

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

DEPARTMENT OF TREASURY

October 1, 1995 through September 30, 1997

EXECUTIVE DIGEST

DEPARTMENT OF TREASURY

INTRODUCTION

This report contains the results of our financial audit^{*}, including the provisions of the Single Audit Act, of the Department of Treasury 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 the federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The Department of Treasury was created by the Executive Organization Act of 1965 (Section 16.175 of the *Michigan Compiled Laws*) and is one of the principal departments of State government.

The State Constitution provides for a State Treasurer in Article 5, Section 3. The Governor appoints the State Treasurer with the advice and consent of the Senate. Under the direction of the State Treasurer, the Department of Treasury is responsible for collecting, investing, and disbursing State funds. The Department administers the major tax laws, administers the audits of county and municipal financial records, cares for abandoned property

^{*} See glossary on page 32 for definition.

through escheat, and safeguards the credit of the State property and its local governments.

The Department had 1,423 employees as of September 30, 1997. Department expenditures and operating transfers out totaled approximately \$2.3 billion in fiscal year 1996-97.

**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 did identify reportable conditions* relating to the internal auditor and cash management (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 any of its major federal financial assistance programs.

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

* See glossary on page 32 for definition.

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

Conclusion: We expressed an unqualified opinion on the financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Treasury 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.

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
AND PRIOR AUDIT
FOLLOW-UP

Our report includes 2 findings and 2 recommendations. The Department's preliminary response indicated that it agrees with 1 of the findings and has complied with the related recommendation. The Department disagrees with the other finding.

The Department had complied with all 3 of the prior audit recommendations included within the scope of our current audit.

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Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

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

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; 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 Treasury's financial schedules and note to financial schedules; supplemental financial schedules; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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Description of Agency

The Department of Treasury was created by the Executive Organization Act of 1965 (Section 16.175 of the *Michigan Compiled Laws*) and is one of the principal departments of State government.

The State Constitution provides for a State Treasurer in Article 5, Section 3. The Governor appoints the State Treasurer with the advice and consent of the Senate. Under the direction of the State Treasurer, the Department of Treasury is responsible for collecting, investing, and disbursing State funds. The Department administers the major tax laws, administers the audits of county and municipal financial records, cares for abandoned property through escheat, and safeguards the credit of the State and its local governments.

The Department is organized into the Executive Office and six bureaus: Administrative Services, Controller Operations, Finance and Fiscal Policy, Investments, Local Government Services, and Revenue.

The Department provides support services to the following units, which are audited separately: Michigan Education Trust, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan State Hospital Finance Authority, State Assessors Board, and State Tax Commission. By law, these boards operate independent of the State Treasurer, and their members are appointed by the Governor or serve by virtue of their office in State government.

The Department had 1,423 employees as of September 30, 1997. Department expenditures and operating transfers out totaled approximately \$2.3 billion in fiscal year 1996-97.

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

Audit Objectives

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

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 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. The Department's major programs are identified on the schedule of federal financial assistance.

Agency Responses and Prior Audit Follow-Up

Our report includes 2 findings and 2 recommendations. The Department's preliminary response indicated that it agrees with 1 of the findings and has complied with the related recommendation. The Department disagrees with the other finding.

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 Treasury to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Department had complied with all 3 of the prior audit recommendations included within the scope of our current audit.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Treasury'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 did identify reportable conditions relating to the internal auditor and cash management.

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.

FINDING

1. Internal Auditor

The Department's internal auditor was not organizationally independent.

Section 18.1486(2) of the *Michigan Compiled Laws* requires each department's internal auditor to report to and be under the general supervision of the department head.

The Department's internal auditor was under the supervision of the Department's deputy treasurer for financial and administrative services. This is considered a weakness in the Department's internal control structure because it impairs the internal auditor's independence with respect to financial audits.

RECOMMENDATION

We recommend that the Department provide for the organizational independence of the internal auditor.

AGENCY PRELIMINARY AGENCY

The Department does not agree with the Office of the Auditor General's interpretation of the statute and the resultant finding. It appears to the Department that the Office of the Auditor General is interpreting the statute to require that the internal auditor report directly to the department head. The Department interprets the statute differently in that the internal auditor should be under the general supervision of the department head. However, the Department does share the same overall concept with the Office of the Auditor General that the internal auditor should be organizationally independent. The Department feels that it is currently in compliance.

FINDING

2. Cash Management

The Department of Treasury's internal control structure did not provide for compliance with State cash management standards.

Section 18.1395(5) of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1210.06, require State departments to obtain federal funds when they become available and when State funds have been expended.

The Department of Treasury did not request federal funds on a timely basis for the State Student Incentives Grant Program and the Byrd Honors Scholarship Program. For example, in fiscal year 1996-97, State funds for the programs were expended from October to February, but federal funds were not drawn until March. As a result of not requesting federal funds on a timely basis, we estimate, based on the State Treasurer's Common Cash rate of return, lost interest income to the State of approximately \$34,000 and \$38,000 in fiscal years 1995-96 and 1996-97, respectively.

To reduce the amount of lost interest income, the Department should request federal funds on a timely basis.

RECOMMENDATION

We recommend that the Department enhance its internal control structure to provide for compliance with State cash management standards.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the finding and informed us that it has compiled with the recommendation.

COMPLIANCE WITH LAWS AND REGULATIONS

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 any of its major federal financial assistance programs.

Conclusion: Our assessment did not disclose any noncompliance with laws and regulations 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

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

Conclusion: We expressed an unqualified opinion on the financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Independent Auditor's Report on the
Internal Control Structure

July 20, 1998

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

We have audited the financial schedules of the Department of Treasury for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated July 20, 1998. We have also audited the Department of Treasury's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 20, 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 audits 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 Treasury 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

- Revenue and operating transfers
- Payroll expenditures
- Nonpayroll expenditures
- Budgetary sources and dispositions
- Grant payments

Administrative Controls

General requirements:

- Political activity
- Civil rights
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Cash management
- Federal financial reports
- Availability of funds

Specific requirements:

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Special tests and provisions
- Special reporting requirements

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 each of the fiscal years ended September 30, 1997 and September 30, 1996, the Department of Treasury expended 100% 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. The reportable conditions are more fully described in Findings 1 and 2.

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 above 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

July 20, 1998

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

We have audited the financial schedules of the Department of Treasury, for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated July 20, 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 Treasury 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 Treasury 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; special tests and provisions; 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 Treasury complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions; 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.

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
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Cash management
- Federal financial reports
- Availability of funds

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 Treasury 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

July 20, 1998

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

We have audited the accompanying schedule of revenue and operating transfers and the schedule of General Fund sources and disposition of authorizations of the Department of Treasury for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the Department of Treasury's 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 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's 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 Treasury 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, schedule of taxes by type, and schedule of federal financial assistance are presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. The information in the supplemental financial schedule 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 July 20, 1998 on our consideration of the Department of Treasury's internal control structure and a report dated July 20, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

DEPARTMENT OF TREASURY
Schedule of Revenue and Operating Transfers
General Fund and Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	<u>General Fund</u>		<u>Special Revenue Funds</u>		<u>Totals</u> <u>(Memorandum Only)</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
REVENUE						
Taxes (net of refunds)	\$ 9,715,781	\$ 9,779,795	\$ 5,492,833	\$ 5,276,673	\$ 15,208,614	\$ 15,056,468
Federal revenue	2,902	5,488			2,902	5,488
Local revenue	2,363	2,455			2,363	2,455
Services	19,801	14,917			19,801	14,917
Licenses and permits	303	263			303	263
Miscellaneous revenue	<u>25,196</u>	<u>42,918</u>	<u>30</u>	<u>35,321</u>	<u>25,226</u>	<u>78,239</u>
Total Revenue	\$ 9,766,346	\$ 9,845,836	\$ 5,492,863	\$ 5,311,994	\$ 15,259,209	\$ 15,157,830
OPERATING TRANSFERS						
From the General Fund	<u>101,262</u>	<u>41,860</u>			<u>101,262</u>	<u>41,860</u>
Total Revenue and Operating Transfers	<u>\$ 9,867,608</u>	<u>\$ 9,887,696</u>	<u>\$ 5,492,863</u>	<u>\$ 5,311,994</u>	<u>\$ 15,360,471</u>	<u>\$ 15,199,690</u>

The accompanying note is an integral part of the financial schedules.

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

	<u>1997</u>	<u>1996</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 352,284	\$ 333,797
Budgetary transfers in (out)		(200)
Balances carried forward	220,652	207,025
Restricted revenue and operating transfer in	1,975,615	1,890,727
Less: Intrafund expenditure reimbursements	<u>(943)</u>	<u>(522)</u>
Total	<u>\$ 2,547,608</u>	<u>\$ 2,430,827</u>
DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ 2,300,345	\$ 2,207,411
Less: Intrafund expenditure reimbursements	<u>(943)</u>	<u>(522)</u>
Net expenditures and operating transfers out	<u>\$ 2,299,402</u>	<u>\$ 2,206,889</u>
Balances carried forward:		
Multi-year projects	\$ 26,727	\$ 13,448
Encumbrances	2,662	1,563
Restricted revenue - authorized	2,065	2,191
Restricted revenue - not authorized	<u>215,087</u>	<u>203,437</u>
Total balances carried forward	<u>\$ 246,541</u>	<u>\$ 220,639</u>
Balances lapsed	<u>\$ 1,665</u>	<u>\$ 3,299</u>
Total	<u>\$ 2,547,608</u>	<u>\$ 2,430,827</u>

The accompanying note is an integral part of the financial schedules.

Note to Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the General Fund financial transactions of the Department of Treasury for the fiscal years ended September 30, 1997 and September 30, 1996 and also include a portion of tax and miscellaneous revenue collected for special revenue funds (primarily tax revenue for the School Aid Fund and miscellaneous revenue for the Bottle Deposits Fund). The governmental operations 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. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, General Long-Term Obligations, and Contingencies and Commitments.

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 schedule of revenue and operating transfers is not intended to report all revenue collected by the Department of Treasury. The schedule presents revenue resulting from the Department's administration of the State's major tax laws and certain other revenue and federal revenue generated by the Department's various programs and interdepartmental services. These revenues are accounted for principally

in the State's General Fund. The accompanying schedule of General Fund sources and disposition of authorizations includes the Department of Treasury'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.

Amounts in the "Totals (Memorandum Only)" columns represent summations of the government fund types and are presented only for analytical purposes. Consequently, amounts shown are not comparable to a consolidation.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF TREASURY
Schedule of Taxes by Type
General and Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

Source	General Fund		Special Revenue Funds		Totals*	
					(Memorandum Only)	
	1997	1996	1997	1996	1997	1996
Taxes (net of refunds):						
Personal income tax	\$ 4,817,494	\$ 4,953,686	\$	\$	\$ 4,817,494	\$ 4,953,686
Sales tax	1,175,253	1,117,874	3,347,314	3,197,744	4,522,567	4,315,618
Single business tax	2,224,319	2,187,418			2,224,319	2,187,418
Use tax	631,983	600,278	314,737	295,081	946,720	895,359
Tobacco tax	156,594	167,033	350,515	371,423	507,109	538,456
Estate tax	79,484	87,043			79,484	87,043
Insurance retaliatory tax	175,995	198,518			175,995	198,518
Telephone company tax	145,805	135,412			145,805	135,412
Intangibles tax	76,176	110,897			76,176	110,897
Penalties and interest - various taxes	138,193	146,337			138,193	146,337
Industrial facilities tax			117,466	121,814	117,466	121,814
Diesel fuel tax	9		257	261	266	261
Gas and oil severance tax	41,154	36,776			41,154	36,776
Convention facility development tax	14,009	13,394			14,009	13,394
Liquor tax	22,498	22,564			22,498	22,564
Airport parking tax	12,747	12,140			12,747	12,140
State education property tax			1,348,832	1,272,288	1,348,832	1,272,288
Other taxes	4,068	(9,575)	13,712	18,062	17,780	8,487
Total Taxes	<u>\$ 9,715,781</u>	<u>\$ 9,779,795</u>	<u>\$ 5,492,833</u>	<u>\$ 5,276,673</u>	<u>\$ 15,208,614</u>	<u>\$ 15,056,468</u>

* Amounts in the "Totals (Memorandum Only)" columns represent summations of the government fund types and are presented only for analytical purposes. Consequently, amounts shown are not comparable to a consolidation.

DEPARTMENT OF TREASURY
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30

<u>Grantor Agency/ Federal Assistance Program Title</u>	<u>Grant/Contract Number</u>	<u>CFDA Program Number</u>	*	<u>Award Period</u>
<u>U.S. Department of Education</u>				
State Student Incentives Grants	P069A50023-95A	84.069	**	10/1/95-9/30/96
State Student Incentives Grants	P069A60023-96A	84.069	**	10/1/96-9/30/97
Total State Student Incentives Grants				
Byrd Honors Scholarships	P185A50023	84.185	**	10/1/95-9/30/96
Byrd Honors Scholarships	P185A60023	84.185	**	10/1/96-9/30/97
Total Byrd Honors Scholarships				
Total U.S. Department of Education				
<u>U.S. Department of Health and Human Services</u>				
Low-Income Home Energy Assistance	IA-96-024	93.568	**	10/1/95-9/30/96
Low-Income Home Energy Assistance	IA-97-006	93.568	**	10/1/96-9/30/97
Total Low-Income Home Energy Assistance				

Total U.S. Department of Health and Human Services

Total Federal Assistance

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

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

<u>Amount of Award</u>		<u>Directly Expended by Department</u>	
<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
\$ 1,318,983	\$ 2,626,554	<u>\$ 1,318,983</u>	\$ 2,626,554
		<u>\$ 1,318,983</u>	<u>\$ 2,626,554</u>
\$ 1,082,886	\$ 1,084,500	<u>1,082,886</u>	1,084,500
		<u>\$ 1,082,886</u>	<u>\$ 1,084,500</u>
		<u>\$ 2,401,869</u>	<u>\$ 3,711,054</u>
\$ 500,000	\$ 410,153	<u>\$ 500,000</u>	\$ 410,153
		<u>\$ 500,000</u>	<u>\$ 410,153</u>
		<u>\$ 500,000</u>	<u>\$ 410,153</u>
		<u><u>\$ 2,901,869</u></u>	<u><u>\$ 4,121,207</u></u>

Glossary of Acronyms and Terms

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 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 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 schedules or in the administration of a major federal assistance program, 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>