

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

October 1, 1995 through September 30, 1997

EXECUTIVE DIGEST

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

INTRODUCTION

This report contains the results of our financial audit^{*}, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs for the period October 1, 1995 through September 30, 1997.

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 is responsible for training the Michigan National Guard to ensure military preparedness and for operating and maintaining military training sites and support facilities. In addition, the Department oversees grants to 13 veterans' service organizations in accordance with the appropriations acts.

The Department is also responsible for the supervision and direction of the two State veterans' homes, which

^{*} See glossary on page 34 for definition.

provide domiciliary and nursing care to aged and disabled military veterans.

In addition, the Department is responsible for the supervision and direction of the Michigan Veterans' Trust Fund. The Fund provides grants to assist veterans and their dependents. The Fund also provides administrative support for the Vietnam Veterans' Memorial Monument Fund.

For fiscal year 1996-97, the Department's total General Fund expenditures and operating transfers were \$79,723,056. As of September 30, 1997, the Department had 914 employees.

**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, our review of internal controls in our financial related audit of the Department disclosed reportable conditions* in the areas of incompatible user classes, payroll and personnel transactions, inventory controls, and procurement cards. These issues are more fully explained in our report on the financial related audit of the Department dated April 1, 1998. The Department's preliminary response indicated that it had complied or would comply with all of the recommendations in that report.

* See glossary on page 34 for definition.

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

Conclusion: Our assessment of the Department's 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 any of its major federal financial assistance programs.

Audit Objective: To audit the Department's General Fund financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Military and Veterans Affairs for the period October 1, 1995 through September 30, 1997. 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.

The scope of this audit did not include the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, which we audit separately. These Funds did not administer any federal financial assistance programs.

Our audit, relative to the objective for assessing the Department's internal control structure, was complemented by our financial related audit of the Department.

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*.

**PRIOR AUDIT
FOLLOW-UP**

The Department complied with 11 of the 12 prior audit recommendations included within the scope of our current audit and our financial related audit of the Department. We repeated one prior audit recommendation in our financial related audit of the Department.

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs for the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and prior audit follow-up; comments; 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 Military and Veterans Affairs' financial schedules and notes to financial schedules; supplemental financial schedules; and a glossary of acronyms and terms.

Our comments are organized by audit objective.

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

AUDITOR GENERAL

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Description of Agency

The Department of Military and Veterans Affairs is responsible for training the Michigan National Guard to ensure military preparedness and for operating and maintaining military training sites and support facilities. In addition, the Department oversees grants to 13 veterans' service organizations in accordance with the appropriations acts.

The Department is also responsible for the supervision and direction of the two State veterans' homes. The Grand Rapids Home for Veterans was established in 1885 and provides domiciliary and nursing care to aged and disabled military veterans of the State. The D.J. Jacobetti Home for Veterans, located in Marquette, began operations in 1981 to provide domiciliary and nursing care to aged and disabled military veterans in Michigan's Upper Peninsula.

In addition, the Department is responsible for the supervision and direction of the Michigan Veterans' Trust Fund. The Fund provides grants to assist veterans and their dependents. The Fund also provides administrative support for the Vietnam Veterans' Memorial Monument Fund.

For fiscal year 1996-97, the Department's total General Fund expenditures and operating transfers were \$79,723,056. As of September 30, 1997, the Department had 914 employees.

Audit Objectives, Audit Scope, and Prior Audit Follow-Up

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs 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 the Department's financial schedules or any of its major federal financial assistance programs.
3. To audit the Department's General Fund financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Our audit, relative to the objective for assessing the Department's internal control structure, was complemented by our financial related audit of the Department.

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 Military and Veterans Affairs for the period October 1, 1995 through September 30, 1997. 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.

The scope of this audit did not include the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, which we audit separately. These Funds did not administer any federal financial assistance programs.

We considered the Department's internal control structure policies and procedures for its federal financial assistance programs 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. In addition, we followed up on the prior audit findings and questioned costs. The Department's major federal financial assistance programs are identified on the schedule of federal financial assistance.

Prior Audit Follow-Up

The Department complied with 11 of the 12 prior audit recommendations included within the scope of our current audit and our financial related audit of the Department. We repeated one prior audit recommendation in our financial related audit of the Department.

COMMENTS

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Military and Veterans Affairs' 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, our review of internal controls in our financial related audit of the Department disclosed reportable conditions in the areas of incompatible user classes, payroll and personnel transactions, inventory controls, and procurement cards. These issues are more fully explained in our report on the financial related audit of the Department dated April 1, 1998. The Department's preliminary response indicated that it had complied or would comply with all of the recommendations in that report.

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 the Department's financial schedules or any of its major federal financial assistance programs.

Conclusion: Our assessment of the Department's 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 any of its major federal financial assistance programs.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the Department's General Fund financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules.

Independent Auditor's Report on
the Internal Control Structure

June 19, 1998

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the General Fund financial schedules of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated June 19, 1998. We have also audited the Department of Military and Veterans Affairs' compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated June 19, 1998.

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 audit for the fiscal years ended September 30, 1997 and September 30, 1996, we considered the Department's internal control structure 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. 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 Military and Veterans Affairs 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
- Spending authorizations, transfers, and encumbrances
- Administration of federal financial assistance

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
- Federal reporting
- U.S. Veterans Administration standards of care

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, 1997 and September 30, 1996, the Department of Military and Veterans Affairs expended 96% and 97%, respectively, of its total federal financial assistance under major federal financial assistance programs.

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 each of the Department's major federal financial assistance programs, which are 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. Our assessment of the internal control structure included internal control areas which we also reviewed in our financial related audit of the Department. The financial related audit of the Department contained four reportable conditions for these areas, which are described in our comment on the 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

none of the reportable conditions described in our comment on the internal control structure is a material weakness.

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 19, 1998

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the General Fund financial schedules of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated June 19, 1998.

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 Military and Veterans Affairs 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 Military and Veterans Affairs 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; reporting; U.S. Veterans Administration standards of care; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996. 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.

In our opinion, the Department of Military and Veterans Affairs complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching; reporting; U.S. Veterans Administration standards of care; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996.

In connection with our audit of the financial schedules of the Department for the fiscal years ended September 30, 1997 and September 30, 1996 and with our consideration of the Department's internal control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed and claims for advances and reimbursements that are applicable to those transactions. Also, 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, 1997 and September 30, 1996:

- 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 and the requirements applicable to the nonmajor programs, 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 Military and Veterans Affairs 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 19, 1998

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the accompanying schedule of General Fund revenue and the schedule of General Fund sources and disposition of authorizations of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the Department of Military and Veterans Affairs 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 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 the sources and disposition of authorizations of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1997 and September 30, 1996 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 certain General Fund assets and liabilities, the schedule of disposition of General Fund authorizations by appropriation unit, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 19, 1998 on our consideration of the Department of Military and Veterans Affairs' internal control structure and a report dated June 19, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of General Fund Revenue
Fiscal Years Ended September 30

	<u>1997</u>	<u>1996</u>
Federal Revenue:		
National Guard Bureau	\$ 15,241,655	\$ 14,007,044
Veterans Administration State Home Program	10,566,208	10,158,450
Medicare	<u>646,182</u>	<u>573,336</u>
Total Federal Revenue	\$ 26,454,046	\$ 24,738,830
Cost-of-care assessments	14,834,151	14,491,803
Armory rental program	320,273	355,881
Armory sales	727,630	475,600
Miscellaneous	<u>304,258</u>	<u>629,671</u>
Total Revenue	<u>\$ 42,640,358</u>	<u>\$ 40,691,785</u>

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

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Years Ended September 30

	<u>1997</u>	<u>1996</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 40,998,400	\$ 36,425,100
Budgetary transfers in (out)	(500,000)	
Balances carried forward	4,800,687	2,640,928
Restricted financing sources	<u>42,304,961</u>	<u>40,528,644</u>
 Total	 <u>\$ 87,604,048</u>	 <u>\$ 79,594,672</u>
 DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ <u>79,723,056</u>	\$ <u>74,455,171</u>
Balances carried forward:		
Multi-year projects	\$ 2,353,071	\$ 1,055,451
Encumbrances	1,254,271	1,016,752
Restricted revenue - authorized	1,254,586	847,553
Restricted revenue - not authorized	<u>2,174,078</u>	<u>1,881,063</u>
Total balances carried forward	<u>\$ 7,036,006</u>	<u>\$ 4,800,819</u>
Balances lapsed	\$ 848,031	\$ 338,682
Overexpended	<u>(3,046)</u>	
 Total	 <u>\$ 87,604,048</u>	 <u>\$ 79,594,672</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 Military and Veterans Affairs for the fiscal years ended September 30, 1997 and 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 footnotes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides detailed disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment 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 the sources and disposition of authorizations for the Department of Military and Veterans Affairs' General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

c. Pension Benefits

The Department received annual appropriations for military retirement benefits for Michigan National Guard members and special duty officers.

These appropriations are made from the General Fund on a pay-as-you-go basis. Expenditures for the military retirement plan totaled \$2.0 million for fiscal year 1996-97. The actuarially determined unfunded liabilities for the military retirement plan as of September 30, 1997 totaled \$30.3 million.

Note 2 Schedule of Sources and Disposition of Authorizations

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

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose appropriations.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts of the Department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget (DMB).
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry forward without additional legislative authorization, except for restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department 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 revenue - authorized or restricted revenue - unauthorized.

- e. Multi-year project balances: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. The Department also had authorizations for large capital outlay projects which were accounted for by DMB. Unexpended authorizations carried forward for these projects totaled \$13,771,167 for fiscal year 1996-97 and \$8,086,863 for fiscal year 1995-96.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenue - authorized: Revenues that, by statute or the State Constitution, are restricted for use to a particular department program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization.
- h. Restricted revenue - not authorized: Revenues that, by statute, are restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry forwards of this type are revenues collected by the veterans' homes for cost-of-care assessments and U.S. Veterans Administration federal assistance.
- i. Balances lapsed: Department authorizations that were unexpended or unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- j. Overexpended: The total of the Department's overexpenditure of line-item authorizations. The Department is required to seek a supplemental appropriation to authorize the expenditure.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Certain General Fund Assets and Liabilities
As of September 30

	<u>1997</u>	<u>1996</u>
ASSETS		
Accounts receivable from federal agencies	\$ 5,472,021	\$ 5,803,066
Due from component units	\$ 24,578	\$ 25,295
Miscellaneous accounts receivable	\$ 90,060	\$ 30,650
Inventories	\$ 139,634	\$ 166,181
LIABILITIES		
Accounts payable	\$ 4,236,817	\$ 2,038,710
Deferred revenue	\$ 66,574	\$ 79,123
Due to other funds	\$ 9,278	\$ 24,249
Other liabilities		\$ 103,274

The amounts presented include only those assets and liabilities for which the Department is directly responsible. The schedule excludes certain other assets and liabilities which are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Years Ended September 30

Appropriation Unit	1997					1996				
	Total Authorizations	Gross Expenditures and Operating Transfers Out	Balances Carried Forward	Balances Lapsed	Overexpended	Total Authorizations	Gross Expenditures and Operating Transfers Out	Balances Carried Forward	Balances Lapsed	
Headquarters and armories	\$ 7,642,788	\$ 7,464,281	\$ 8,920	\$ 169,587	\$	\$ 7,731,563	\$ 7,526,146	\$ 77,886	\$ 127,531	
Military training sites and support facilities	8,836,733	8,683,742	1,176	151,815		8,443,219	8,357,450	3,586	82,182	
Departmentwide support	17,062,780	13,954,945	2,989,038	120,641	(1,844)	12,546,413	10,416,996	2,047,489	81,927	
Veterans' service organizations	3,520,800	3,520,700		100		3,102,700	3,102,600		100	
Grand Rapids Home for Veterans	35,030,512	33,749,529	1,008,960	272,023		35,040,427	34,144,335	859,708	36,384	
D.J. Jacobetti Home for Veterans	12,980,235	10,818,457	2,027,912	133,866		12,704,085	10,881,382	1,812,146	10,557	
Accounts receivable write-off	139,000	140,202			(1,202)	1,265	1,261	4		
Court settlements	225,000	225,000				25,000	25,000			
Michigan Veterans' Trust Fund	1,166,200	1,166,200								
Vietnam Veterans' Memorial Monument Fund	1,000,000		1,000,000							
Total	\$ 87,604,048	\$ 79,723,056	\$ 7,036,006	\$ 848,031	\$ (3,046)	\$ 79,594,672	\$ 74,455,171	\$ 4,800,819	\$ 338,682	

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DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30

Grantor Agency/ Federal Assistance Program Title	Grant/Contract Number	CFDA * Program Number	Award Period	Amount of Award	Directly Expended by Department	
					1997	1996
U.S. Department of Defense (a)						
National Guard Military Construction:						
Multi Purpose Range Complex, Camp Grayling	NGB20-94-C-0001	12.400	10/01/94-09/30/97	\$ 8,307,728	\$ 317,566	\$ 3,786,792
Total National Guard Military Construction (1)					\$ 317,566	\$ 3,786,792
National Guard Military Operations and Maintenance Projects:						
Master Cooperative Agreement - Army National Guard Real Property Operations and Maintenance	DAHA20-952100.1	12.401	10/01/96-09/30/97	\$ 8,611,700	\$ 5,464,965	\$
Master Cooperative Agreement - Army National Guard Real Property Operations and Maintenance	DAHA20-952100.1	12.401	10/01/95-09/30/96	\$ 9,848,462	3,103,029	6,277,748
Master Cooperative Agreement - Army National Guard Real Property Operations and Maintenance	DAHA20-952100.1	12.401	10/01/94-09/30/95	\$ 7,869,100	20,977	1,624,739
Master Cooperative Agreement - Army National Guard Environmental Resources Management	DAHA20-952100.2	12.401	10/01/96-09/30/97	\$ 1,642,688	754,746	
Master Cooperative Agreement - Army National Guard Environmental Resources Management	DAHA20-952100.2	12.401	10/01/95-09/30/96	\$ 1,309,000	573,265	655,965
Master Cooperative Agreement - Army National Guard Environmental Resources Management	DAHA20-952100.2	12.401	10/01/94-09/30/95	\$ 2,655,100	172,096	484,310
Master Cooperative Agreement - Army National Guard Security Guard Activities	DAHA20-952100.3	12.401	10/01/96-09/30/97	\$ 305,300	303,466	
Master Cooperative Agreement - Army National Guard Security Guard Activities	DAHA20-952100.3	12.401	10/01/95-09/30/96	\$ 488,437		488,437
Master Cooperative Agreement - Army National Guard Electronic Security	DAHA20-952100.4	12.401	10/01/96-09/30/97	\$ 112,000	102,023	
Master Cooperative Agreement - Army National Guard Electronic Security	DAHA20-952100.4	12.401	10/01/95-09/30/96	\$ 125,744		125,744
Master Cooperative Agreement - Army National Guard Telecommunications	DAHA20-952100.5	12.401	10/01/96-09/30/97	\$ 555,513	555,513	
Master Cooperative Agreement - Army National Guard Telecommunications	DAHA20-952100.5	12.401	10/01/95-09/30/96	\$ 527,079		527,079
Master Cooperative Agreement - Army National Guard Aviation Operations	DAHA20-952100.6	12.401	10/01/96-09/30/97	\$ 33,420	33,420	
Master Cooperative Agreement - Army National Guard Aviation Operations	DAHA20-952100.6	12.401	10/01/95-09/30/96	\$ 33,420		33,420
Master Cooperative Agreement - Army National Guard Automated Target Systems	DAHA20-952100.7	12.401	10/01/96-09/30/97	\$ 160,804	160,804	
Master Cooperative Agreement - Army National Guard Automated Target Systems	DAHA20-952100.7	12.401	10/01/95-09/30/96	\$ 202,000	14,812	175,463

This schedule continued on next page.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Schedule of Federal Financial Assistance

Fiscal Years Ended September 30

Continued

Grantor Agency/ Federal Assistance Program Title	Grant/Contract Number	CFDA * Program Number	Award Period	Amount of Award	Directly Expended by Department	
					1997	1996
Master Cooperative Agreement - Army National Guard Automated Target Systems	DAHA20-952100.7	12.401	10/01/94-09/30/95	\$ 363,400	10,440	105,293
Master Cooperative Agreement - Air National Guard Facilities Operations and Maintenance	DAHA20-952100.21	12.401	10/01/96-09/30/97	\$ 5,756,100	1,679,129	
Master Cooperative Agreement - Air National Guard Facilities Operations and Maintenance	DAHA20-952100.21	12.401	10/01/95-09/30/96	\$ 5,268,200		1,506,570
Master Cooperative Agreement - Air National Guard Security Guard Activities	DAHA20-952100.23	12.401	10/01/96-09/30/97	\$ 450,500	433,348	
Master Cooperative Agreement - Air National Guard Security Guard Activities	DAHA20-952100.23	12.401	10/01/95-09/30/96	\$ 1,389,600		595,007
Master Cooperative Agreement - Air National Guard Fire Protection Activities	DAHA20-952100.24	12.401	10/01/96-09/30/97	\$ 2,086,300	1,911,390	
Master Cooperative Agreement - Air National Guard Fire Protection Activities	DAHA20-952100.24	12.401	10/01/95-09/30/96	\$ 2,005,900		<u>1,985,288</u>
Total National Guard Military Operations and Maintenance Projects (2)					<u>\$ 15,293,423</u>	<u>\$ 14,585,063</u>
Other Federal Financial Assistance:						
STARBASE	NGB20-97-H-0007	N/A	10/01/96-09/30/97	\$ 226,675	\$ 212,675	\$
STARBASE	NGB20-96-H-0007	N/A	10/01/95-09/30/96	\$ 200,675		<u>199,245</u>
Total U.S. Department of Defense					<u>\$ 15,823,664</u>	<u>\$ 18,571,100</u>
U.S. Department of Veterans Administration						
Veterans State Domiciliary Care	N/A	64.014	10/01/96-09/30/97	(b) \$	639,474	\$
Veterans State Domiciliary Care	N/A	64.014	10/01/95-09/30/96	(b)		604,462
Veterans State Nursing Home Care (2)	N/A	64.015	10/01/96-09/30/97	(b)	9,921,250	
Veterans State Nursing Home Care (2)	N/A	64.015	10/01/95-09/30/96	(b)		<u>9,354,919</u>
Total U.S. Department of Veterans Administration (c)					<u>\$ 10,560,724</u>	<u>\$ 9,959,381</u>
Total Federal Financial Assistance					<u>\$ 26,384,388</u>	<u>\$ 28,530,481</u>

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

(1) Major program, as defined by the Single Audit Act, for only fiscal year 1995-96.

(2) Major program, as defined by the Single Audit Act for both fiscal years.

(a) As part of the Cooperative Agreement, the U.S. Department of Defense also provided in-kind assistance in the form of direct federal payments for services and supplies. For fiscal years 1996-97 and 1995-96, federal in-kind assistance totaled \$4.2 million and \$3.7 million, respectively.

(b) Revenue received by the veterans' homes from the U.S. Department of Veterans Administration for domiciliary care and nursing care is based on per diem payments for days of care provided. The Department did not receive any formal grant awards for these programs.

(c) The veterans' homes received federal Medicare program revenues totaling \$646,182 in fiscal year 1996-97 and \$573,336 in fiscal year 1995-96. The Medicare revenue was received from Blue Cross and Blue Shield (BC/BS). Medicare revenue is not considered federal assistance, but rather as reimbursement from BC/BS for the purchase of services provided by the homes. Therefore, Medicare revenue is not included on this schedule.

Glossary of Acronyms and Terms

CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
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.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal financial assistance programs.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) 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 statements/schedules, would not be prevented or detected.
OMB	federal Office of Management and Budget.
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.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>