

## EXECUTIVE DIGEST

# SELECTED INTERNAL SERVICE FUNDS

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### INTRODUCTION

This report, issued in June 2002, contains the results of our performance\* and financial related audit\* of Selected Internal Service Funds\*, Department of Management and Budget (DMB). The financial-related portion of our audit covered the period October 1, 1998 through September 30, 2001.

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### AUDIT PURPOSE

This performance and financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*. Financial related audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements.

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### BACKGROUND

DMB administers five internal service funds. Those are:

1. State Sponsored Group Insurance Fund
2. Information Technology and Energy Fund
3. Motor Transport Fund
4. Office Services Revolving Fund
5. Risk Management Fund

The State Sponsored Group Insurance Fund, which was administratively established to reflect financial transactions

of the State sponsored insurance plans, was not reviewed within the scope of the audit.

The Information Technology and Energy Fund was created from the Telecommunications Revolving Fund, effective October 1, 1992. The new fund was established to account for various services provided to all State agencies. These services include telecommunication and information technology. During fiscal year 1999-2000, the use of the Fund was expanded to account for the purchase of bulk natural gas used by State agencies.

As of September 30, 2001, the Information Technology and Energy Fund had 269 full-time employees. The Fund had revenue of \$121.4 million, expenses of \$120.4 million, and net income of \$1.0 million for fiscal year 2000-01.

The Motor Transport Fund was created by Act 260, P.A. 1947, and was continued by Act 431, P.A. 1984, as amended (Sections 18.1213 - 18.1215 of the *Michigan Compiled Laws*). The Fund was created to provide vehicle and travel services to State agencies. Services include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are furnished to agencies on a permanently assigned basis or through the motor pool for short-term usage.

As of September 30, 2001, the Motor Transport Fund had 61 full-time employees. The Fund had revenue of \$68.2 million, expenses of \$70.4 million, and a net loss of \$2.3 million for fiscal year 2000-01.

The Office Services Revolving Fund was created by Act 262, P.A. 1952, and was continued by Act 431, P.A. 1984, as amended (Section 18.1269 of the *Michigan Compiled Laws*). The Fund was created to provide printing, reproduction, microfilm, mailing, and material management

services. The cost of these services is charged to user departments and agencies.

As of September 30, 2001, the Office Services Revolving Fund had 230 full-time employees. The Fund had revenue of \$57.9 million, expenses of \$62.3 million, and a net loss of \$4.5 million for fiscal year 2000-01.

The Risk Management Fund was administratively established during fiscal year 1989-90 to account for centralized risk management\* functions performed by DMB for other State agencies. The Fund provides automotive and other insurance coverage to State departments and agencies.

As of September 30, 2001, the Risk Management Fund had 9 full-time employees. The Fund had revenue of \$2.9 million, expenses of \$2.4 million, and net income of \$418,000 for fiscal year 2000-01.

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AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS

**Audit Objective:** To assess the reasonableness of DMB user charges.

**Conclusion:** We concluded that DMB user charges were generally reasonable. However, we noted a reportable condition\* related to working capital reserve\* limits (Finding 1).

**Audit Objective:** To assess the effectiveness and efficiency of DMB's procedures to develop and bill user charges.

**Conclusion:** We concluded that DMB's procedures to develop and bill user charges were generally effective and efficient. However, we noted reportable conditions

related to the establishment and monitoring of contracts, documentation of decisions, and calculation of user charges (Findings 2 through 4).

**Noteworthy Accomplishments:** DMB periodically compared its user charges with private providers' rates. For example, DMB compared user charges for mail services, freight delivery, and copying and printing activities billed through the Office Services Revolving Fund with rates charged by private providers to ensure that DMB user charges were competitive.

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of selected internal service funds of the Department of Management and Budget. Also, our audit scope was to examine the financial records for the period October 1, 1998 through September 30, 2001. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

As part of this report, a summary of operating results, revenue by source, and examples of user charges are presented as supplemental information. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

To accomplish our objectives, we met with DMB personnel and reviewed U.S. Office of Management and Budget (OMB) Circular A-87\*, *Cost Principles for State, Local, and Indian Tribal Governments*, and DMB procedures. We

also reviewed the processes that DMB used to monitor working capital reserves and financial projections to assess whether user charges were generating sufficient, but not excessive, revenue. In addition, we reviewed the process that DMB used to adjust rates to reflect market or budgetary conditions and analyzed the justifications for these adjustments. We also analyzed surcharges to determine why they were billed and the impact their application had on internal service fund balances.

We reviewed DMB's instructions for calculating user charges, internal service fund strategic business plans, actuarial studies, and contract language to identify procedures that support the calculations. Also, we analyzed financial projections, cost summaries, service use estimates, accounting practices, and management decisions utilized to calculate user charges. In addition, we reviewed a sample of customer invoices to determine whether they were adequately supported. Further, we met with internal service fund customers to obtain feedback on the billing process.

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

Our report includes 4 findings and 5 corresponding recommendations. The agency's preliminary response indicated that DMB agreed with all 5 recommendations, has complied with 2 recommendations, and will comply with the other 3 recommendations.