

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

DEPARTMENT OF CIVIL RIGHTS

October 1, 1996 through September 30, 1998

## EXECUTIVE DIGEST

# DEPARTMENT OF CIVIL RIGHTS

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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 Civil Rights (DCR) for the period October 1, 1996 through September 30, 1998.

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### AUDIT PURPOSE

This financial audit of DCR 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 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

DCR was established in 1965 to implement policy established by the Civil Rights Commission. DCR's mission\* is to secure the full enjoyment of civil rights guaranteed by law and the State Constitution and to redress unlawful discrimination against any person in accordance with law.

DCR has an agreement with the U.S. Equal Employment Opportunity Commission (EEOC) that provides federal funds for DCR to investigate complaints of discrimination under several federal laws, such as the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment

\* See glossary at end of report for definition.

Act of 1967, as amended; and the Americans With Disabilities Act of 1990.

In 1996, DCR began a process of reengineering departmental functions into a streamlined process called the Problem Resolution Process. Key components of DCR's new approach include: cross-training staff; enforcing strict complaint investigation time limits; and promoting a healthy civil rights climate through formal partnerships. The process was fully implemented as a pilot in the Grand Rapids field office beginning in July 1998. All other field offices implemented certain components beginning in November 1998, with full implementation in April 1999.

The Office of Management Services has responsibility for DCR's accounting and financial reporting, including federal financial reporting. DCR's total fiscal year 1997-98 expenditures were \$13,244,555 and, as of September 30, 1998, DCR had 143 full-time equated employees and 18 limited-term employees.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To audit DCR'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 DCR's financial schedules.

**Audit Objective:** To assess and report on DCR'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\*. However, we identified reportable conditions\* related to procurement card use and eligible activities for the Fair Housing Assistance Program (FHAP) contract (Findings 1 and 2).

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

**Audit Objective:** To assess and report on DCR'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 DCR's major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. However, the results of our auditing procedures disclosed an instance of noncompliance resulting in questioned costs\* totaling \$80,456 related to eligible activities for the FHAP contract, a nonmajor federal program, that is required to be reported in accordance with OMB Circular A-133 (Finding 3). Our assessment of internal control over

\* See glossary at end of report for definition.

compliance applicable to DCR's major federal program did not disclose any material weaknesses.

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**AUDIT SCOPE**

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

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

Our audit report contains 2 findings and 2 corresponding recommendations. DCR's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

There were no findings or recommendations in the prior DCR Single Audit\* report.

\* See glossary at end of report for definition.

Mr. Richard J. Garcia, Esq., Chairperson  
Civil Rights Commission  
State of Michigan Plaza Building  
Detroit, Michigan  
and  
Dr. Nanette Lee Reynolds, Director  
Department of Civil Rights  
Victor Center  
Lansing, Michigan

Dear Mr. Garcia and Dr. Reynolds:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Civil Rights 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 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 Civil Rights financial schedules and notes to the financial schedules, 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 State Constitution established the Civil Rights Commission as an eight-member board appointed by the Governor. Commissioners are appointed for four-year terms with not more than two terms expiring in the same year.

The Department of Civil Rights (DCR) was established in 1965 to implement policy established by the Commission. In 1991, Executive Order 1991-29 transferred the operations of the Commission on Indian Affairs, the Commission on Spanish-Speaking Affairs, and the Michigan Women's Commission from the Department of Management and Budget to DCR. Each of these commissions independently administers the laws governing its activities. DCR is responsible for the budgeting, procurement, and related management functions of the Commissions. On August 20, 1999 (subsequent to our audit fieldwork), the Governor signed Executive Order 1999-9 dissolving the Commission on Indian Affairs and transferred its authority to the DCR director.

DCR's mission is to secure the full enjoyment of civil rights guaranteed by law and the State Constitution and to redress unlawful discrimination against any person in accordance with law. DCR is responsible for enforcing two State laws governing discrimination: the Elliott-Larsen Civil Rights Act (Act 453, P.A. 1976) and the Persons With Disabilities Civil Rights Act (Act 220, P.A. 1976). DCR is authorized to receive and investigate complaints through an agreement with the U.S. Equal Employment Opportunity Commission to enforce the following federal laws: the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act of 1967, as amended; and the Americans With Disabilities Act of 1990. These laws prohibit discrimination in employment, public accommodations, public service, education, and housing because of religion, race, color, national origin, age, sex, marital status, physical or mental disability, and retaliation. DCR has a similar agreement with the U.S. Department of Housing and Urban Development (HUD) to accept housing complaints under the Fair Housing Act (Title VIII of the Civil Rights Act of 1968, as amended). In addition to the previously listed categories, the Elliott-Larsen Civil Rights Act also prohibits discrimination based on height and weight, familial status, and arrest record in employment. DCR is also responsible for approving plans to correct past discriminatory practices that have caused or resulted in a denial of equal opportunity for individuals.

In 1996, DCR began a process of reengineering departmental functions into a streamlined process called the Problem Resolution Process. Key components of DCR's new approach for investigating civil rights complaints include: cross-training staff who interface with the public and utilizing a team concept to balance complaint investigations; emphasizing early resolution techniques; enforcing strict complaint investigation time limits; using full departmental authority, such as DCR orders, to allow quick action when respondents do not comply; promoting formal partnerships with organizations and communities to promote a healthy civil rights climate in the State; implementing a central toll-free telephone number to automatically direct customer calls to the nearest DCR office; and developing state-of-the-art technological applications. To prepare for implementation of this new process, DCR received a \$1,000,000 supplemental appropriation in fiscal year 1996-97 to be used for a backlog reduction initiative known as Project 4300. The Project was designed to eliminate the backlog of 4,300 civil rights complaints awaiting investigation. DCR reduced this backlog to 809 cases as of September 30, 1998. The Problem Resolution Process was implemented as a pilot in the Grand Rapids field office beginning in July 1998. All other offices implemented certain components beginning in November 1998, with full implementation in April 1999.

The Office of Management Services has responsibility for DCR's accounting and financial reporting, including federal financial reporting. DCR's total fiscal year 1997-98 expenditures were \$13,244,555 and, as of September 30, 1998, DCR had 143 full-time equated employees and 18 limited-term employees.

**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 Civil Rights (DCR) had the following objectives:

1. To audit DCR'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 DCR's financial schedules.

2. To assess and report on DCR'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. However, we identified reportable conditions related to procurement card use and eligible activities for the Fair Housing Assistance Program (FHAP) contract (Findings 1 and 2).

In addition, our assessment indicated that DCR 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 DCR'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 DCR's major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. However, the results of our auditing procedures disclosed an instance of noncompliance resulting in questioned costs totaling \$80,456 related to eligible activities for the FHAP contract, a nonmajor federal program, that is required to be reported in accordance with OMB Circular A-133 (Finding 3). Our assessment of internal control over compliance applicable to DCR's major federal program did not disclose any material weaknesses.

The finding related to our assessment of compliance and internal control over compliance 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 Department of Civil Rights 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.

We considered DCR's internal control over compliance applicable to each major federal program and assessed DCR'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. DCR's major federal program is identified in Section I of the schedule of findings and questioned costs.

### Agency Responses and Prior Audit Follow-Up

Our audit report contains 2 findings and 2 corresponding recommendations. DCR's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

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

There were no findings or recommendations in the prior DCR Single Audit report.

# 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? Yes

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)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts
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**

### **FINDING (159901)**

#### **1. Procurement Card Use**

DCR did not consistently apply internal control procedures over procurement card purchases. The Office of Purchasing, Department of Management and Budget, initiated the procurement card purchasing program in fiscal year 1995-96 to help departments more efficiently manage low-dollar purchases.

Our review disclosed:

- a. DCR did not ensure that only approved cardholders used the procurement cards for purchases. We noted 23 instances in fiscal year 1997-98 in which someone other than the card assignee used the card.
- b. DCR split transactions to avoid exceeding the \$1,000 individual transaction limit. We noted 3 instances in fiscal year 1996-97 and 2 instances in fiscal year 1997-98 in which transactions were split to avoid this limit.

\* See glossary at end of report for definition.

- c. DCR did not always document that supervisors approved cardholders' purchases. We noted 2 missing logs in fiscal year 1997-98 and 28 logs (1 in fiscal year 1996-97 and 27 in fiscal year 1997-98) lacking supervisory approval.

The State of Michigan Procurement Card Program Cardholder Manual and DCR Procurement Card Program policies require that only the person issued a procurement card may use it, that transactions should not be split to avoid exceeding the \$1,000 individual transaction limit, and that a card assignee must record all procurement card activity biweekly on a procurement card log and submit it for supervisory review.

**RECOMMENDATION**

We recommend that DCR consistently apply internal control procedures over procurement card purchases.

**FINDING (159902)**

- 2. Eligible Activities for the Fair Housing Assistance Program Contract

This finding is included in Section III of the schedule of findings and questioned costs (159903).

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

**FINDING (159903)**

- 3. Eligible Activities for the Fair Housing Assistance Program Contract

U.S. Department of Housing and Urban Development	CFDA: 14.401 Fair Housing Assistance Program - State and Local (FHAP)
Award Number: FF205K97-5037	Award Period: 10/1/97 - 9/30/98
	Questioned Costs: \$80,456

DCR did not determine that it completed activities eligible for reimbursement related to its contract with the U.S. Department of Housing and Urban

Development (HUD) for the Fair Housing and Assistance Program (FHAP). As a result, DCR could not document that it incurred eligible expenditures to support revenue that it received under the provisions of the FHAP contract.

In each fiscal year of our audit, HUD contracted with DCR for \$100,000 to develop a complaint processing system sufficient to enable DCR to process housing discrimination complaints arising under its jurisdiction. Activities in the fiscal year 1997-98 proposal included training staff, developing a 100-day complaint processing system, upgrading the computer system and capacity, and developing a settlement process monitoring system. Specific activities outlined in the fiscal year 1996-97 proposal included computer upgrading, community education and outreach, staff training, and complaint initiation and processing.

In fiscal year 1996-97, DCR properly charged expenditures totaling \$33,215 against the grant. However, DCR did not determine that certain activities it completed were eligible for reimbursement under the contract. OMB Circular A-133 requires the recipient of federal awards to identify in its accounts all federal awards expended. DCR properly deferred HUD revenue totaling \$66,785 in that fiscal year. In fiscal year 1997-98, DCR properly charged expenditures totaling \$19,544 for out-of-State training activities. Because DCR was not certain that other activities it completed were eligible for reimbursement under the contract, it contacted HUD for clarification. However, HUD did not provide clarification until after the audit period. As a result, DCR did not defer HUD revenue totaling \$80,456.

### **RECOMMENDATION**

We recommend that DCR determine that activities it completed related to its FHAP contracts are eligible for reimbursement.

Independent Auditor's Report on  
the Financial Schedules

May 14, 1999

Mr. Richard J. Garcia, Esq., Chairperson  
Civil Rights Commission  
State of Michigan Plaza Building  
Detroit, Michigan  
and  
Dr. Nanette Lee Reynolds, Director  
Department of Civil Rights  
Victor Center  
Lansing, Michigan

Dear Mr. Garcia and Dr. Reynolds:

We have audited the accompanying schedule of General Fund revenue and the schedule of sources and disposition of General Fund authorizations of the Department of Civil Rights 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 financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and 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 Department of Civil Rights' General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and the sources and disposition of authorizations of the Department of Civil Rights 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 May 14, 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 the 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 certain General Fund assets and liabilities and the schedule of sources and disposition of General Fund authorizations by appropriation unit, 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 30 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

May 14, 1999

Mr. Richard J. Garcia, Esq., Chairperson  
Civil Rights Commission  
State of Michigan Plaza Building  
Detroit, Michigan  
and  
Dr. Nanette Lee Reynolds, Director  
Department of Civil Rights  
Victor Center  
Lansing, Michigan

Dear Mr. Garcia and Dr. Reynolds:

We have audited the General Fund financial schedules of the Department of Civil Rights for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated May 14, 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 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 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 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

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. 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 neither 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 Civil Rights Commission, 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

May 14, 1999

Mr. Richard J. Garcia, Esq., Chairperson  
Civil Rights Commission  
State of Michigan Plaza Building  
Detroit, Michigan  
and  
Dr. Nanette Lee Reynolds, Director  
Department of Civil Rights  
Victor Center  
Lansing, Michigan

Dear Mr. Garcia and Dr. Reynolds:

Compliance

We have audited the compliance of the Department of Civil Rights 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 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements for a nonmajor program, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 3.

#### 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.

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 solely for the information and use of the State's management, the Civil Rights Commission, 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 CIVIL RIGHTS  
Schedule of General Fund Revenue  
Fiscal Years Ended September 30

	1998	1997
REVENUE		
Federal agencies:		
U.S. Equal Employment Opportunity Commission contract	\$ 1,239,745	\$ 1,446,187
U.S. Department of Housing and Urban Development contract	100,000	33,214
Subtotal	\$ 1,339,745	\$ 1,479,401
Miscellaneous	91,003	32,282
Total Revenue	\$ 1,430,748	\$ 1,511,683

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

DEPARTMENT OF CIVIL RIGHTS  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 12,074,100	\$ 13,003,700
Balances carried forward	1,547,978	325,188
Restricted financing sources		
Federal revenue	1,268,981	1,473,105
Other		(188)
Total	<u>\$ 14,891,059</u>	<u>\$ 14,801,805</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Expenditures and operating transfers out	<u>\$ 13,244,555</u>	<u>\$ 13,232,623</u>
 Balances carried forward:		
Multi-year projects	\$ 893,525	\$ 1,000,000
Encumbrances	<u>716,146</u>	<u>554,694</u>
Total balances carried forward	<u>\$ 1,609,671</u>	<u>\$ 1,554,694</u>
 Balances lapsed		
	<u>\$ 107,295</u>	<u>\$ 21,392</u>
Overexpended	<u>\$ (70,462)</u>	<u>\$ (6,904)</u>
Total	<u>\$ 14,891,059</u>	<u>\$ 14,801,805</u>

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

## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Civil Rights (DCR) for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of DCR 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 DCR. 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 DCR's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DCR 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 revenue.
- b. 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.
- c. 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.
- d. 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. An example of a significant carry-forward of this type is Project 4300, the backlog reduction initiative.
- e. 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.

- f. Balances lapsed: DCR 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.
  
- g. Overexpended: The total of DCR's overexpenditure of line-item authorizations. DCR 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 Department of Civil Rights (DCR) 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.

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 the Department of Management and Budget. 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.

DCR has established a year 2000 project manager within the Information Systems Division. The project manager has overall responsibility for the implementation of year 2000 systems at DCR.

The following stages have been identified as necessary to implement a year 2000 compliance 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.

DCR identified two computer applications that are critical to conducting its operations and that need to be year 2000 compliant. DCR is responsible for assessing the status of computer equipment and replacing or upgrading the equipment as needed and for applying year 2000 fixes as necessary. DCR expects to complete these activities on or before October 1, 1999.

DCR's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation of the Complaint Information System and the Contractual Services System and the proper functioning of DCR's network and desktop equipment and software. As of September 30, 1998, DCR had begun the process of replacing its two mission critical systems. These systems are being replaced or modified to a year 2000 compliant platform and database. As of September 30, 1998, DCR was

approximately 25% complete on the systems replacement and 66% complete on verifying and certifying and/or applying year 2000 fixes to network and desktop systems. The remaining work will be completed by October 1, 1999.

The Legislature appropriated \$55.6 million to the State Project Office to provide assistance to agencies in obtaining external resources to address year 2000 issues. As of September 30, 1998, DCR had not expended any of the Statewide appropriation. DCR has expended \$20,000 of its own appropriation toward the year 2000 remediation efforts. As of September 30, 1998, there were no significant commitments specifically related to year 2000 efforts.

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

# SUPPLEMENTAL FINANCIAL SCHEDULES

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DEPARTMENT OF CIVIL RIGHTS  
Schedule of Certain General Fund Assets and Liabilities  
As of September 30

	<u>1998</u>	<u>1997</u>
Assets:		
Due from federal agencies	\$ 669,940	\$ 827,602
Other assets	\$ 7,048	\$ 7,480
Liabilities:		
Accounts payable	\$ 7,489	\$ 77,158
Deferred revenue	\$ 87,785	\$ 68,095

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

DEPARTMENT OF CIVIL RIGHTS  
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit  
Fiscal Years Ended September 30

	1998					
	<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u> <u>and Operating</u> <u>Transfers Out</u>	<u>Multi-Year</u> <u>Projects</u>	<u>Encumbrances</u>	<u>Balances</u> <u>Lapsed</u>	<u>Overexpended</u>
Commission	\$ 16,200	\$ 14,025	\$	\$	\$ 2,175	\$
Unclassified positions	224,000	223,458			542	
Civil rights operations	12,381,690	11,631,429		716,146	104,578	(70,462)
Backlog reduction	1,000,000	106,474	893,525			
Federal programs:						
U.S. Equal Employment Opportunity Commission contract	1,249,625	1,249,625				
U.S. Department of Housing and Urban Development contract	19,544	19,544				
<b>Total</b>	<u>\$ 14,891,059</u>	<u>\$ 13,244,555</u>	<u>\$ 893,525</u>	<u>\$ 716,146</u>	<u>\$ 107,295</u>	<u>\$ (70,462)</u>

1997

<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u> <u>and Operating</u> <u>Transfers Out</u>	<u>Multi-Year</u> <u>Projects</u>	<u>Encumbrances</u>	<u>Balances</u> <u>Lapsed</u>	<u>Overexpended</u>
\$ 16,200	\$ 7,650	\$	\$	\$ 8,550	\$
191,300	186,479			4,821	
12,111,929	11,556,118		554,694	8,021	(6,904)
1,000,000		1,000,000			
1,449,161	1,449,161				
33,215	33,215				
<u>\$ 14,801,805</u>	<u>\$ 13,232,623</u>	<u>\$ 1,000,000</u>	<u>\$ 554,694</u>	<u>\$ 21,392</u>	<u>\$ (6,904)</u>

**DEPARTMENT OF CIVIL RIGHTS**  
 Schedule of Expenditures of Federal Awards \*  
 For the Period October 1, 1996 through September 30, 1997

<u>Federal Agency/Program</u>	<u>CFDA **</u> <u>Number</u>	<u>Directly Expended</u> <u>for the</u> <u>Fiscal Year Ended</u> <u>September 30, 1997</u>	<u>Directly Expended</u> <u>for the</u> <u>Fiscal Year Ended</u> <u>September 30, 1998</u>	<u>Total Expended</u> <u>and Distributed</u> <u>for the</u> <u>Two-Year Period</u>
<u>U.S. Department of Housing and Urban Development</u>				
Fair Housing Assistance Program - State and Local (FHAP)	14.401	\$ 33,215	\$ 19,544	\$ 52,759
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 33,215</b>	<b>\$ 19,544</b>	<b>\$ 52,759</b>
<u>U.S. Equal Employment Opportunity Commission (EEOC)</u>				
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	\$ 1,449,161	\$ 1,249,625	\$ 2,698,786
<b>Total U.S. Equal Employment Opportunity Commission</b>		<b>\$ 1,449,161</b>	<b>\$ 1,249,625</b>	<b>\$ 2,698,786</b>
 Total Expenditures of Federal Awards		 <u>\$ 1,482,376</u>	 <u>\$ 1,269,169</u>	 <u>\$ 2,751,545</u>

\* Basis of Presentation: This schedule includes the federal grant activity of the Department of Civil Rights 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* .

# OTHER REQUIRED SCHEDULES

DEPARTMENT OF CIVIL RIGHTS  
Summary Schedule of Prior Audit Findings  
As of May 14, 1999

There were no findings in the prior Department of Civil Rights Single Audit report.

DEPARTMENT OF CIVIL RIGHTS

Corrective Action Plan

As of November 5, 1999

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 159901  
**Finding Title:** Procurement Card Use  
**Management Views:** We agree with the recommendation.  
**Corrective Action:** We appointed a procurement card administrator to review all procurement card transactions. Additional procurement cards have been assigned to employees to eliminate the sharing of cards. Finally, the internal auditor will be conducting a procurement card audit for the time period subsequent to the Single Audit.  
**Anticipated Completion Date:** December 1999  
**Responsible Individual:** Jacqueline Reese, Internal Auditor

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**Finding Number:** 159902  
**Finding Title:** Eligible Activities for the Fair Housing Assistance Program Contract  
See Finding 159903 with the findings related to federal awards.

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**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 159903  
**Finding Title:** Eligible Activities for the Fair Housing Assistance Program Contract  
**Management Views:** We agree with the recommendation.  
**Corrective Action:** In April 1999, we met with the U.S. Department of Housing and Urban Development (HUD) to ascertain the categories of allowable expenses pursuant to the contract with HUD. Supplemental expenses were

reviewed by the internal auditor and submitted to HUD for approval. Approval was received on October 6, 1999. Pursuant to a review and recommendation by the internal auditor, the following actions are being taken: 1) monthly departmental meetings are held to review expenditures for the current contract with HUD, consisting of the contract coordinator, the director and assistant director of the Office of Management Services, the director of the Accounting Division and an accountant, and the internal auditor; and, 2) procedures are being developed for documentation and reporting purposes.

**Anticipated Completion Date:** Monthly meetings have been held since August 1999. Procedures will be complete by December 31, 1999.

**Responsible Individual:** Jacqueline Reese, Internal Auditor

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## Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DCR	Department of Civil Rights.
EEOC	U.S. Equal Employment Opportunity Commission.
FHAP	Fair Housing Assistance Program.
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.
GASB	Governmental Accounting Standards Board.
HUD	U.S. Department of Housing and Urban Development.
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.

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.
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 DCR's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
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.

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*State of Michigan Comprehensive Annual Financial Report.*