

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF ATTORNEY GENERAL

October 1, 1995 through September 30, 1996

EXECUTIVE DIGEST

DEPARTMENT OF ATTORNEY GENERAL

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Attorney General for the period October 1, 1995 through September 30, 1996.

AUDIT PURPOSE

This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The Department of Attorney General is responsible for providing legal services to all State departments, agencies, boards, commissions, officers, and employees. Also, the Department is authorized to intervene in any litigation when the public interest is involved. Responsibilities related to federal grant management are performed by the Administrative Division.

For fiscal year 1995-96, the Department's expenditures totaled approximately \$43 million. As of September 30, 1996, the Department had 532 full-time equated employees within 40 divisions.

* See glossary on page 42 for definition.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of the Department's internal control structure*, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the Department's internal control structure did not disclose any material weaknesses*. However, we noted reportable conditions* related to the reconciliation and documentation of expenditures and the compatibility of Personnel-Payroll Information System for Michigan (PPRISM) user classes (Findings 1 and 2).

Also, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess the Department's compliance with both State and federal laws and regulations that could have a material effect on either the Department's financial schedules or its major federal financial assistance program.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Department's financial schedules or its major federal financial assistance program.

Audit Objective: To audit the Department's financial schedules for the fiscal year ended September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules for the fiscal year ended September 30, 1996.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Attorney General for the period October 1, 1995 through September 30, 1996. Our prior audit report, issued October 31, 1996, covered the period October 1, 1993 through September 30, 1995. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objective for the assessment of the internal control structure included an evaluation of the Department's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

AGENCY RESPONSES

Our audit report includes 2 findings and 3 corresponding recommendations. The agency's preliminary response indicates concurrence and that it has complied with the recommendations.

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The Honorable Frank J. Kelley
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Kelley:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Attorney General for the period October 1, 1995 through September 30, 1996.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains the Department of Attorney General's financial schedules and notes to financial schedules; supplemental financial schedules; the schedule of immaterial noncompliance, presented as supplemental information; 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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Description of Agency

The director of the Department of Attorney General is the State's elected Attorney General as provided for in Article 5, Sections 3 and 21 of the State Constitution. General statutory provisions relating to the Department are contained in Sections 14.28 - 14.287 of the *Michigan Compiled Laws*. The principal duties of the Attorney General include:

- a. Serving as the State's chief legal officer and acting as legal counsel to all State departments, agencies, boards, commissions, officers, and employees. The Attorney General represents these entities and individuals when they are sued and brings suit on their behalf. He also provides them with legal advice, by way of both formal and informal opinions.
- b. Representing the Legislature and the courts when they are sued and periodically, at the Supreme Court's request, presenting arguments on both sides of important issues.
- c. Intervening in any litigation when the public interest is involved, supervising the work of prosecuting attorneys and advising them in matters pertaining to their duties, and collecting all delinquent money and accounts which are due the State as authorized by law.

The Department receives a federal grant, Medicaid Fraud Control from the U.S. Department of Health and Human Services, which is used to investigate and prosecute possible fraud involving Medicaid funds paid by the Family Independence Agency to service providers. The grant also is used to investigate and prosecute cases of possible patient abuse. Responsibilities related to federal grant management are performed by the Administrative Division.

In addition to the Medicaid Fraud Control grant, the Department's revenues include other federal funds, recovery of funds owed to the State, and court awards from litigation on behalf of State agencies against individuals or corporations as well as class action suits against private entities.

Department expenditures are paid from State General Fund appropriations and from transfers from various restricted and federal funds. For fiscal year 1995-96, the Department's expenditures totaled approximately \$43 million.

As of September 30, 1996, the Department had 532 full-time equated employees within 40 divisions.

Audit Objectives, Audit Scope, and Agency Responses

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Department of Attorney General had the following objectives:

1. To assess the adequacy of the Department's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess the Department's compliance with both State and federal laws and regulations that could have a material effect on either the Department's financial schedules or its major federal financial assistance program.
3. To audit the Department's financial schedules for the fiscal year ended September 30, 1996.

Our audit objective for the assessment of the internal control structure included an evaluation of the Department's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Attorney General for the period October 1, 1995 through September 30, 1996. Our prior audit report, issued October 31, 1996, covered the period October 1, 1993 through September 30, 1995. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered the Department's internal control structure policies and procedures for its major federal financial assistance program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and*

Local Governments, in addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The Department's major program is identified on the schedule of federal financial assistance.

We did not report on compliance for nonmajor federal financial assistance programs because no transactions for nonmajor federal financial assistance programs were selected in connection with our audit of the financial schedules and our assessment of the internal control structure.

Agency Responses

Our audit report includes 2 findings and 3 corresponding recommendations. The agency's preliminary response indicates concurrence and that it has complied with the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Attorney General to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Attorney General's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the Department's internal control structure did not disclose any material weaknesses. However, we noted reportable conditions related to the reconciliation and documentation of expenditures and the compatibility of Personnel-Payroll Information System for Michigan (PPRISM) user classes.

Also, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

The Michigan Administrative Information Network (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and controls of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including the Department of Attorney General, is affected to varying degrees by MAIN.

Because the Department's internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in the Department to include elements reviewed in our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

FINDING

1. Reconciliation and Documentation of Expenditures

The Department did not have adequate internal controls to help ensure that transactions recorded by the Department of Management and Budget(DMB) to the Department's accounts were recorded at the proper amount. Also, the Department did not maintain sufficient documentation to support telecommunication expenditures. Our review noted the following conditions:

- a. A reconciliation of the amount recorded by the DMB Office of Financial Management with the invoices received for worker's compensation claims was not completed. As a result, the Department did not determine that the amount charged to the Department's account was correct. We were informed that none of the invoices for workers' compensation claims are reconciled with the amounts charged by DMB.
- b. Source documentation for telecommunication bills was not retained by the Department. Most telecommunication bills during our audit period were discarded; therefore, the Department could not document that telecommunication transactions were reviewed for appropriateness. Our sample identified one telecommunication transaction for \$18,870 without documentation that it was reviewed for appropriateness. We subsequently contacted DMB and obtained a copy of the invoice and verified the expenditure.

Sound internal control procedures would help ensure that transactions are recorded at the proper amount, are proper charges to the Department's accounts, and are proper expenditures of State and federal funds. In addition, DMB Administrative Guide procedure 0910.01 instructs agencies how to manage their records, including proper record retention periods, in order to provide for the administrative, fiscal, and historical needs of State government.

RECOMMENDATIONS

We recommend that the Department implement procedures to reconcile invoices with amounts charged to ensure that transactions recorded by DMB for the Department are recorded at the proper amount.

We also recommend that the Department maintain sufficient documentation to support expenditures in accordance with DMB Administrative Guide procedure 0910.01.

AGENCY PRELIMINARY RESPONSE

The Department agreed with these recommendations and informed us that it has complied. The Department indicated that it has implemented procedures to reconcile transactions posted by DMB with supporting documentation, when supplied by DMB. Appropriate staff have been instructed to maintain supporting documentation in accordance with DMB Administrative Guide procedure 0910.01.

FINDING

2. Compatibility of PPRISM User Classes

The Department's payroll and personnel employees did not have compensating controls to mitigate the control weaknesses related to separation of duties. The individuals responsible for authorizing, reconciling, and approving transactions also entered payroll transactions or had the capability to enter transactions. Our review noted the following incompatible user classes:

- a. The personnel supervisor prepared, entered, and approved transactions.
- b. The personnel officer approved the biweekly transaction report (PE-110) and also had the capability to enter transactions.
- c. The control person entered payroll transactions and reconciled the control totals.

An internal control structure designed to prevent and detect errors must have adequate separation of duties. If adequate separation is not possible, compensating controls should be put in place to mitigate the control weaknesses. Duties that include authorizing, reconciling, and/or approving transactions should be separated from duties that involve entering the transactions. PPRISM Procedures Manual section 2.3 states that the control person can only have authorization to enter a password and obtain control totals.

The Department's payroll duties were not adequately separated because of the unit's small staffing level, which included 2 transaction operators, the personnel supervisor, and the personnel officer. The Department attempted to separate the duties of reconciling the PPRISM control totals from entering the related adjustments, with one transaction operator entering only payroll hours and the other entering all the payroll adjustments. However, the operator that entered the hours was the control person and had the capability of performing all functions of a transaction operator, including entering the payroll adjustments that the control person reconciles. There were no compensating controls in place to overcome the lack of separation of duties.

RECOMMENDATION

We recommend that the Department implement compensating controls to mitigate control weaknesses related to separation of duties for payroll and personnel employees.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation and informed us that it has complied. The Department indicated that it has implemented procedures to mitigate control weaknesses related to separation of duties. The Department's internal auditor has begun reviewing PPRISM central control reports to ensure that transactions entered by the control person are proper.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess the Department's compliance with both State and federal laws and regulations that could have a material effect on either the Department's financial schedules or its major federal financial assistance program.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Department's financial schedules or its major federal financial assistance program.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the Department's financial schedules for the fiscal year ended September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules for the fiscal year ended September 30, 1996.

Independent Auditor's Report on
the Internal Control Structure

June 30, 1997

The Honorable Frank J. Kelley
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Kelley:

We have audited the General Fund financial schedules of the Department of Attorney General for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated June 30, 1997. We have also audited the Department of Attorney General's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated June 30, 1997.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement and about whether the Department complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1996 and September 30, 1995, we considered the Department's internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network in order to determine our auditing procedures for the purpose of expressing our opinions on the Department's financial schedules and not to provide assurance on the internal control structure. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the Department's internal control structure. We also considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on its compliance

with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Department of Attorney General is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

Accounting Controls

- Payroll expenditures
- Nonpayroll expenditures
- Revenue
- Federal grant management reporting

Administrative Controls

General requirements:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific requirements:

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1996 and September 30, 1995, the Department of Attorney General expended 95% and 96%, respectively, of its total federal financial assistance under its major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the Department's major federal financial assistance program, which is identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions are more fully described in Findings 1 and 2.

Also, our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the Department of Attorney General is not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affected the Department's internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe neither of the departmental reportable conditions described above is a material weakness. Three of the 29 reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the Department of Attorney General's financial schedules and of its compliance with requirements applicable to its major federal financial assistance program for the fiscal years ended September 30, 1996 and September 30, 1995, and this report on the internal control structure does not affect our reports thereon dated June 30, 1997.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

June 30, 1997

The Honorable Frank J. Kelley
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Kelley:

We have audited the General Fund financial schedules of the Department of Attorney General for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated June 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Attorney General is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Department of Attorney General complied, in all material respects, with the provisions referred to in the previous paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Department had not complied, in all material respects, with those provisions.

We have also audited the Department's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or

earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program, which is identified in the accompanying schedule of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995. The management of the Department is responsible for the Department's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the schedule of immaterial noncompliance. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Department of Attorney General complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program for the fiscal years ended September 30, 1996 and September 30, 1995.

We have applied procedures to test the Department's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single*

Audits of State and Local Governments. Our procedures for testing compliance with the general

requirements, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Department's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Attorney General had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

June 30, 1997

The Honorable Frank J. Kelley
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Kelley:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of General Fund sources and disposition of authorizations of the Department of Attorney General for the fiscal years ended September 30, 1996 and September 30, 1995. These financial schedules are the responsibility of the Department of Attorney General management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *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 significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Attorney General for the fiscal years ended September 30, 1996 and September 30, 1995 on the basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion on the Department's financial schedules. The accompanying supplemental financial schedules, consisting of the schedule of General Fund assets and liabilities, the schedule of disposition of General Fund authorizations by fund source, and the schedule of federal financial assistance, 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. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the Department's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Department's financial schedules.

AUDITOR GENERAL

DEPARTMENT OF ATTORNEY GENERAL
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Years Ended September 30

	<u>1996</u>	<u>1995</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 28,487,800	\$ 26,883,500
Balances carried forward		52,229
Restricted revenue and restricted operating transfers in (Note 2)	<u>15,103,847</u>	<u>8,969,458</u>
Total	<u>\$ 43,591,647</u>	<u>\$ 35,905,187</u>
 DISPOSITION OF AUTHORIZATIONS		
Expenditures (Note 2)	\$ 43,028,553	\$ 35,881,453
Encumbrances carried forward	9,718	
Restricted revenue carried forward	221,706	
Balances lapsed	<u>331,670</u>	<u>23,734</u>
Total	<u>\$ 43,591,647</u>	<u>\$ 35,905,187</u>

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

Notes to Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Attorney General for the fiscal year ended September 30, 1996. The financial transactions of the Department 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 footnote accompanying these financial schedules relates directly to the Department of Attorney General. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations of the Department of Attorney General's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Change in Expenditure Reporting

Certain Department of Attorney General expenditures are funded from user departments' appropriations. In fiscal year 1994-95, these expenditures, totaling approximately \$5.0 million, were reported by the user departments. In fiscal year 1995-96, these expenditures, totaling approximately \$4.5 million, were reported by the Department of Attorney General. Had the fiscal year 1994-95 expenditures been reported by the Department of Attorney General, restricted revenue and restricted operating transfers in and expenditures would have been \$13.9 million and \$40.8 million, respectively.

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SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF ATTORNEY GENERAL
Schedule of General Fund Assets and Liabilities
As of September 30

	1996	1995
ASSETS		
Accounts Receivable:		
From federal agencies	\$ 363,884	\$ 1,145,127
From other funds		378,993
From component units	63,506	62,271
Total Accounts Receivable	\$ 427,390	\$ 1,586,391
Other assets	\$ 275,849	\$ 1,349
LIABILITIES		
Accounts payable and other liabilities	\$ 94,598	\$ 288,789
Due to other funds	\$	2,051

This schedule of assets and liabilities is not representative of a balance sheet and is not intended to report financial condition. This schedule presents certain significant General Fund assets and liabilities which result directly from the operations of, and are the responsibility of, the Department of Attorney General. The schedule excludes certain other assets, such as land, buildings, equipment, equity in Common Cash, and cash in transit, and certain other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

DEPARTMENT OF ATTORNEY GENERAL
Schedule of Disposition of General Fund Authorizations by Fund Source
Fiscal Years Ended September 30

	1996			
	Total	Expenditures	Balances	
	Authorizations		Carried Forward	Balances Lapsed
Attorney General:				
State General Fund/general purpose	\$ 112,000	\$ 112,000	\$	\$
Unclassified Positions:				
State General Fund/general purpose	154,200	153,013		1,187
Grant to the OASI Contribution Fund, Employer's Share:				
State General Fund/general purpose	5,600	5,582		18
Attorney General Operations:				
State General Fund/general purpose	27,290,000	26,992,988	7,826	289,186
Interdepartmental Grant Revenues:				
Health care program	409,926	409,926		
Commerce-Liquor Purchase Revolving Fund	551,126	551,126		
Natural Resources-Game and Fish Protection Fund	281,246	281,246		
State Accident Fund				
MDOT - Comprehensive Transportation Fund				
MDOT - State Aeronautics Fund				
MDOT - State Trunkline Fund				
Federal Revenues:				
DAG, state administrative match grant/food stamps	717,839	717,839		
DOL - ETA, unemployment insurance	1,030,365	1,030,365		
EPA, multiple grants	175,999	175,999		
HHS - OS, state Medicaid fraud control units	1,937,225	1,937,225		
HHS, medical assistance, Medicaid	308,844	308,844		
Federal contingency funds	33,652	33,652		
Special Revenues:				
State claims	821,208	821,208		
Antitrust enforcement collections	165,093	165,093		
Auto repair facilities fees	133,165	133,165		
Comprehensive Transportation Fund	98,008	98,008		
Corporate fees	44,411	44,411		
Franchise fees	139,661	139,661		
Michigan State Housing Development Authority fees	224,411	224,411		
Michigan Underground Storage Tank Financial Assurance Fund	142,689	142,689		
Mobile Home Commission fees	100,078	100,078		
Prisoner reimbursement	132,886	132,886		
Securities fees	44,411	44,411		
State Aeronautics Fund	49,399	49,399		
State Building Authority revenue				
State restricted contingency funds	430,000	213,972	216,028	
State Trunkline Fund	1,856,347	1,856,347		
Utility Consumer Representation Fund	360,918	360,918		
Michigan State Waterways Fund	59,781	59,781		
Prosecuting Attorneys Coordinating Council (PACC):				
State General Fund/General Purpose	926,000	882,830	1,893	41,278
DAG, state administrative match grant/food stamps	40,000	40,000		
Federal funds	90,449	84,771	5,678	

This schedule continued on next page.

1995

1995		
Total Authorizations	Expenditures	Balances Lapsed
\$ 111,200	\$ 111,200	\$
141,600	137,726	3,874
5,600	5,513	87
25,859,206	25,839,433	19,773
493,970	493,970	
272,158	272,158	
1,062,872	1,062,872	
109,420	109,420	
48,487	48,487	
1,895,066	1,895,066	
707,119	707,119	
1,003,349	1,003,349	
142,510	142,510	
1,913,689	1,913,689	
144,520	144,520	
127,091	127,091	
218,247	218,247	
127,330	127,330	
362,500	362,500	
56,604	56,604	
818,104	818,104	
90,000	90,000	

DEPARTMENT OF ATTORNEY GENERAL
Schedule of Disposition of General Fund Authorizations by Fund Source
Fiscal Years Ended September 30
Continued

	1996			
	Total	Balances		
	Authorizations	Expenditures	Carried Forward	Balances Lapsed
HHS, Child Support Enforcement System	\$ 77,000	\$ 77,000	\$	\$
Prosecuting attorneys' training fees	42,114	42,114		
PACC - Training Project:				
DMB - Michigan Justice Training Fund	127,678	127,678		
Total Reported by Attorney General	\$ 39,113,729	\$ 38,550,635	\$ 231,424	\$ 331,670
Attorney General Expenditures Reported by Other Agencies:				
Commerce - public utility assessments	\$ 1,360,129	\$ 1,360,129	\$	\$
DED - OPSE, student loan, federal lender allowance	205,967	205,967		
DOL - OSHA, occupational safety and health	42,864	42,864		
HHS - HCFA, grants to states for Medicaid	1,188,432	1,188,432		
Low-Level Radioactive Waste Management Fund	25,733	25,733		
Oil and gas privilege fee revenue	105,597	105,597		
Retirement funds	289,275	289,275		
Second Injury Fund	560,047	560,047		
Self Insurers' Security Fund	93,540	93,540		
Silicosis, Dust Disease, and Logging Industry Compensation Fund	279,500	279,500		
Michigan State Hospital Finance Authority	191,932	191,932		
State Lottery Fund	86,625	86,625		
Workers' compensation administrative revolving fund	10,510	10,510		
Auto repair facilities fees				
Corporate fees				
Securities fees				
Mobile Home Commission fees				
Michigan Underground Storage Tank Financial Assurance Fund				
HHS - DSS, abuse and neglect prevention				
DMB - Michigan Justice Training Fund	37,768	37,768		
Total Reported by Other Agencies	\$ 4,477,918	\$ 4,477,918	\$ 0	\$ 0
Totals	\$ 43,591,647	\$ 43,028,553	\$ 231,424	\$ 331,670

1995

Total Authorizations	Expenditures	Balances Lapsed
\$ 77,000	\$ 77,000	\$
117,545	117,545	
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\$ 35,905,187	\$ 35,881,453	\$ 23,734
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\$ 1,295,736	\$ 1,295,736	\$
193,054	193,054	
39,468	39,468	
277,422	277,422	
25,468	25,468	
42,951	42,951	
281,024	281,024	
569,538	569,538	
95,019	95,019	
284,328	284,328	
186,708	186,708	
78,997	78,997	
10,252	10,252	
131,593	131,593	
42,233	42,233	
42,232	42,232	
86,085	86,085	
125,718	125,718	
973,107	973,107	
177,363	177,363	
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\$ 4,958,296	\$ 4,958,296	\$ 0
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\$ 40,863,483	\$ 40,839,749	\$ 23,734
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DEPARTMENT OF ATTORNEY GENERAL
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	CFDA Program Number	*	Award Period
<u>U.S. Department of Health and Human Services, Office of the Inspector General</u>				
State Medicaid Fraud Control Units	01-9601-MI-5050	93.775	**	10/1/95-9/30/96
State Medicaid Fraud Control Units	01-9501-MI-5050	93.775	**	10/1/94-9/30/95
<u>U.S. Environmental Protection Agency</u>				
Water Pollution Control - Research Development and Demonstration	X 995686-01-0	66.505		10/1/94-9/30/96

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

** Major program, as defined by the Single Audit Act.

Amount of Award		Directly Expended by Department	
1996	1995	1996	1995
\$ 2,416,000	\$	\$ 1,937,225	\$
	2,359,000		2,061,161
<u>200,000</u>	<u>200,000</u>	<u>100,070</u>	<u>83,233</u>
<u>\$ 2,616,000</u>	<u>\$ 2,559,000</u>	<u>\$ 2,037,295</u>	<u>\$ 2,144,394</u>

SUPPLEMENTAL INFORMATION

DEPARTMENT OF ATTORNEY GENERAL
Schedule of Immaterial Noncompliance
Fiscal Year Ended September 30, 1996

<u>Program or Grant/ Contract Number</u>	<u>Finding/Noncompliance</u>
<u>U.S. Department of Health and Human Services, Office of the Inspector General</u>	
State Medicaid Fraud Control Units CFDA # 93.775 Grant No. 01-9601-MI-5050	The Department filed the required quarterly federal financial report (PMS 272) for the first and fourth quarters 15 and 6 days late, respectively.

CFDA is defined as Catalog of Federal Domestic Assistance.

NOTE: This schedule reports instances of immaterial noncompliance with laws and regulations which have no associated questioned costs and are not included in the body of our report.

Glossary of Acronyms and Terms

DAG	U.S. Department of Agriculture.
DED - OPSE	U.S. Department of Education - Office of Postsecondary Education.
DMB	Department of Management and Budget.
DOL - ETA	U.S. Department of Labor - Employment and Training Act.
DOL - OSHA	U.S. Department of Labor - Occupational Safety and Health Administration.
EPA	U.S. Environmental Protection Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
HHS	U.S. Department of Health and Human Services.
HHS - HCFA	HHS Health Care Financing Administration.
HHS - OS	HHS Office of the Secretary.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.

MAIN	Michigan Administrative Information Network.
material weaknesses	A serious reportable condition in which the design or operation of one or more of the specific internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, of a magnitude that would be material in relation to the financial schedules, would not be prevented or detected.
MDOT	Michigan Department of Transportation.
OASI	Old Age Survivor's Insurance.
PACC	Prosecuting Attorneys Coordinating Council.
PPRISM	Personnel-Payroll Information System of Michigan.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.

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