

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

LIBRARY OF MICHIGAN

October 1, 1996 through September 30, 1998

## EXECUTIVE DIGEST

# LIBRARY OF MICHIGAN

---

### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Library of Michigan for the period October 1, 1996 through September 30, 1998.

---

### AUDIT PURPOSE

This financial audit of the Library 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 Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

---

### BACKGROUND

Act 540, P.A. 1982 (Sections 397.11 - 397.24 of the *Michigan Compiled Laws*), created the Library of Michigan under the control of the Legislative Council and established an advisory Board of Trustees. The Library's primary mission\* is to promote, advocate, and consistently work to achieve the highest level of library service to the State of Michigan and its residents. The Library's goals\* and objectives\* are to meet the information needs of the Legislature and State government, to assist Michigan libraries, and to act as a Statewide resource for the public.

\* See glossary at end of report for definition.

The Business Services Division has responsibility for the Library's accounting, financial reporting, and administration of federal grants. As of September 30, 1998, the Library had 101 full-time and 38 part-time employees. The Library's expenditures and operating transfers outs for fiscal year 1997-98 totaled \$35,086,425.

---

**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To audit the Library's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

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

**Audit Objective:** To assess and report on the Library's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\* .

**Audit Objective:** To assess and report on the Library's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

\* See glossary at end of report for definition.

**Conclusion:** Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

---

**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Library of Michigan for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit excluded capital outlay accounts, which are administered by the Legislative Service Bureau.

---

**PRIOR AUDIT  
FOLLOW-UP**

As disclosed in the Library's summary schedule of prior audit findings, the Library had complied with the one prior Single Audit\* recommendation.

\* See glossary at end of report for definition.

This page left intentionally blank.

The Honorable Dan L. DeGrow, Senate Majority Leader  
The Honorable Charles R. Perricone, Speaker of the House  
Legislative Council  
State Capitol  
Lansing, Michigan

Dear Senator DeGrow and Representative Perricone:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Library of Michigan for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Library of Michigan financial schedules and notes to financial schedules; required supplementary information; supplemental financial schedules; other required schedules; and a glossary of acronyms and terms.

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

AUDITOR GENERAL

This page left intentionally blank.

# TABLE OF CONTENTS

## LIBRARY OF MICHIGAN

### INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	9
Audit Objectives and Conclusions, Audit Scope, and Prior Audit Follow-Up	10

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	12
Section II: Findings Related to the Financial Schedules	13
Section III: Findings and Questioned Costs Related to Federal Awards	13

### INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES

Independent Auditor's Report on the Financial Schedules	14
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	16
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	18
Library of Michigan Financial Schedules	
Schedule of General Fund Revenue	20
Schedule of Sources and Disposition of General Fund Authorizations	21
Notes to Financial Schedules	22

## REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues	26
------------------	----

## SUPPLEMENTAL FINANCIAL SCHEDULES

Schedule of General Fund Assets and Liabilities	29
Schedule of Disposition of General Fund Authorizations by Line Item	30
Schedule of Expenditures of Federal Awards	32

## OTHER REQUIRED SCHEDULES

Summary Schedule of Prior Audit Findings	35
Corrective Action Plan	36

## GLOSSARY

Glossary of Acronyms and Terms	37
--------------------------------	----

## Description of Agency

Act 540, P.A.1982 (Sections 397.11 - 397.24 of the *Michigan Compiled Laws*), created the Library of Michigan under the control of the Legislative Council and established an advisory Board of Trustees. The State Librarian, by statute, has responsibility for the administrative and budgetary functions of the Library and reports to the Legislative Council.

The Library (including the Law Library) is located in Lansing. The Library's collections include approximately 5.5 million items, with an emphasis on Michigan, public policy, and Michigan newspapers. The Library houses the eleventh largest collection of genealogy information in the United States and is a depository for both federal and State government documents.

The Library's primary mission is to promote, advocate, and consistently work to achieve the highest level of library service to the State of Michigan and its residents. The Library's goals and objectives are to meet information needs of the Legislature and State government, to assist Michigan libraries, and to act as a Statewide resource for the public.

The Library provides federal and State funding to Michigan libraries and coordinates library services throughout the State. It receives and administers federal funds under the federal Library Services and Technology Act to improve library services. The Library distributes State funds to public libraries and public library cooperatives. Also, the Library coordinates and provides continuing education for public library personnel.

The Business Services Division has responsibility for the Library's accounting, financial reporting, and administration of federal grants. As of September 30, 1998, the Library had 101 full-time and 38 part-time employees. The Library's expenditures and operating transfers out for fiscal year 1997-98 totaled \$35,086,425.

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

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Library of Michigan had the following objectives:

1. To audit the Library's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed an unqualified opinion on the Library's financial schedules.

2. To assess and report on the Library's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

3. To assess and report on the Library's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

### Audit Scope

Our audit scope was to examine the financial and other records of the Library of Michigan for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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 excluded capital outlay accounts, which are administered by the Legislative Service Bureau.

We considered the Library's internal control over compliance applicable to each major federal program and assessed the Library's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the Library's summary schedule of prior audit findings. The Library's major federal programs are identified in Section I of the schedule of findings and questioned costs.

### Prior Audit Follow-Up

As disclosed in the Library's summary schedule of prior audit findings, the Library had complied with the one prior Single Audit recommendation.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None reported

Noncompliance material to the financial schedules? No

### Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?

No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
45.310	State Library Program
84.034	Public Library Services (Title I)
84.035	Interlibrary Cooperation and Resource Sharing (Title III)
84.154	Public Library Construction and Technology Enhancement (Title II)

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

No

## **Section II: Findings Related to the Financial Schedules**

We did not report any audit findings.

The status of the finding reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

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

We did not report any audit findings.

Independent Auditor's Report on  
the Financial Schedules

March 26, 1999

The Honorable Dan L. DeGrow, Senate Majority Leader  
The Honorable Charles R. Perricone, Speaker of the House  
Legislative Council  
State Capitol  
Lansing, Michigan

Dear Senator DeGrow and Representative Perricone:

We have audited the accompanying schedule of General Fund revenue and the schedule of sources and disposition of General Fund authorizations of the Library of Michigan for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Library 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 the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Library'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 Library 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 Library of Michigan for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 1999 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of General Fund assets and liabilities and the schedule of disposition of General Fund authorizations by line item, are presented for purposes of additional analysis and are not a required part of the Library's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

The year 2000 supplementary information on page 26 is not a required part of the basic financial schedules but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

AUDITOR GENERAL

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

March 26, 1999

The Honorable Dan L. DeGrow, Senate Majority Leader  
The Honorable Charles R. Perricone, Speaker of the House  
Legislative Council  
State Capitol  
Lansing, Michigan

Dear Senator DeGrow and Representative Perricone:

We have audited the General Fund financial schedules of the Library of Michigan for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated March 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Library's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over

financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Library's management, the Legislative Council, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

March 26, 1999

The Honorable Dan L. DeGrow, Senate Majority Leader  
The Honorable Charles R. Perricone, Speaker of the House  
Legislative Council  
State Capitol  
Lansing, Michigan

Dear Senator DeGrow and Representative Perricone:

Compliance

We have audited the compliance of the Library of Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. The Library's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Library's management. Our responsibility is to express an opinion on the Library's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Library's compliance with those requirements and

performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Library's compliance with those requirements.

In our opinion, the Library of Michigan complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997.

#### Internal Control Over Compliance

The management of the Library is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Library's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Library's management, the Legislative Council, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

LIBRARY OF MICHIGAN  
Schedule of General Fund Revenue  
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
REVENUE		
Federal revenue:		
Library Services and Construction Act	\$ 4,324,205	\$ 4,232,410
Library Services and Technology Act	1,445,082	
National Endowment for the Humanities	105,973	78,481
Total Federal Revenue	\$ 5,875,260	\$ 4,310,891
Services	95,137	122,861
Miscellaneous		2,862
Total Revenue	\$ 5,970,397	\$ 4,436,614

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

LIBRARY OF MICHIGAN  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
<b>SOURCES OF AUTHORIZATIONS</b>		
General purpose appropriations	\$ 31,372,000	\$ 30,516,200
Budgetary transfers in (out)	(2,457,579)	(2,633,676)
Balances carried forward	678,799	361,949
Restricted financing sources	<u>5,970,272</u>	<u>4,443,619</u>
 Total	 <u>\$ 35,563,492</u>	 <u>\$ 32,688,092</u>
 <b>DISPOSITION OF AUTHORIZATIONS</b>		
Expenditures and operating transfers out	<u>\$ 35,086,425</u>	<u>\$ 32,009,066</u>
Balances carried forward:		
Multi-year projects	\$ 184,621	\$ 270,234
Encumbrances	133,423	375,585
Restricted revenue - authorized	<u>40,168</u>	<u>32,980</u>
Total balances carried forward	<u>\$ 358,212</u>	<u>\$ 678,799</u>
Balances lapsed	<u>\$ 118,854</u>	<u>\$ 227</u>
 Total	 <u>\$ 35,563,492</u>	 <u>\$ 32,688,092</u>

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

## 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 Library of Michigan for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of the Library 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 notes accompanying these financial schedules relate directly to the Library of Michigan. 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, 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 Library of Michigan's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Library or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original 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 Library 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.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, and restricted revenue - 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.
- 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 projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.

- 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: Revenue that, by statute or the State Constitution, is restricted for use to a particular department program or activity. Generally, this revenue may be expended upon receipt without additional legislative authorization.
- h. Balances lapsed: Library authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended: The total of the Library's overexpenditure of line-item authorizations. The Library is required to seek a supplemental appropriation to authorize the expenditure.

REQUIRED  
SUPPLEMENTARY INFORMATION

## Year 2000 Issues

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial schedules on which the auditor's report is dated after October 31, 1998, require the Library of Michigan to make disclosures in the notes to the financial schedules about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial schedules. Retroactive application was allowed.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 1998.

The Networking and Information Systems Division has overall responsibility for the implementation of year 2000 systems at the Library.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- (1) Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- (2) Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- (3) Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems. During this stage, decisions are made on

how to make the systems or processes year 2000 compliant, and the required system changes are made.

- (4) Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The Library identified 4 computer applications that are critical to conducting its operations and that need to be year 2000 compliant. The Library has also received written assurance for those critical applications being evaluated by outside vendors. The Library is also responsible for assessing the status of computer equipment and replacing or upgrading its equipment as needed. The Library expects to complete this assessment on or before October 1, 1999.

The Library's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation, including processing of vendor payments, maintaining bibliographies of books and materials, and maintaining the legislative web site. As of September 30, 1998, the Library had validated and tested 50% of the mission critical computer applications. The remaining 50% of the critical applications were in other stages of completion.

Management believes that the Library has the correct plan in place and that the Library will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the Library is or will be year 2000 ready, that the Library's remediation efforts will be successful in whole or in part, or that parties with whom the Library does business will be year 2000 ready.

SUPPLEMENTAL  
FINANCIAL SCHEDULES

LIBRARY OF MICHIGAN  
Schedule of General Fund Assets and Liabilities  
As of September 30

	1998	1997
<b>ASSETS</b>		
Accounts Receivable:		
Due from federal agencies	\$ 2,547,235	\$ 1,191,305
Miscellaneous	61,472	44,892
Total Accounts Receivable	\$ 2,608,707	\$ 1,236,197
 <b>LIABILITIES</b>		
Accounts payable	\$ 2,466,906	\$ 2,188,437
Amounts due to other funds	\$ 3,528	

The schedule of General Fund assets and liabilities is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include those assets and liabilities for which the Library is directly responsible. The schedule excludes other assets and liabilities, such as equity in Common Cash, cash in transit, and warrants outstanding, that are accounted for centrally by the State.

LIBRARY OF MICHIGAN  
Schedule of Disposition of General Fund Authorizations by Line Item  
Fiscal Years Ended September 30

<u>Line Item</u>	<u>1998</u>			
	<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u> <u>and Operating</u> <u>Transfers Out</u>	<u>Balances</u> <u>Carried</u> <u>Forward</u>	<u>Balances</u> <u>Lapsed</u>
Operations	\$ 7,473,140	\$ 7,374,303	\$ 98,695	\$ 142
State aid to libraries	13,519,600	13,519,600		
Detroit Public Library	5,871,600	5,871,600		
Subregional State aid	251,800	251,800		
Wayne County Library	49,200	49,200		
Kellogg IMAGIN Project				
Federal - Library Services and Construction	5,606,888	5,606,888		
Newspaper Project	105,973	105,973		
Library automation	1,156,966	937,675	219,291	
Book distribution	285,000	285,000		
Grand Rapids Public Library	406,400	406,400		
Information technology	270,234	270,176	58	
Center for the Book				
Renaissance Zone reimbursement	276,300	157,588		118,712
Collected gifts and fees	127,889	87,721	40,168	
Receivable and payable write-offs	<u>162,502</u>	<u>162,502</u>		
Total	<u>\$ 35,563,492</u>	<u>\$ 35,086,425</u>	<u>\$ 358,212</u>	<u>\$ 118,854</u>

1997			
<u>Total Authorizations</u>	<u>Expenditures and Operating Transfers Out</u>	<u>Balances Carried Forward</u>	<u>Balances Lapsed</u>
\$ 7,421,774	\$ 7,049,707	\$ 371,840	\$ 227
13,019,600	13,019,600		
5,871,600	5,871,600		
249,300	249,300		
48,700	48,700		
4,882	4,882		
4,224,569	4,224,569		
78,481	78,481		
483,565	479,820	3,745	
285,000	285,000		
500,000	500,000		
270,234		270,234	
1,009	1,009		
166,676	133,696	32,980	
<u>62,703</u>	<u>62,703</u>		
<u>\$ 32,688,092</u>	<u>\$ 32,009,066</u>	<u>\$ 678,799</u>	<u>\$ 227</u>

LIBRARY OF MICHIGAN  
Schedule of Expenditures of Federal Awards\*  
For the Period October 1, 1996 through September 30, 1998

<u>Federal Agency/Program</u>	<u>CFDA **</u> <u>Number</u>	<u>For the Fiscal Year Ended September 30, 1997</u>		
		<u>Directly</u> <u>Expended</u>	<u>Distributed to</u> <u>Subrecipients</u>	<u>Total Expended</u> <u>and Distributed</u>
<b><u>National Endowment for the Humanities</u></b>				
Promotion of the Humanities - Division of Preservation and Access	45.149	\$ 78,481	\$	\$ 78,481
<b>Total National Endowment for the Humanities</b>		<b>\$ 78,481</b>	<b>\$ 0</b>	<b>\$ 78,481</b>
<b><u>Institute of Museum and Library Services</u></b>				
Library Services and Technology Act: State Library Program	45.310	\$	\$	\$ 0
Library Services and Construction Act: Public Library Construction and Technology Enhancement (Title II)	84.154			0
<b>Total Institute of Museum and Library Services</b>		<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b><u>U.S. Department of Education</u></b>				
Library Services and Construction Act: Public Library Services (Title I)	84.034	\$ 531,262	\$ 2,567,766	\$ 3,099,028
Interlibrary Cooperation and Resource Sharing (Title III)	84.035	138,211	433,925	572,136
Public Library Construction and Technology Enhancement (Title II)	84.154	170,481	352,520	523,001
<b>Total U.S. Department of Education</b>		<b>\$ 839,954</b>	<b>\$ 3,354,211</b>	<b>\$ 4,194,165</b>
<b>Total Federal Expenditures of Federal Awards</b>		<b>\$ 918,435</b>	<b>\$ 3,354,211</b>	<b>\$ 4,272,646</b>

\* Note: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Library of Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the schedule of sources and disposition of General Fund authorizations.

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

<u>For the Fiscal Year Ended September 30, 1998</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 105,973	\$ 0	\$ 105,973	\$ 184,454
<b>\$ 105,973</b>	<b>\$ 0</b>	<b>\$ 105,973</b>	<b>\$ 184,454</b>
\$ 1,264,124	\$ 180,958	\$ 1,445,082	\$ 1,445,082
31,688	661,139	692,827	\$ 692,827
<b>\$ 1,295,812</b>	<b>\$ 842,097</b>	<b>\$ 2,137,909</b>	<b>\$ 2,137,909</b>
\$ 748,486	\$ 2,182,034	\$ 2,930,520	\$ 6,029,548
227,475	148,670	376,145	\$ 948,281
			\$ 523,001
<b>\$ 975,961</b>	<b>\$ 2,330,704</b>	<b>\$ 3,306,665</b>	<b>\$ 7,500,830</b>
<u>\$ 2,377,746</u>	<u>\$ 3,172,801</u>	<u>\$ 5,550,547</u>	<u>\$ 9,823,193</u>

# OTHER REQUIRED SCHEDULES

LIBRARY OF MICHIGAN  
Summary Schedule of Prior Audit Findings  
Fiscal Years Ended September 30, 1998 and September 30, 1997

**Prior Audit Findings Related to the Financial Schedules**

Audit Findings That Have Been Fully Corrected:

Audit Period:           October 1, 1994 through September 30, 1996  
Finding Number:        1  
Finding:                The Library's control structure did not ensure that accounts payable  
                              were properly established at fiscal year-end.  
Comments:              The Library complied with the prior audit recommendation.

**Prior Audit Findings Related to Federal Awards**

Finding:                None

LIBRARY OF MICHIGAN  
Corrective Action Plan  
As of (audit conference date)

No audit findings for fiscal years 1996-97 and 1997-98.

## Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
internal control	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 weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
mission	The agency's main purpose or the reason the agency was established.
objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.

OMB	U.S. 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 internal control.
Single Audit	A financial audit performed in accordance with the Single Audit Act Amendments of 1996 that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>