



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

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Including the Provisions of the Single Audit Act
Department of Technology, Management & Budget
October 1, 2008 through September 30, 2010

Report Number:
071-0100-11

Released:
April 2011

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 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 Technology, Management & Budget's (DTMB'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 and 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*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited one cluster (including 2 ARRA related programs) as a major program and issued an unqualified opinion. DTMB expended a total of \$359.3 million in federal awards, including \$358.2 million of ARRA funding, during the two-year period ended September 30, 2010. The cluster 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 report any findings related to internal control over federal program compliance.

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Required Reporting of Noncompliance

We did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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Internal Accounting and Administrative Control System:

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget, we have evaluated the implementation of only Section 18.1485 in this financial audit.

Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that DTMB was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

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We audited the following cluster as a major program:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
84.394	State Fiscal Stabilization Fund Cluster: ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	Unqualified
84.397	ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	

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

April 6, 2011

John E. Nixon, C.P.A., Director
Department of Technology, Management & Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nixon:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Technology, Management & Budget (DTMB) for the period October 1, 2008 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial schedules, and the DTMB financial schedules and supplemental financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements that could have a direct and material effect on 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 DTMB's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

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

John E. Nixon, C.P.A., Director
Department of Technology, Management & Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nixon:

We have audited the accompanying financial schedules of the Department of Technology, Management & Budget for the fiscal years ended September 30, 2010 and September 30, 2009, 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 other financing sources and the sources and disposition of authorizations for the Department of Technology, Management & 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 either the Department 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 other financing sources and the sources and disposition of authorizations of the Department of Technology, Management & Budget for the fiscal years ended September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2011 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, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

March 23, 2011

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30
(In Thousands)

	2010	2009
REVENUES (Note 2)		
From federal agencies	\$ 127,854	\$ 58,482
From services	6,454	6,617
From licenses and permits	9,725	16,534
Miscellaneous	41,435	42,312
Total revenues	\$ 185,468	\$ 123,945
 OTHER FINANCING SOURCES (Note 2)		
Transfers from other funds	\$ 210,000	\$
Proceeds from sale of capital assets		656
Total other financing sources	\$ 210,000	\$ 656
 Total revenues and other financing sources	\$ 395,468	\$ 124,602

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

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

	2010	2009
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 1,817,908	\$ 2,093,657
Budgetary transfers in (out)		
Balances carried forward	27,436	32,644
Michigan National Guard Armory Construction Fund	110	49
Restricted financing sources	472,525	193,300
Less: Intrafund expenditure reimbursements	(109,575)	(105,260)
Total	\$ 2,208,405	\$ 2,214,390
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers out (Note 4)	\$ 2,284,296	\$ 2,290,180
Less: Intrafund expenditure reimbursements	(109,575)	(105,260)
Net expenditures and transfers out	\$ 2,174,721	\$ 2,184,920
Balances carried forward:		
Multi-year projects	\$ 3	\$ 147
Encumbrances	1,170	1,269
Restricted revenues - not authorized or used	26,290	26,020
Total balances carried forward	\$ 27,463	\$ 27,436
Balances lapsed	\$ 6,221	\$ 2,033
Total	\$ 2,208,405	\$ 2,214,390

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 Technology, Management & Budget (DTMB) for the fiscal years ended September 30, 2010 and September 30, 2009. The financial transactions of DTMB 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 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, State Building Authority, Michigan Strategic Fund, Motor Transport Fund, Office Services Revolving Fund, Risk Management Fund, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, Advance Financing Funds, Michigan Exposition and Fairgrounds Authority, and the retirement funds administered by the Office of Retirement Systems. These funds did not contain any federal financial assistance administered by DTMB.

The notes accompanying these financial schedules relate directly to DTMB. The *SOMCAFR* provides more extensive general disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; pension benefits; other postemployment benefits; leases; other 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 accounting principles generally accepted in the United States of America. 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 revenues and other financing sources and the sources and disposition of authorizations for DTMB's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DTMB or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of General Fund Revenues and Other Financing Sources

Federal revenue consisted mainly of grants under the American Recovery and Reinvestment Act, Medicare Part D retiree drug subsidy, Early Retiree Reinsurance Program, federal indirect revenue collected by other state agencies, and federal reimbursements for capital outlay projects from the Department of Military and Veterans Affairs (DMVA) in fiscal year 2009-10. In fiscal year 2008-09, federal revenue was primarily Medicare Part D retiree drug subsidy, federal indirect revenue collected by other state agencies, and federal reimbursements for capital outlay projects from DMVA. The revenue for capital outlay projects and federal indirect was not federal assistance for DTMB because the other agencies were responsible for compliance with federal requirements.

Revenue from services consisted of revenue from employee parking and interagency billings for costs of special maintenance projects completed by DTMB staff.

Revenue from licenses and permits consisted of transfers of license fee revenue from the Transportation Economic Development Fund required by Act 137, P.A. 2009.

Miscellaneous revenue consisted mainly of revenue for interagency billings for building occupancy costs and other central services provided by DTMB.

Transfers from other funds for fiscal year 2009-10 included a supplemental appropriation, Act 158, P.A. 2010, that transferred \$208,400,000 in School Aid Fund revenues to the General Fund to cover the community college appropriations. Section 301 of the Act indicated that the legislative intent was that the amount appropriated should be considered a loan to the General Fund to be repaid over a period of five fiscal years beginning in the fiscal year ended September 30, 2012. However, unless established in law, the intent of one Legislature cannot bind future legislative actions. Therefore, since there is no binding requirement for repayment, the amount was recorded as an interfund transfer.

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 DTMB Office of Financial Management.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, and restricted revenues - not authorized or used 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 or used.
- d. Michigan National Guard Armory Construction Fund: Act 150, P.A. 1967, created the Michigan National Guard Armory Construction Fund as a subfund of the General Fund. The proceeds from DMVA's sale of capital assets (land and armories) and interest earnings are deposited in the Fund and restricted for use in funding State armory capital outlay projects. DMVA authorized the use of \$110,385 in fiscal year 2009-10 and \$48,848

in fiscal year 2008-09 of the Fund's balance for selected armory projects appropriated within DTMB.

- e. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used 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 or used.
- f. 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. Significant intrafund expenditure reimbursements were \$73.2 million and \$74.5 million from the rental of State buildings, \$8.9 million and \$9.0 million from information technology services, and \$19.4 million and \$16.0 million from retirement services for fiscal years 2009-10 and 2008-09, respectively.
- g. Expenditures and transfers out: Expenditures are charges incurred for work performed, supplies and materials delivered, services rendered, and grants, regardless of whether payment has been made. Transfers out are transfers to other State funds. Operating grants to State colleges and universities are included as part of DTMB's expenditures in the schedule of sources and disposition of General Fund authorizations. Expenditures related to these college and university grants totaled \$1.8 billion for both fiscal years 2009-10 and 2008-09.
- h. 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.
- i. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

- j. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. However, DTMB had not received legislative authorization to expend the revenues.
- k. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are no longer available for DTMB to expend but are available for legislative appropriation in the subsequent fiscal year.

Note 4 On-Behalf Payments for Fringe Benefits

Gross expenditures and transfers out includes on-behalf payments for retiree prescription drug coverage in the amount of \$23,582,185 for fiscal year 2009-10 and \$22,519,196 for fiscal year 2008-09 for Medicare Part D prescription drug subsidy payments. The federal government pays a drug subsidy to employers who provide retirees eligible for Medicare with prescription drug coverage actuarially equivalent to that provided by Medicare Part D. These payments are authorized under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Public Law 108-173, as Section 1860D of the Social Security Act.

In addition, beginning in fiscal year 2009-10, the federal government made on-behalf payments for the Early Retiree Reinsurance Program, which reimburses the employer up to 80% of annual claims between \$15,000 and \$90,000 per person. The amount included in the gross expenditures and transfers out for the Early Retiree Reinsurance Program for fiscal year 2009-10 was \$3,948,233. This temporary program, authorized under Section 1102 of the Patient Protection and Affordable Care Act of 2010, Public Law 111-148, ends January 1, 2014.

Note 5 Differences in Reporting From the SOMCAFR

The State of Michigan Financial Management Guide (Part II, Chapter 24, Section 400) prohibits State agencies from issuing financial information inconsistent with the SOMCAFR unless they have received a waiver to do so from the DTMB Office of Financial Management.

In fiscal year 2008-09, DTMB did not record \$22,519,196 of Medicare Part D receipts as revenue and expenditures in the State's accounting records. However, the Office of Financial Management has issued a waiver from

reporting amounts as they appear in the *SOMCAFR* for fiscal year 2008-09 to allow DTMB to present corrected information in its financial schedules. Accordingly, \$22,519,196 is included as federal revenue in the schedule of General Fund revenues and other financing sources and as restricted financing sources and expenditures in the schedule of sources and disposition of General Fund authorizations.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
Schedule of General Fund Revenues and Other Financing Sources by Appropriation Unit
Fiscal Year Ended September 30, 2010
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES					
From federal agencies	\$ 44,753	\$ 14,863	\$ 68,238	\$	\$ 127,854
From services	6,454				6,454
From licenses and permits	9,725				9,725
Miscellaneous	39,352	2,083			41,435
Total revenues	<u>\$ 100,284</u>	<u>\$ 16,946</u>	<u>\$ 68,238</u>	<u>\$ 0</u>	<u>\$ 185,468</u>
OTHER FINANCING SOURCES					
Transfers from other funds	\$ 1,600	\$	\$ 208,400	\$	\$ 210,000
Proceeds from sale of capital assets					0
Total other financing sources	<u>\$ 1,600</u>	<u>\$ 0</u>	<u>\$ 208,400</u>	<u>\$ 0</u>	<u>\$ 210,000</u>
Total revenues and other financing sources	<u>\$ 101,884</u>	<u>\$ 16,946</u>	<u>\$ 276,638</u>	<u>\$ 0</u>	<u>\$ 395,468</u>

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
Schedule of General Fund Revenues and Other Financing Sources by Appropriation Unit
Fiscal Year Ended September 30, 2009
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES					
From federal agencies	\$ 40,719	\$ 17,763	\$	\$	\$ 58,482
From services	6,617				6,617
From licenses and permits	16,534				16,534
Miscellaneous	38,447	3,865			42,312
Total revenues	<u>\$ 102,317</u>	<u>\$ 21,628</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 123,945</u>
OTHER FINANCING SOURCES					
Transfers from other funds	\$	\$	\$	\$	\$ 0
Proceeds from sale of capital assets	656	0			656
Total other financing sources	<u>\$ 656</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 656</u>
Total revenues and other financing sources	<u>\$ 102,973</u>	<u>\$ 21,628</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 124,602</u>

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2010
(In Thousands)

	Administrative	Capital Outlay	Colleges and Universities	Colleges' and Universities' Capital Outlay	Total
SOURCES OF AUTHORIZATIONS					
General purpose appropriations	\$ 34,736	\$ 235,371	\$ 1,547,801	\$	\$ 1,817,908
Budgetary transfers in (out)					0
Balances carried forward	23,355	4,078		2	27,436
Michigan National Guard Armory Construction Fund		110			110
Restricted financing sources	179,039	16,848	276,638		472,525
Less: Intrafund expenditure reimbursements	(109,575)				(109,575)
Total	\$ 127,556	\$ 256,408	\$ 1,824,439	\$ 3	\$ 2,208,405
DISPOSITION OF AUTHORIZATIONS					
Gross expenditures and transfers out	\$ 212,549	\$ 247,713	\$ 1,824,035	\$	\$ 2,284,296
Less: Intrafund expenditure reimbursements	(109,575)				(109,575)
Net expenditures and transfers out	\$ 102,974	\$ 247,713	\$ 1,824,035	\$ 0	\$ 2,174,721
Balances carried forward:					
Multi-year projects	\$	\$ 1	\$	\$ 3	\$ 3
Encumbrances	1,151	19			1,170
Restricted revenues - not authorized or used	22,305	3,985			26,290
Total balances carried forward	\$ 23,456	\$ 4,005	\$ 0	\$ 3	\$ 27,463
Balances lapsed	\$ 1,126	\$ 4,690	\$ 404	\$ 0	\$ 6,221
Total	\$ 127,556	\$ 256,408	\$ 1,824,439	\$ 3	\$ 2,208,405

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2009
(In Thousands)

	Administrative	Capital Outlay	Colleges and Universities	Colleges' and Universities' Capital Outlay	Total
SOURCES OF AUTHORIZATIONS					
General purpose appropriations	\$ 32,397	\$ 230,397	\$ 1,830,862	\$ 1	\$ 2,093,657
Budgetary transfers in (out)	705	(705)			0
Balances carried forward	26,367	6,082		195	32,644
Michigan National Guard Armory Construction Fund		49			49
Restricted financing sources	171,938	21,363			193,300
Less: Intrafund expenditure reimbursements	(105,260)				(105,260)
Total	\$ 126,146	\$ 257,186	\$ 1,830,862	\$ 196	\$ 2,214,390
DISPOSITION OF AUTHORIZATIONS					
Gross expenditures and transfers out	\$ 207,146	\$ 252,528	\$ 1,830,313	\$ 194	\$ 2,290,180
Less: Intrafund expenditure reimbursements	(105,260)				(105,260)
Net expenditures and transfers out	\$ 101,885	\$ 252,528	\$ 1,830,313	\$ 194	\$ 2,184,920
Balances carried forward:					
Multi-year projects	\$	\$ 145	\$	\$ 2	\$ 147
Encumbrances	1,189	80			1,269
Restricted revenues - not authorized or used	22,167	3,853			26,020
Total balances carried forward	\$ 23,356	\$ 4,078	\$ 0	\$ 2	\$ 27,436
Balances lapsed	\$ 905	\$ 579	\$ 549	\$	\$ 2,033
Total	\$ 126,146	\$ 257,186	\$ 1,830,862	\$ 196	\$ 2,214,390

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010
(In Thousands)

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
<u>U.S. Department of Education</u>					
State Fiscal Stabilization Fund Cluster					
Direct Programs:					
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394		\$	\$	\$ 0
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397		324	287,700	288,024
Total State Fiscal Stabilization Fund Cluster			<u>\$ 324</u>	<u>\$ 287,700</u>	<u>\$ 288,024</u>
Total U.S. Department of Education			<u>\$ 324</u>	<u>\$ 287,700</u>	<u>\$ 288,024</u>
<u>U.S. Department of Energy</u>					
Pass-Through Program:					
Michigan Department of Energy, Labor & Economic Growth					
ARRA - State Energy Program	81.041	10-1A-07	\$	\$	\$ 0
Total U.S. Department of Energy			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Financial Assistance			<u>\$ 324</u>	<u>\$ 287,700</u>	<u>\$ 288,024</u>
<u>Nonfinancial Assistance</u>					
<u>General Services Administration</u>					
Direct Program:					
Donation of Federal Surplus Personal Property (3)	39.003		\$ 0	\$ 683	\$ 683
Total General Services Administration			<u>\$ 0</u>	<u>\$ 683</u>	<u>\$ 683</u>
Total Nonfinancial Assistance			<u>\$ 0</u>	<u>\$ 683</u>	<u>\$ 683</u>
Total Expenditures of Federal Awards			<u><u>\$ 324</u></u>	<u><u>\$ 288,383</u></u>	<u><u>\$ 288,707</u></u>

(1) Basis of Presentation: The financial assistance is reported on the modified accrual basis of accounting 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. In addition, this schedule includes payments totaling \$287.7 million in fiscal year 2008-09 made by the Department of Technology, Management & Budget (DTMB) to subrecipients in the State's General Fund. These expenditures and related federal revenues are not recorded in DTMB's accounting records.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) Valuation: For the Donation of Federal Surplus Personal Property Program, the amount distributed to subrecipients is 23.3% of the acquisition value of property donated (sold) during the fiscal year, in accordance with General Services Administration guidelines. The value does not include service charges that the donee pays to cover the operating costs of the program. The service charges were \$155,609 and \$123,255 for fiscal years 2009-10 and 2008-09, respectively, and were recorded as revenue and expenditures when the property was donated.

(4) DTMB recorded federal revenue for capital outlay projects of \$14.9 million and \$17.8 million in fiscal years 2009-10 and 2008-09, respectively, from the Department of Military and Veterans Affairs (DMVA). This revenue is not federal assistance for DTMB because DMVA is responsible for compliance with federal requirements. Consequently, these projects were audited as part of the DMVA single audit.

<u>For the Fiscal Year Ended September 30, 2010</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 508	\$ 68,238	\$ 68,238	\$ 68,238
\$ 508	\$ 68,238	\$ 68,746	\$ 288,532
\$ 508	\$ 68,238	\$ 68,746	\$ 356,770
\$ 1,460	\$ 17	\$ 1,477	\$ 1,477
\$ 1,460	\$ 17	\$ 1,477	\$ 1,477
\$ 1,968	\$ 68,255	\$ 70,223	\$ 358,247
\$ 0	\$ 409	\$ 409	\$ 1,092
\$ 0	\$ 409	\$ 409	\$ 1,092
\$ 0	\$ 409	\$ 409	\$ 1,092
\$ 1,968	\$ 68,664	\$ 70,632	\$ 359,339

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
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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

John E. Nixon, C.P.A., Director
Department of Technology, Management & Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nixon:

We have audited the financial schedules of the Department of Technology, Management & Budget for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated March 23, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

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 Governor, the Legislature, management, others within the Department, 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

March 23, 2011



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

John E. Nixon, C.P.A., Director
Department of Technology, Management & Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nixon:

Compliance

We have audited the Department of Technology, Management & Budget's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the two-year period ended September 30, 2010. 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 its 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 preceding 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 Technology, Management & Budget complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on its major federal program for the two-year period ended September 30, 2010.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on the major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined in the preceding paragraph.

This report is intended solely for the information and use of the Governor, the Legislature, management, others within the Department, 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

March 23, 2011

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
Significant deficiencies* 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
Significant deficiencies* 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)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	<u>State Fiscal Stabilization Fund Cluster:</u>
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act
84.397	ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act

Dollar threshold used to distinguish between type A and type B programs:	\$3 million
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

We did not report any findings related to federal awards.

The status of 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 TECHNOLOGY, MANAGEMENT & BUDGET
Summary Schedule of Prior Audit Findings
As of March 23, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules in the prior single audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 0710701
Finding Title: Utilization Reviews

Finding: The Department of Management and Budget's (DMB's) internal control did not ensure that the Donation of Federal Surplus Personal Property (Federal Surplus) Program complied with federal laws and regulations regarding special tests and provisions.

Agency Comments: DMB has corrected the noted deficiency by revising procedures and by establishing a tracking tool to monitor due dates for utilization surveys and survey responses. Management performs quarterly reviews to ensure compliance.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 0710702
Finding Title: Subrecipient* Monitoring

* See glossary at end of report for definition.

Finding: DMB's internal control did not ensure that the Federal Surplus Program complied with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: DMB has corrected the noted deficiency by revising procedures to include the audit requirements in the donee application packet and by providing notice to the donee of the donation value for single audit purposes. Management performs annual reviews to ensure compliance.

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET

Corrective Action Plan

As of March 21, 2011

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2009-10 and 2008-09.

FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards for the two-year period ended September 30, 2010.

GLOSSARY

Glossary of Acronyms and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
DMB	Department of Management and Budget.
DTMB	Department of Technology, Management & Budget.
DMVA	Department of Military and Veterans Affairs.
Federal Surplus Program	Donation of Federal Surplus Personal Property Program.

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 presented fairly in all material respects in conformity with the disclosed basis of accounting.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to 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, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
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.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
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.

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:

- 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 and/or financial statements 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 and/or financial statements 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.

U.S. Office of
Management and
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

