

## EXECUTIVE DIGEST

### DEPARTMENT OF COMMERCE

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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 Commerce for the period October 1, 1991 through September 30, 1993.

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#### **AUDIT PURPOSE**

This financial audit of the department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

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#### **BACKGROUND**

The primary responsibility of the Department of Commerce is to administer programs related to economic development and the regulation of certain industries. The department's overall mission is to promote and maintain a healthy economy in the State and to protect the consumer and certain occupations, professions, and industries regulated by the department.

The department is divided into several organizational units organized by the functions which they control. The financial and administrative operations of the department are concentrated in the Finance and Administrative Services Bureau.

Responsibilities related to administration of the department's federal grants are shared principally by the staff of the Office of Federal Grants Community Development Block Grant (CDBG) Program, Public Service Commission, and Michigan State Housing Development Authority (MSHDA). In addition, MSHDA has received separate federal grants which it administers as part of its programs. MSHDA receives an annual independent audit of its financial operations and a biennial Single Audit.

The department's major source of financing for operations is the State General Fund. In addition, the department administers the Accident Fund of Michigan, Liquor Purchase Revolving Fund, Low-Level Radioactive Waste Authority, MSHDA funds, Michigan Strategic Fund, and Urban Land Assembly Loan Fund. These department operations were audited and reported on separately. The scope of this audit excluded these operations. For fiscal year 1992-93, the department's General Fund expenditures and operating transfers, including General Fund expenditures and operating transfers in the preceding funds, were \$180,511,140. As of September 30, 1993, the department had 2,880 employees.

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**AUDIT  
OBJECTIVES  
AND  
CONCLUSIONS**

**Audit Objective:** To assess the adequacy of the department's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

**Conclusion:** Our assessment of the department's internal control structure did not disclose any material weaknesses. In addition, our assessment indicated that the department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*, pertaining to its systems of internal accounting and administrative control. However, we noted reportable conditions related to the internal auditor's qualifications and Internal Audit Division quality assurance procedures (Findings 1 and 2).

Our assessment also disclosed other reportable conditions involving the establishment of accounts payable, encumbrances, and accounts receivable; the submission of subrecipient Single Audit reports to MSHDA; the billing of administrative costs to federal CDBG program grants; and timekeeping control weaknesses (Findings 3 through 8).

**Audit Objective:** To assess the department's compliance with both State and federal laws and regulations that could have a material effect on either the department's financial schedules or any of its major federal financial assistance programs.

**Conclusion:** Our assessment of the department's compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the department's financial schedules or its major federal financial assistance programs. However, we noted reportable conditions involving MSHDA not receiving required Single Audit reports from subrecipients (Finding 4) and the department's failure to maintain appropriate time distribution records to support payroll transactions charged to the Economic Development Planning Assistance grant (Finding 6). These findings are reported under the internal control structure section of this report. We also noted that the department did not require disclosure of interest from applicable employees (Finding 9).

**Audit Objective:** To audit the department's General Fund financial schedules for the fiscal years ended September 30, 1993 and September 30, 1992.

**Conclusion:** We expressed an unqualified opinion on the department's General Fund financial schedules.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Commerce for the period October 1, 1991 through September 30, 1993. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The following Department of Commerce operations were audited and reported on separately: Accident Fund, Liquor Control Commission, Low-Level Radioactive Waste Authority, Michigan State Housing Development Authority, and Michigan Strategic Fund. The scope of this audit excluded these operations.

Our audit objective for the assessment of the internal control structure included an evaluation of the department's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

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

Our audit report includes 9 findings and 12 recommendations. The department concurred with all but one of the findings and has implemented or has taken action to implement the other recommendations.

The department complied with 3 of the 5 audit recommendations in our prior Single Audit report. The other 2 recommendations are repeated in this report. In addition, we have repeated 5 recommendations from our prior audit of the department's Personnel Office.