

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE  
DEPARTMENT OF MANAGEMENT AND BUDGET

October 1, 1996 through September 30, 1998

## EXECUTIVE DIGEST

# DEPARTMENT OF MANAGEMENT AND BUDGET

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### INTRODUCTION

This report contains the results of our financial audit\* , including the provisions of the Single Audit Act, of the Department of Management and Budget (DMB) for the period October 1, 1996 through September 30, 1998.

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### AUDIT PURPOSE

This financial audit of DMB 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*.

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### BACKGROUND

DMB has two separate and distinct components overseen by the DMB director and the State budget director, who are appointed by the Governor.

DMB is responsible for providing centralized Statewide services to other departments. The DMB director has responsibility for management services and for procurement and information technology. The State budget director has responsibility in the areas of budget and financial management. DMB recoups a portion of the costs of these services through charges to user departments. The following offices provide these

\* See glossary at end of report for definition.

Statewide services: Offices of Financial Management, Michigan Information Center, Facilities, Retirement Services, Support Services, Purchasing, Information Technology Solutions, Computing and Telecommunications, and the State Employer, and the Michigan Administrative Information Network.

The State Building Authority Advance Financing Fund (SBAAFF) was created in 1988 to account for expenditures incurred for employment, higher education, and State projects prior to the issuance of State Building Authority bonds.

The Office of Services to the Aging was created as an autonomous agency within DMB and exercised its powers and functions independent of the DMB director. The Office of Services to the Aging administers programs, under the provisions of federal and State guidelines, that support Michigan's older citizens. This Office was transferred to the Department of Community Health in May 1997 by Executive Order 97-5.

The Office of Administrative Services and the Office of Services to the Aging handled their respective responsibilities for federal assistance program management through the fiscal year ended September 30, 1997. For fiscal year 1997-98, the Office of Administrative Services managed all federal assistance programs within DMB.

As of September 30, 1998, DMB had 1,488 full-time equated positions. For the fiscal year ended September 30, 1998, DMB's General Fund expenditures were \$2.1 billion, of which \$1.7 billion were grants to colleges and universities. For the fiscal year ended

September 30, 1998, SBAAFF expenditures were \$39.9 million.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

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

**Conclusion:** We expressed unqualified opinions on DMB's financial schedules and its SBAAFF financial statements.

**Audit Objective:** To assess and report on DMB'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 statements, and on its internal control\* over financial reporting, based on our audit of the financial schedules and statements.

**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\*. However, we identified reportable conditions\* related to accounts payable, budgetary and financial reporting, and misclassification of expenditures (Findings 1 through 3).

In addition, our assessment indicated that DMB was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled*

\* See glossary at end of report for definition.

Laws pertaining to its systems of internal accounting and administrative control.

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

**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. However, we identified a reportable condition in the Office of Services to the Aging related to payroll-personnel distributions (Finding 4).

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the General Fund operations and the State Building Authority Advance Financing Fund of the Department of Management and Budget 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.

The scope of this audit did not include the separate funds administered by DMB that did not receive any federal financial assistance. Those funds, which are audited

separately and included in other audit reports, are: the Counter-Cyclical Budget and Economic Stabilization Fund, State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology Revolving Fund, Risk Management Fund, State Sponsored Group Insurance Fund, and the retirement funds administered by the Office of Retirement Services.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

As a result of a prior audit recommendation, DMB has made significant improvements in the area of security administration. These improvements include quarterly security reviews of DMB systems and programs. DMB has shared its security review package with other State agencies and intends to incorporate it into security guidelines being developed by the Office of Financial Management.

Our audit report contains 4 findings and corresponding recommendations. The corrective action plan indicates that DMB agrees with 2 of the 3 findings and all 3 of the recommendations related to DMB. The corrective action plan also indicates that the Department of Community Health agrees with the 1 finding and recommendation related to the Office of Services to the Aging.

As disclosed in DMB's summary schedule of prior audit findings, DMB complied with the 5 prior Single Audit\* recommendations included in the 3 prior audit findings.

\* See glossary at end of report for definition.

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Ms. Janet E. Phipps, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Phipps:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Management and Budget 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 agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on the financial statements, 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 Department of Management and Budget financial schedules, the State Building Authority Advance Financing Fund financial statements, notes to the financial schedules and statements, required supplementary information, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. 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 Management and Budget (DMB) was created by the Executive Organization Act of 1965 (Act 380, P.A. 1965). DMB has two separate and distinct components overseen by the DMB director and the State budget director, who are appointed by the Governor. Numerous organizational units within DMB perform a broad range of duties.

The Director's Office is responsible for providing program and policy direction for DMB, with the Office of Administrative Services providing data processing, fiscal management, and personnel services to DMB. The State budget director prepares, presents, and executes the State budget in addition to having responsibility over the Office of Financial Management.

DMB is responsible for providing centralized Statewide services to other departments. The DMB director has responsibility for management services and for procurement and information technology. The State budget director has responsibility in the areas of budget and financial management. DMB recoups a portion of the costs of these services through charges to user departments. The budget and financial management services areas include the Offices of Budget Development and Government Affairs, Education and Infrastructure, Health and Human Services and Economic Development, Public Protection and Resources, Financial Management, Michigan Information Center, and the Michigan Administrative Information Network. The management services areas include the Offices of Facilities, Retirement Services, and Support Services and the State Building Authority. The procurement and information technology services areas include the Offices of Purchasing, Information Technology Solutions, Computing and Telecommunications, and the Michigan Information Network. Other organizational units include the Office of State Employer, the Office of Children's Ombudsman, and the State Administrative Board.

The State Building Authority Advance Financing Fund (SBAAFF) was created to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of State Building Authority bonds.

The Office of Services to the Aging was created as an autonomous agency within DMB and exercised its powers and functions independent of the DMB director. The Office of Services to the Aging administers programs, under the provisions of federal and State guidelines, that support Michigan's older citizens. This Office was transferred to the Department of Community Health in May 1997 by Executive Order 97-5. As a result, we included only one year of the Office's activity in our audit scope.

The Crime Victims Commission and related services were transferred to DCH by Executive Order 97-10 in September 1997. As a result, we included only one year of the Commission's activity in our audit scope.

The Federal Surplus Property Unit receives and distributes nonfinancial federal assistance in the form of federal surplus property to eligible State and local governmental agencies. The Unit assesses a service fee to participants to cover its operational expenses.

The Office of Administrative Services and the Office of Services to the Aging handled their respective responsibilities for federal assistance program management through the fiscal year ended September 30, 1997. For fiscal year 1997-98, the Office of Administrative Services managed all federal assistance programs within DMB.

As of September 30, 1998, DMB had 1,488 full-time equated positions. For the fiscal year ended September 30, 1998, DMB's General Fund expenditures were \$2.1 billion, of which \$1.7 billion were grants to colleges and universities. For the fiscal year ended September 30, 1998, SBAAFF expenditures were \$39.9 million.

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

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Management and Budget (DMB) had the following objectives:

1. To audit DMB's financial schedules and its State Building Authority Advance Financing Fund (SBAAFF) financial statements, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed unqualified opinions on DMB's financial schedules and its SBAAFF financial statements.

2. To assess and report on DMB'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 statements, and on its internal control over financial reporting, based on our audit of the financial schedules and statements.

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. However, we identified reportable conditions related to accounts payable, budgetary and financial reporting, and misclassification of expenditures (Findings 1 through 3).

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

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs.

3. To assess and report on DMB'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. However, we identified a reportable condition in the Office of Services to the Aging related to payroll-personnel distributions (Finding 4).

The finding related to our assessment of compliance and internal control over compliance applicable to each major federal program is contained in Section III of the schedule of findings and questioned costs.

#### Audit Scope

Our audit scope was to examine the financial and other records of the General Fund operations and the State Building Authority Advance Financing Fund of the Department of Management and Budget 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.

The scope of this audit did not include the separate funds administered by DMB that did not receive any federal financial assistance. Those funds, which are audited separately and included in other audit reports, are: the Counter-Cyclical Budget and Economic Stabilization Fund, State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology Revolving Fund, Risk Management Fund, State Sponsored Group Insurance Fund, and the retirement funds administered by the Office of Retirement Services.

We considered DMB's internal control over compliance applicable to each major federal program and assessed DMB'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 DMB's summary schedule of prior audit findings. DMB's major federal programs are identified in Section I of the schedule of findings and questioned costs\* .

#### Agency Responses and Prior Audit Follow-Up

As a result of a prior audit recommendation, DMB has made significant improvements in the area of security administration. These improvements include quarterly security reviews of DMB systems and programs. DMB has shared its security review package with other State agencies and intends to incorporate it into security guidelines being developed by the Office of Financial Management.

Our audit report contains 4 findings and corresponding recommendations. The corrective action plan indicates that DMB agrees with 2 of the 3 findings and all 3 of the recommendations related to DMB. The corrective action plan also indicates that the Department of Community Health (DCH) agrees with the 1 finding and recommendation related to the Office of Services to the Aging.

The corrective action plan, which is included in this report, was prepared by DMB and DCH as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 require DMB and DCH to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in DMB's summary schedule of prior audit findings, DMB complied with the 5 prior Single Audit recommendations included in the 3 prior audit findings.

\* See glossary at end of report for definition.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules and Statements

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?	Yes
Noncompliance material to the financial schedules and statements?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be a material weakness?	Yes
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)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.043	Title III, Part F: Disease Prevention and Health Promotion Services
93.044 and 93.045	Aging Cluster
93.046	Title III, Part D: In-Home Services for Frail Older Individuals
93.778	Medical Assistance Program (Medicaid) Title XIX
39.003	Donation of Federal Surplus Personal Property

Dollar threshold used to distinguish between type A and type B programs: \$ 2,072,594

Auditee qualified as a low-risk auditee\* ? No

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

### **FINDING (079901)**

#### **1. Accounts Payable**

The Department of Management and Budget's (DMB's) controls did not ensure the proper recording of year-end accounts payable and related expenditures in the General Fund and the State Building Authority Advance Financing Fund (SBAAFF).

DMB Year-End Closing Guide Chapter 14, Section 2 provides guidance for the proper recording of all accounts payable at year-end and specifically addresses the

\* See glossary at end of report for definition.

determination of the proper fiscal year for recording accounts payable and related expenditures.

Our review of sampled transactions for fiscal years 1997-98 and 1996-97 noted that DMB did not properly allocate and record the accounts payable and expenditures when vendor invoices included costs that covered two separate fiscal years. We identified the following errors in our review:

- a. DMB did not allocate vendor invoices correctly for 5 (18%) of 28 General Fund transactions tested for fiscal year 1997-98. As a result, fiscal year 1997-98 accounts payable and expenditures were understated by \$87,323.
- b. DMB did not allocate vendor invoices correctly for 3 (17%) of 18 SBAAFF transactions tested for fiscal year 1997-98. As a result, fiscal year 1997-98 accounts payable and expenditures were understated by \$753,341.
- c. DMB did not allocate vendor invoices correctly for 6 (55%) of 11 SBAAFF transactions tested for fiscal year 1996-97. As a result, fiscal year 1997-98 expenditures were overstated and fiscal year 1996-97 accounts payable and expenditures were overstated by \$397,361.

The proper recording of accounts payable is essential to ensure the accuracy of the related financial schedules and statements.

## **RECOMMENDATION**

We recommend that DMB develop controls to ensure the proper recording of year-end accounts payable and related expenditures in the General Fund and SBAAFF.

## **FINDING (079902)**

### **2. Budgetary and Financial Reporting**

DMB's budgetary process did not ensure that it developed legislative appropriation requests that would not conflict with proper accounting and reporting of activities in accordance with generally accepted accounting principles (GAAP).

We noted the following instances in which DMB's recording and reporting of transactions were based on budgetary considerations that conflicted with accounting and reporting guidance provided for in DMB policy and GAAP:

- a. The Office of Administrative Services incorrectly recorded and reported in its accounts over \$12 million in expenditures for year 2000 computer system modification costs incurred by other State departments. DMB established procedures to account for year 2000 computer system modification costs. These procedures directed other State departments to contract with third party vendors to provide services on the contracting departments' systems and to pay for the year 2000 computer system and equipment modification costs. This practice was in line with Executive Directive 98-3, which stated that each State agency is responsible for making its critical computer operations year 2000 compliant. However, the procedures then directed these State departments to use expenditure credit accounting entries to transfer expenditures and corresponding revenue to DMB accounts because only DMB's appropriations act included the specific spending authorization for year 2000 computer system modification costs incurred by third party contracts. DMB Administrative Guide procedure 1210.27 limits the use of expenditure credits to correcting current period errors or interfund transactions accounted for using the reimbursement method. This situation did not meet either criteria. A more appropriate treatment, which would be in accordance with GAAP, would have been to transfer the spending authorization to the other State departments to finance the year 2000-related expenditures.

The treatment used by DMB is inconsistent with the State's method of classifying expenditures by organizational unit and with the recording of other costs incurred for year 2000 computer system and equipment modifications. Section 1800.128 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), states that terminology and classification consistency among financial reports is essential to achieving unambiguous financial reporting. Although the General Fund was not overstated in total as reported in the *State of Michigan Comprehensive Annual Financial Report*, DMB and other State departments' financial schedules' expenditures were misstated by \$12 million in fiscal year 1997-98.

- b. DMB incorrectly classified \$3 million received from the Department of Community Health (DCH) as federal revenue in both fiscal years 1997-98 and 1996-97. DMB received these funds from DCH to fund various capital outlay maintenance projects at State hospitals and community health facilities. The capital outlay appropriations act included an appropriation and identified the funding source for these projects to be Title XIX (Medicaid) federal revenue. Therefore, when DMB received funds from DCH, it recorded the reimbursement as federal revenue. DCH indicated that it transferred \$3 million in funding to DMB from DCH's Title XIX federal funds previously earned for eligible medical services costs. The eligible medical services costs billed by DCH and reimbursed (earned) by the federal government under Title XIX are based on approved billing rates for medical services. DCH informed us that the calculation of the approved billing rates did not include any capital outlay maintenance costs as eligible medical services. Therefore, the federal funds earned and received by DCH should not be used to reimburse DMB for capital improvements at the facilities. DCH should reimburse DMB with general purpose revenue. DMB stated that its current treatment is consistent with prior years and in accordance with the language in the appropriations act. However, the appropriations act wording is based on DMB's submitted legislative appropriation request.
- c. DMB incorrectly recorded expenditures relating to four lump sum capital outlay projects to avoid lapsing funds to the General Fund and, consequently, increased the spending authority to an amount that exceeded the original appropriation. The annual capital outlay appropriations act and the DMB Administrative Guide provide guidance and procedures for the administration of lump sum capital outlay projects. These procedures limit the availability of lump sum appropriations\* to 3 years from when they were appropriated. Our review noted the following two instances in which DMB recorded transactions based on budgetary consideration instead of GAAP:
- (1) DMB received partial reimbursement (\$1.5 million) from DCH for the cost of four projects (totaling \$2.5 million) that it funded from the special

\* See glossary at end of report for definition.

maintenance lump sum appropriations. DMB requested reimbursement for only \$1.5 million of the \$2.5 million of project costs from DCH because any amount received over \$1.5 million would have resulted in spending authority lapsing to the General Fund. DMB should have requested full reimbursement to transfer the expenditures to DCH to accurately account for and report these project costs at DCH. This resulted in overstating DMB expenditures and understating DCH expenditures by \$1.0 million for fiscal year 1997-98.

- (2) DMB recorded the reimbursement of expenditures for the four maintenance projects to incorrect special maintenance lump sum appropriation authorization accounts. Funding was appropriated in fiscal years 1996-97 and 1994-95 for these multi-year special maintenance projects. The projects incurred over \$2.5 million in total expenditures, of which \$.4 million was charged against the fiscal year 1996-97 lump sum appropriation account and \$1.9 million against the fiscal year 1994-95 lump sum appropriation account. However, DMB collected and credited back only \$1.5 million of the expenditures reimbursed by DCH to the 1996-97 lump sum appropriation account instead of the full \$2.5 million. Because there was only \$.4 million of expenditures recorded in the 1996-97 appropriation account, the \$1.5 million expenditure credit caused the spending authority to increase \$1.0 million, which is \$500,000 greater than the original appropriation. This also had the effect of understating carry-forwards by \$1.1 million and lapses by \$2.1 million for fiscal year 1997-98. GAAP requires expenditure reimbursements to be applied against related expenditures.

State departments and DMB prepare budget requests approximately one year prior to the fiscal year appropriated. Enacted appropriations acts generally follow the format submitted by the executive branch. Therefore, it is important for the executive budget request to take into consideration the proper recording and reporting as prescribed by GAAP.

## **RECOMMENDATION**

We recommend that DMB include procedures in its budgetary process to ensure that it develops legislative appropriation requests that do not conflict with proper accounting and reporting of activities in accordance with GAAP.

## **FINDING (079903)**

### **3. Misclassification of Expenditures**

DMB incorrectly recorded and reported payments made to universities for capital outlay projects as current expenditures, rather than as operating transfers, as required.

DMB reports universities as component units in the *State of Michigan Comprehensive Annual Financial Report*. DMB incorrectly recorded payments for capital outlay projects at universities as current expenditures because universities are continuously constructing new buildings. GASB Codification Sections 2600.120 and 1800.102 require transactions between the primary government and component units to be classified as operating transfers, not current expenditures. DMB should have recorded these payments as operating transfers to component units instead of current expenditures. This resulted in the misclassification of transfers to component units and expenditures by \$13,589,861 and \$26,334,051 in fiscal years 1997-98 and 1996-97, respectively. The universities appropriately recorded the construction costs as expenditures and the related funding received from the State as operating transfers from the primary government.

## **RECOMMENDATION**

We recommend that DMB correctly record and report payments made to universities for capital outlay projects as operating transfers to component units.

**The status of the findings 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

### **FINDING (079904)**

#### 4. Payroll-Personnel Distributions

U.S. Department of Health and Human Services	CFDA: 93.043	Title III, Part F: Disease Prevention and Health Promotion Services
	93.044 and 93.045	Aging Cluster
	93.046	Title III, Part D: In-Home Services for Frail Older Individuals
Award Number: Various	Award Period: 10/1/96 - 10/1/97	Questioned Costs: Undeterminable

The Office of Services to the Aging did not establish controls to ensure compliance with federal requirements related to payroll-personnel distribution percentages charged to federal awards.

OMB Circular A-87, Attachment B, requires that employee salaries and wages chargeable to more than one grant program be supported by appropriate time distribution records. OMB Circular A-87, Attachment B, 11.h.5(e), states that distribution percentages determined before the services are performed do not qualify as support for charges to a federal award. However, they may be used for interim accounting purposes, provided that the distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Office of Services to the Aging staff informed us that employees informally estimate, on an annual basis, the percentage of time that they spend working on different federal programs. However, the Office could not provide us with documentation to support how the employees determined these annual estimates. We reviewed the biweekly time sheets for six employees and noted that each time sheet was completed using only the predetermined percentages and not actual time. The Office's practice of using the predetermined rates in lieu of recording the actual time spent on each federal program during each pay period prevents the

Office from comparing, at least quarterly, the actual time worked by program to the predetermined estimates. Such comparisons are needed to help ensure that the rates reflect the actual amount of time spent on each federal program by the employees. Rates that are not reviewed quarterly could result in inaccurate charges to federal programs and the disallowance of costs.

### **RECOMMENDATION**

We recommend that the Office of Services to the Aging establish controls to ensure compliance with federal requirements related to payroll-personnel distribution percentages charged to federal programs.

**There were no prior audit findings related to federal awards.**

Independent Auditor's Report on  
the Financial Schedules

April 12, 1999

Ms. Janet E. Phipps, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Phipps:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Management and Budget for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations 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 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 1e, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Management and Budget'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 revenues and operating transfers and the sources and disposition of authorizations of the Department of Management and Budget for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1d.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 1999 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 schedules of General Fund revenues and operating transfers by agency and the schedules of sources and disposition of General Fund authorizations by agency, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

The year 2000 supplementary information on page 44 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  
the Financial Statements

April 12, 1999

Ms. Janet E. Phipps, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Phipps:

We have audited the accompanying balance sheet of the State Building Authority Advance Financing Fund, Department of Management and Budget, as of September 30, 1998 and September 30, 1997 and the related statement of revenues, expenditures, and changes in fund balance for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1e, the accompanying financial statements present only the State Building Authority Advance Financing Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its capital projects funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Building Authority Advance Financing Fund as of September 30, 1998 and September 30, 1997 and the results of its operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 1999 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 schedules of General Fund revenues and operating transfers by agency and the schedules of sources and disposition of General Fund authorizations by agency, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The year 2000 supplementary information on page 44 is not a required part of the basic financial statements 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

April 12, 1999

Ms. Janet E. Phipps, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Phipps:

We have audited the General Fund financial schedules and the State Building Authority Advance Financing Fund financial statements of the Department of Management and Budget as of and for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated April 12, 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 Department's financial schedules and statements 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 and statement 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 Department'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 statements and not to provide

assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting 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 and statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

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 and statements being audited 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 over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

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

April 12, 1999

Ms. Janet E. Phipps, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan

Dear Ms. Phipps:

Compliance

We have audited the compliance of the Department of Management and Budget 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 Department'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 Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department of Management and Budget 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 Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 4.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

DEPARTMENT OF MANAGEMENT AND BUDGET  
Schedule of General Fund Revenues and Operating Transfers  
Fiscal Years Ended September 30  
(In Thousands)

	1998	1997
<b>REVENUES</b>		
Federal agencies	\$ 10,862	\$ 47,797
Local agencies	368	2,791
Taxes	461	3,613
Services	6,527	3,862
Miscellaneous	31,012	36,756
Total Revenues	\$ 49,231	\$ 94,819
 <b>OPERATING TRANSFERS</b>		
Operating transfers from other funds	\$ 6,613	\$ 9,650
Total Operating Transfers	\$ 6,613	\$ 9,650
Total Revenues and Operating Transfers	\$ 55,844	\$ 104,469

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

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

	<u>1998</u>	<u>1997</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 2,149,327	\$ 1,950,724
Budgetary transfers in (out)	(490)	687
Budgetary adjustments	131	577
Balances carried forward	112,286	111,338
Restricted financing sources	102,656	182,309
Less: Intrafund expenditure reimbursements	<u>(54,072)</u>	<u>(87,659)</u>
Total	<u>\$ 2,309,838</u>	<u>\$ 2,157,976</u>
<b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and operating transfers out	\$ 2,123,056	\$ 2,090,479
Less: Intrafund expenditure reimbursements	<u>(54,072)</u>	<u>(87,659)</u>
Net expenditures and operating transfers out	\$ 2,068,984	\$ 2,002,820
Balances carried forward:		
Multi-year projects	157,235	60,224
Encumbrances	10,953	12,628
Restricted revenue - not authorized	39,447	44,858
Balances lapsed	<u>33,218</u>	<u>37,446</u>
Total	<u>\$ 2,309,838</u>	<u>\$ 2,157,976</u>

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

STATE BUILDING AUTHORITY ADVANCE FINANCING FUND  
Department of Management and Budget  
Balance Sheet  
As of September 30  
(In Thousands)

	1998	1997
<b>ASSETS</b>		
Current Assets:		
Amounts due from other funds	\$ 63,065	\$ 59,579
Amounts due from component units	1,524	8,575
Amounts due from federal agencies	28	
Amounts due from local units	1,849	2,064
Other current assets	37	76
Total Current Assets	\$ 66,501	\$ 70,294
Total Assets	\$ 66,501	\$ 70,294
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Warrants outstanding	\$ 626	\$ 10,409
Accounts payable and other liabilities	60,424	59,401
Amounts due to other funds	36,777	123,232
Amounts due to component units	11,762	31,755
Deferred revenue	14	89
Total Liabilities	\$ 109,602	\$ 224,885
Fund Balances:		
Unreserved	\$ (43,101)	\$ (154,591)
Total Fund Balances	\$ (43,101)	\$ (154,591)
Total Liabilities and Fund Balances	\$ 66,501	\$ 70,294

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

STATE BUILDING AUTHORITY ADVANCE FINANCING FUND  
 Department of Management and Budget  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
Fiscal Year Ended September 30  
 (In Thousands)

	1998	1997
<b>REVENUES</b>		
Federal agencies	\$ 28	\$
Miscellaneous		57
Total Revenues	\$ 28	\$ 57
<b>EXPENDITURES</b>		
Current:		
Education	\$ 15,395	\$ 41,066
Capital outlay	24,524	15,177
Total Expenditures	\$ 39,919	\$ 56,242
Excess of Revenues Over (Under) Expenditures	\$ (39,891)	\$ (56,185)
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating transfers from other funds	\$ 152,836	\$ 33,373
Operating transfers to other funds	(1,455)	(3,523)
Total Other Financing Sources (Uses)	\$ 151,381	\$ 29,849
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 111,490	\$ (26,336)
Fund Balance - Beginning of fiscal year	(154,591)	(128,255)
Fund Balance - End of fiscal year	\$ (43,101)	\$ (154,591)

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

## Notes to the Financial Schedules and Statements

### Note 1 Significant Accounting Policies

#### a. Reporting Entity - Financial Schedules

The accompanying financial schedules report the results of the governmental operations of the Department of Management and Budget (DMB) for the fiscal years ended September 30, 1998 and September 30, 1997. The governmental operations of DMB are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the State Building Authority Advance Financing Fund, which are reflected in the accompanying financial statements. Also, the financial schedules do not include several other financial activities that are accounted for in various special revenue, capital projects, internal service, and trust funds of the State that are audited separately and do not receive any federal financial assistance. Those funds include the Counter-Cyclical Budget and Economic Stabilization Fund, State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology Revolving Fund, Risk Management Fund, State Sponsored Group Insurance, and the retirement funds administered by the Office of Retirement Services.

#### b. Reporting Entity - Financial Statements

The accompanying financial statements report the financial position and results of operations of the State Building Authority Advance Financing Fund (SBAAFF), Department of Management and Budget, for the fiscal years ended September 30, 1998 and September 30, 1997. SBAAFF is a part of the State of Michigan's reporting entity and is reported as a capital projects fund in the *SOMCAFR*.

#### c. Footnotes

These footnotes relate directly to the DMB financial schedules and the SBAAFF financial statements. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting

Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, and Contingencies and Commitments.

d. Basis of Accounting

The financial schedules and statements 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*.

e. Basis of Presentation

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

The accompanying financial statements present only SBAAFF. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its capital projects funds.

SBAAFF was established to account for expenditures incurred for buildings for State projects and higher education and for equipment prior to the issuance of State Building Authority (SBA) bonds. Presently, SBAAFF also accounts for these expenditures subsequent to the issuance of the bonds. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to SBA projects are recorded in SBAAFF. At year-end, any deficit in SBAAFF's portion of the common cash pool is reclassified as an interfund liability to the General Fund.

SBA is not legally obligated for these projects until it sells bonds or commercial paper to finance the project. Therefore, SBA records no liability for the project costs and SBAAFF records no receivable for the unreimbursed project costs. This results in SBAAFF showing a year-end fund balance deficit. SBA will reimburse SBAAFF by recording an operating transfer and the deficit attributable to the bonded projects will be eliminated when SBA issues its bonds or obtains commercial paper.

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 DMB accounts 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 DMB Office of Financial Management.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - 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 the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted intrafund 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. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. Examples of the significant programs are reimbursement for rental of State buildings and federal and State funds received from the Family Independence Agency for operation of the Waiver Program by the Office of Services to the Aging.
- f. 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.
- g. 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.
- h. Restricted revenue - not authorized: Revenue that, by statute, is 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 amounts designated for employee severance pay and amounts collected to operate the State's accounting system.
- i. Balances lapsed: DMB 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.

Operating grants to State colleges and universities are included in the schedule of sources and disposition of General Fund authorizations. Appropriations and expenditures totaled \$1,712 million and \$1,639 million for fiscal years 1997-98 and 1996-97, respectively.

Note 3 Expenditure Credit

Expenditures recorded in SBAAFF for the construction of buildings are substantially offset by expenditure credits. These expenditure credits were reimbursements of construction costs by colleges, universities, and SBA that were recorded in the same fiscal year as the related expenditures. Reimbursements not recorded in the same fiscal year as State expenditures are recognized as operating transfers. Recording expenditure credits is necessary to avoid overstating expenditures within the *SOMCAFR* because many of the reimbursing entities are included in the State's reporting entity. The following table summarizes the amounts for the fiscal years ended September 30 (in thousands):

	<u>1998</u>	<u>1997</u>
Total expenditures	\$188,673,315	\$262,926,441
Expenditure credits	<u>(148,754,463)</u>	<u>(206,684,168)</u>
Net Expenditures	<u>\$ 39,918,852</u>	<u>\$ 56,242,273</u>

Note 4 Subsequent Events

Under Executive Order 1999-1, effective April 5, 1999, a principal department, Michigan Jobs Commission, will be abolished. The authority, duties, and responsibilities of the Michigan Jobs Commission will be split between a newly created principal department, Michigan Department of Career Development, and the Michigan Strategic Fund, an autonomous agency within the Department of Management and Budget.

# 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 and financial statements on which the auditor's report is dated after October 31, 1998, require the Department of Management and Budget (DMB) to make disclosures in the notes to financial schedules and financial statements 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 and statements. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within DMB. The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

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.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

DMB has established a unit within the Office of Information Technology that has overall responsibility for the implementation of year 2000 systems at DMB.

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.

DMB identified 76 computer applications that are critical to conducting its operations and that need to be year 2000 compliant. DMB has received written assurance for those critical applications being evaluated by outside vendors. DMB is also responsible for assessing the status of computer equipment and replacing or upgrading the equipment as needed. DMB expects to complete this assessment on or before October 1, 1999.

DMB's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation of the mission critical systems, those systems where DMB cannot perform daily functions without the applications. As of September 30, 1998, DMB had validated and tested 65% of the 76 mission critical computer applications. The remaining 35% of the critical applications were in other stages of completion.

The Legislature appropriated \$55.6 million in a Statewide appropriation to DMB for agencies to obtain external resources to address year 2000 issues. As September 30, 1998, DMB expended \$2.7 million of the Statewide appropriation for DMB's remediation efforts, \$2.2 million for Statewide remediation efforts, and \$13.2 million for other agencies' efforts. In addition, DMB expended an additional \$.9 million of its own appropriation toward the year 2000 remediation efforts. The Department had \$1.7 million in commitments (contracts) outstanding with vendors on September 30, 1998.

Management believes that DMB has the correct plan in place and that DMB 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 DMB is or will be year 2000 ready, that DMB's remediation efforts will be successful in whole or in part, or that parties with whom DMB does business will be year 2000 ready.

# SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET  
Schedule of General Fund Revenues and Operating Transfers by Agency  
Fiscal Year Ended September 30, 1998  
(In Thousands)

	<u>DMB Administrative</u>	<u>DMB Capital Outlay</u>	<u>Office of Financial Management</u>
<b>REVENUES</b>			
Federal agencies	\$ 3,245	\$ 7,617	\$
Local agencies		368	
Taxes	461		
Services	6,527		
Miscellaneous	22,416	8,412	5
Total Revenues	<u>\$ 32,649</u>	<u>\$ 16,397</u>	<u>\$ 5</u>
<b>OPERATING TRANSFERS</b>			
Operating transfers from other funds	\$ 3,386	\$ 3,226	\$
Total Operating Transfers	<u>\$ 3,386</u>	<u>\$ 3,226</u>	<u>\$ 0</u>
Total Revenues and Operating Transfers	<u><u>\$ 36,035</u></u>	<u><u>\$ 19,623</u></u>	<u><u>\$ 5</u></u>

<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
\$	\$	\$ 10,862
		368
		461
		6,527
14	166	31,013
<u>\$ 14</u>	<u>\$ 166</u>	<u>49,231</u>
\$	\$	\$ 6,612
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,612</u>
<u>\$ 14</u>	<u>\$ 166</u>	<u>\$ 55,843</u>

DEPARTMENT OF MANAGEMENT AND BUDGET  
Schedule of General Fund Revenues and Operating Transfers by Agency  
Fiscal Year Ended September 30, 1997  
(In Thousands)

	<u>DMB Administrative</u>	<u>Office of Services to the Aging</u>	<u>DMB Capital Outlay</u>
<b>REVENUES</b>			
Federal agencies	\$ 5,232	\$ 38,405	\$ 4,160
Local agencies			2,791
Taxes		3,613	
Services	3,862		
Miscellaneous	24,368	1,409	10,071
Total Revenues	<u>\$ 33,462</u>	<u>\$ 43,427</u>	<u>\$ 17,022</u>
<b>OPERATING TRANSFERS</b>			
Operating transfers from other funds	\$ 3,810	\$ 2,309	\$ 3,523
Total Operating Transfers	<u>\$ 3,810</u>	<u>\$ 2,309</u>	<u>\$ 3,523</u>
Total Revenues and Operating Transfers	<u><u>\$ 37,272</u></u>	<u><u>\$ 45,736</u></u>	<u><u>\$ 20,545</u></u>

Office of Financial Management	Colleges and Universities	Colleges' and Universities' Capital Outlay	Total
\$	\$	\$	\$ 47,797
			2,791
			3,613
			3,862
664	44	200	36,756
<u>\$ 664</u>	<u>\$ 44</u>	<u>\$ 200</u>	<u>\$ 94,819</u>
\$ 7	\$	\$	\$ 9,650
<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,650</u>
<u>\$ 671</u>	<u>\$ 44</u>	<u>\$ 200</u>	<u>\$ 104,469</u>

DEPARTMENT OF MANAGEMENT AND BUDGET  
Schedule of Sources and Disposition of General Fund Authorizations by Agency  
Fiscal Year Ended September 30, 1998  
(In Thousands)

	<u>DMB Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>
<b>SOURCES OF AUTHORIZATIONS</b>			
General purpose appropriations	\$ 48,284	\$ 352,538	\$
Budgetary transfers in (out)	(490)		
Budgetary adjustments		131	
Balances carried forward	62,647	43,825	
Restricted financing sources	87,417	15,239	
Less: Intrafund expenditure reimbursements	(54,072)		
Total	<u>\$ 143,786</u>	<u>\$ 411,733</u>	<u>\$ 0</u>
<b>DISPOSITION OF AUTHORIZATIONS</b>			
Gross expenditures and operating transfers out	\$ 135,746	\$ 237,757	\$
Less: Intrafund expenditure reimbursements	(54,072)		
Net expenditures and operating transfers out	<u>\$ 81,674</u>	<u>\$ 237,757</u>	<u>\$ 0</u>
Balances carried forward:			
Multi-year projects	35,513	119,361	
Encumbrances	1,643	7,135	
Restricted revenue - authorized			
Restricted revenue - not authorized	24,302	15,145	
Balances lapsed	654	32,334	
Total	<u>\$ 143,786</u>	<u>\$ 411,733</u>	<u>\$ 0</u>

<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
\$ 1,715,281	\$ 33,224	\$ 2,149,327
		(490)
		131
	5,814	112,286
		102,656
		(54,072)
<u>\$ 1,715,281</u>	<u>\$ 39,038</u>	<u>\$ 2,309,838</u>
\$ 1,714,649	\$ 34,904	\$ 2,123,056
<u>\$ 1,714,649</u>	<u>\$ 34,904</u>	<u>\$ 2,068,984</u>
500	1,861	157,235
	2,175	10,953
		0
		39,447
132	98	33,218
<u>\$ 1,715,281</u>	<u>\$ 39,038</u>	<u>\$ 2,309,838</u>

DEPARTMENT OF MANAGEMENT AND BUDGET  
Schedule of Sources and Disposition of General Fund Authorizations by Agency  
Fiscal Year Ended September 30, 1997  
(In Thousands)

	<u>DMB Administrative</u>	<u>Office of Services to the Aging</u>	<u>Capital Outlay</u>
<b>SOURCES OF AUTHORIZATIONS</b>			
General purpose appropriations	\$ 77,068	\$ 24,130	\$199,657
Budgetary transfers in (out)	675		12
Budgetary adjustments	2	334	41
Balances carried forward	43,269	993	57,812
Restricted financing sources	89,876	77,952	14,481
Less: Intrafund expenditure reimbursements	<u>(54,948)</u>	<u>(32,711)</u>	
Total	<u>\$ 155,942</u>	<u>\$ 70,698</u>	<u>\$272,003</u>
<b>DISPOSITION OF AUTHORIZATIONS</b>			
Gross expenditures and operating transfers out	\$ 143,072	\$ 102,735	\$192,300
Less: Intrafund expenditure reimbursements	<u>(54,948)</u>	<u>(32,711)</u>	
Net expenditures and operating transfers out	\$ 88,124	\$ 70,024	\$192,300
Balances carried forward:			
Multi-year projects	33,127		21,283
Encumbrances	4,572	673	7,383
Restricted revenue - not authorized	29,699		15,159
Balances lapsed	<u>420</u>	<u>2</u>	<u>35,879</u>
Total	<u>\$ 155,942</u>	<u>\$ 70,698</u>	<u>\$272,003</u>

<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
\$	\$1,638,867	\$ 11,002	\$1,950,724
			687
		200	577
		9,263	111,338
			182,309
			(87,659)
<u>\$ 0</u>	<u>\$1,638,867</u>	<u>\$ 20,465</u>	<u>\$2,157,975</u>
\$	\$1,638,866	\$ 13,506	\$2,090,479
			(87,659)
<u>\$ 0</u>	<u>\$1,638,866</u>	<u>\$ 13,506</u>	<u>\$2,002,820</u>
		5,814	60,224
			12,628
			44,858
		1,146	37,446
<u>\$ 0</u>	<u>\$1,638,866</u>	<u>\$ 20,465</u>	<u>\$2,157,976</u>

DEPARTMENT OF MANAGEMENT AND BUDGET  
 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>Pass-Through</u> <u>Identification Number</u>
<b><u>U.S. Department of Agriculture</u></b>		
Food Distribution	10.550	
Food Stamps	10.551	
<b>Total U.S. Department of Agriculture</b>		
<b><u>U.S. Department of Defense</u></b>		
National Guard Military Operations and Maintenance Projects	12.401	
Army Medical Research Acquisition Activity	N/A	
<b>Total U.S. Department of Defense</b>		
<b><u>U.S. Department of Housing and Urban Development</u></b>		
Supportive Housing Programs	14.235	
<b>Total U.S. Department of Housing and Urban Development</b>		
<b><u>U.S. Department of Justice</u></b>		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	
Crime Victim Assistance	16.575	
Crime Victim Compensation	16.576	
Byrne Formula Grant Program	16.579	
Crime Victim Assistance/Discretionary Grants	16.582	
Violent Offender Incarceration and Truth In Sentencing Incentive Grants	16.586	
<b>Total U.S. Department of Justice</b>		
<b><u>U.S. Department of Labor</u></b>		
Senior Community Service Employment Program	17.235	
<b>Total U. S. Department of Labor</b>		
<b><u>General Service Administration</u></b>		
Donation of Federal Surplus Personal Property***	39.003	
<b>Total General Service Administration</b>		
<b><u>U.S. Department of Veterans Affairs</u></b>		
Veterans State Nursing Home Care	64.015	
<b>Total U.S. Department of Veterans Affairs</b>		
<b><u>U.S. Department of Energy</u></b>		
Weatherization Assistance for Low-Income Persons	81.042	
<b>U.S. Department of Energy</b>		
<b><u>U.S. Department of Education</u></b>		
Rehabilitation Service - Vocational Rehabilitation Grants to States	84.126	
Safe and Drug-Free Schools and Communities - State Grants	84.186	
<b>Total U.S. Department of Education</b>		
<b><u>U.S. Department of Health and Human Services</u></b>		
Direct Programs		
Special Programs for the Aging:		
Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	
Title VII, Chapter 2: Long Term Care Ombudsman Services for Older Individuals	93.042	
Title III, Part F: Disease Prevention and Health Promotion Services	93.043	

*This schedule continued on next page.*

<u>For the Fiscal Year Ended September 30, 1997</u>			<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>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$	\$ 6,574,226	\$ 6,574,226	\$	\$	\$ 0	\$ 6,574,226
		0	95,509		95,509	95,509
<b>\$ 0</b>	<b>\$ 6,574,226</b>	<b>\$ 6,574,226</b>	<b>\$ 95,509</b>	<b>\$ 0</b>	<b>\$ 95,509</b>	<b>\$ 669,735</b>
\$ 686,933	\$	\$ 686,933	\$ 1,740,813	\$	\$ 1,740,813	\$ 2,427,746
472,947		472,947	2,583,323		2,583,323	3,056,270
<b>\$ 1,159,880</b>	<b>\$ 0</b>	<b>\$ 1,159,880</b>	<b>\$ 4,324,136</b>	<b>\$ 0</b>	<b>\$ 4,324,136</b>	<b>\$ 5,484,016</b>
\$	\$	\$ 0	\$ 13	\$	\$ 13	\$ 13
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 13</b>	<b>\$ 0</b>	<b>\$ 13</b>	<b>\$ 13</b>
\$	\$	\$ 0	\$ 33	\$	\$ 33	\$ 33
57,530	4,541,803	4,599,333			0	4,599,333
35,650	566,800	602,450			0	602,450
	(2,049,288)	(2,049,288)			0	(2,049,288)
	18,388	18,388			0	18,388
		0	82,800		82,800	82,800
<b>\$ 93,180</b>	<b>\$ 3,077,703</b>	<b>\$ 3,170,883</b>	<b>\$ 82,833</b>	<b>\$ 0</b>	<b>\$ 82,833</b>	<b>\$ 3,253,716</b>
\$ 195,455	\$ 2,309,334	\$ 2,504,789	\$	\$	\$ 0	\$ 2,504,789
<b>\$ 195,455</b>	<b>\$ 2,309,334</b>	<b>\$ 2,504,789</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 2,504,789</b>
\$	\$ 6,123,850	\$ 6,123,850	\$	\$ 8,598,165	\$ 8,598,165	\$ 14,722,015
<b>\$ 0</b>	<b>\$ 6,123,850</b>	<b>\$ 6,123,850</b>	<b>\$ 0</b>	<b>\$ 8,598,165</b>	<b>\$ 8,598,165</b>	<b>\$ 14,722,015</b>
\$	\$	\$ 0	\$ 705,015	\$	\$ 705,015	\$ 705,015
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 705,015</b>	<b>\$ 0</b>	<b>\$ 705,015</b>	<b>\$ 705,015</b>
\$	\$	\$ 0	\$ 244	\$	\$ 244	\$ 244
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 244</b>	<b>\$ 0</b>	<b>\$ 244</b>	<b>\$ 244</b>
\$	\$	\$ 0	\$ 5,330	\$ 0	\$ 5,330	\$ 5,330
	(308,789)	(308,789)			0	(308,789)
<b>\$ 0</b>	<b>\$ (308,789)</b>	<b>\$ (308,789)</b>	<b>\$ 5,330</b>	<b>\$ 0</b>	<b>\$ 5,330</b>	<b>\$ (303,459)</b>
\$	\$ 256,771	\$ 256,771	\$	\$	\$ 0	\$ 256,771
	204,665	204,665			0	204,665
	594,553	594,553			0	594,553

DEPARTMENT OF MANAGEMENT AND BUDGET  
Schedule of Expenditures of Federal Awards\*  
For the Period October 1, 1996 through September 30, 1998  
Continued

<u>Federal Agency/Program</u>	<u>CFDA **</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Aging Cluster		
Title III, Part B: Grants for Supportive Services and Senior Centers	93.044	
Title III, Part C: Nutrition Services	93.045	
Total Aging Cluster		
Title III, Part D: In-Home Services for Frail Older Individuals	93.046	
Family Preservation and Support Services	93.556	
Temporary Assistance for Needy Families (TANF)	93.558	
Child Support Enforcement (CSE) Title IV-D	93.563	
Refugee and Entrant Assistance - State Administered Programs	93.566	
Low-Income Home Energy Assistance (LIHEAP)	93.568	
Community Services Block Grant (CSBG)	93.569	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	
Children's Justice Grants to States	93.643	
Child Welfare Services - State Grants	93.645	
Foster Care - Title IV-E	93.658	
Adoption Assistance	93.659	
Social Services Block Grant (SSBG)	93.667	
Child Abuse and Neglect Discretionary Activities	93.670	
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	
Independent Living	93.674	
Health Care Financing Research, Demonstrations and Evaluations	93.779	
Social Security - Disability Insurance	96.001	
Total Direct Programs		
Pass-Through Programs		
Medical Assistance Program (Medicaid) Title XIX	93.778	93-05
Total Pass-Through Programs		
<b>Total U.S. Department of Health and Human Services</b>		
 Total Expenditures of Federal Awards		

\* Basis of Presentation: This schedule includes the federal grant activity of the Department of Management and Budget 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 financial schedules.

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

\*\*\* For Donation of Federal Surplus Property, the amount is the acquisition value of the property on hand at the beginning of the fiscal year plus the acquisition value of property received. These values do not include service charges that are the basis for the sale price of inventory items. The amount distributed to subrecipients is the original federal acquisition cost of the property.

N/A = Not applicable.

<u>For the Fiscal Year Ended September 30, 1997</u>			<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>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 535,832	\$ 9,408,139	\$ 9,943,971	\$	\$	\$ 0	\$ 9,943,971
<u>833,516</u>	<u>14,966,781</u>	<u>15,800,297</u>			<u>0</u>	<u>15,800,297</u>
\$ 1,369,348	\$ 24,374,920	\$ 25,744,268	\$ 0	\$ 0	\$ 0	\$ 25,744,268
	300,253	300,253			0	300,253
	0	0	216		216	216
	0	0	212,500		212,500	212,500
	0	0	10,355		10,355	10,355
	0	0	32		32	32
	0	0	8,343		8,343	8,343
	0	0	381		381	381
	0	0	95,779		95,779	95,779
	0	0	9		9	9
	0	0	1,056		1,056	1,056
	0	0	59,367		59,367	59,367
	0	0	8,420		8,420	8,420
	0	0	208,017		208,017	208,017
	0	0	30		30	30
	0	0	20		20	20
	0	0	124		124	124
	343,227	343,227	0		0	343,227
	0	0	4,368		4,368	4,368
<u>\$1,369,348.00</u>	<u>\$ 26,074,389.00</u>	<u>\$ 27,443,737</u>	<u>\$ 609,017</u>	<u>\$ 0</u>	<u>\$ 609,017</u>	<u>\$ 28,052,754</u>
<u>\$ 333,040.00</u>	<u>\$ 16,681,644.00</u>	<u>\$ 17,014,684</u>	<u>\$ 2,539,850</u>	<u>\$</u>	<u>\$ 2,539,850</u>	<u>\$ 19,554,534</u>
<u>\$ 333,040.00</u>	<u>\$ 16,681,644.00</u>	<u>\$ 17,014,684</u>	<u>\$ 2,539,850</u>	<u>\$ 0</u>	<u>\$ 2,539,850</u>	<u>\$ 19,554,534</u>
<u>\$ 1,702,388</u>	<u>\$ 42,756,033</u>	<u>\$ 44,458,421</u>	<u>\$ 3,148,867</u>	<u>\$ 0</u>	<u>\$ 3,148,867</u>	<u>\$ 47,607,288</u>
<u>\$ 3,150,903</u>	<u>\$ 60,532,357</u>	<u>\$ 63,683,260</u>	<u>\$ 8,361,946</u>	<u>\$ 8,598,165</u>	<u>\$ 16,960,111</u>	<u>\$ 80,643,372</u>

# OTHER REQUIRED SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET  
Summary Schedule of Prior Audit Findings  
As of April 12, 1999

**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:** DMB did not have appropriate control procedures to ensure the assignment of user classes compatible with employees' assigned job responsibilities for access to the Michigan Administrative Information Network (the State's central accounting system). As a result, 16 employees had inappropriate access to various parts of the accounting system.

**Comments:** Complied

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 2

**Finding:** DMB's internal controls did not ensure that receipts were processed as provided by DMB Administrative Guide procedures 1270.02 and 1210.04.

**Comments:** Complied

**Audit Period:** October 1, 1994 through September 30, 1996

**Finding Number:** 3

**Finding:** DMB's internal control structure did not ensure that it complied with appropriations act requirements for interest reimbursements.

**Comments:** Complied

## **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

There were no prior audit findings related to federal awards.

DEPARTMENT OF MANAGEMENT AND BUDGET  
Corrective Action Plan  
As of November 23, 1999

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 079901  
**Finding Title:** Accounts Payable (part a.)  
**Management Views:** We are committed to reflecting reliable accounts payable at year-end.  
**Corrective Action:** A thorough post audit of all payments made in October through January will be conducted for each closing. All open orders at September 30 will be reviewed for potential accounts payable.  
**Anticipated Completion Date:** Procedure was implemented September 15, 1999.  
**Responsible Individual:** Howard Pizzo, Office of Administrative Services

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**Finding Number:** 079901  
**Finding Title:** Accounts Payable (parts b. and c.)  
**Management Views:** We are committed to reflecting reliable accounts payable at year-end.  
**Corrective Action:** A thorough post audit of all payments made in October through January will be conducted for each closing. All open orders at September 30 will be reviewed for potential accounts payable. When invoices for construction in progress are not provided at September 30, an estimated account payable will be determined.  
**Anticipated Completion Date:** Procedure was implemented September 15, 1999.  
**Responsible Individual:** Okey Eneli, Office of Facilities

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**Finding Number:** 079902  
**Finding Title:** Budgetary and Financial Reporting  
**Management Views:** DMB is committed to applying generally accepted accounting principles (GAAP). It is also recognized

that the DMB interpretation of GAAP may not always agree with that of the Auditor General.

**Corrective Action:** DMB will continue to record revenue and expenditures consistent with its interpretation of GAAP.

**Anticipated Completion Date:** Practice continues unchanged.

**Responsible Individual:** Linda Krieger, Office of Budget Development and General Government, and Howard Pizzo, Office of Administrative Services

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**Finding Number:** 079903

**Finding Title:** Misclassification of Expenditures

**Management Views:** DMB is committed to applying Governmental Accounting Standards Board (GASB) pronouncements.

It is also recognized that the DMB interpretation of GASB may not always agree with that of the Auditor General.

**Corrective Action:** The Office of Financial Management and the Office of Administrative Services have revised the capital outlay closing procedures to ensure that expenditures related to component units are reflected as operating transfers to component units. All new accounts for these universities will be established so that no misclassification will be possible. All existing accounts will be analyzed and reclassified during the year-end process.

**Anticipated Completion Date:** Changes made at September 30, 1999.

**Responsible Individual:** Leon Hank, Office of Financial Management, and Howard Pizzo, Office of Administrative Services

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**Finding Number:** 079904

**Finding Title:** Payroll-Personnel Distributions

**Management Views:** The Office of Services to the Aging is dedicated to the establishment of controls which will ensure compliance with all federal requirements, including

those relating to payroll distribution percentage methods.

**Corrective Action:**

The Department of Community Health has contracted with an independent firm to review and recommend payroll-personnel allocation and distribution methods that will ensure compliance with all federal and State regulations and requirements.

**Anticipated Completion Date:**

The contract ending date is March 2000 and the Office of Services to the Aging (as part of the whole department) will be implementing a method shortly thereafter based on its findings.

**Responsible Individual:**

Doug Royce, Department of Community Health

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## Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DCH	Department of Community Health.
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and statements of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, Single Audits in Michigan are conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
lump sum appropriations	Appropriations made to fund special maintenance projects at various locations. Projects must be approved by the director of the Department of Management and Budget.

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.
OMB	U.S. Office of Management and Budget.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect DMB's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SBA	State Building Authority.
SBAFF	State Building Authority Advance Financing Fund.
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 *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

**SOMCAFR**

*State of Michigan Comprehensive Annual Financial Report.*