiate, record, process, 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 *Government Auditing Standards* 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 in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states that:

- 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 an "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.

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