

EXECUTIVE DIGEST

DEPARTMENT OF MANAGEMENT AND BUDGET

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, 1992 through September 30, 1994.

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*.

BACKGROUND

DMB is responsible for providing centralized Statewide governmental services in the areas of budget and financial management, management services, and procurement and information technology. Several offices within DMB provide business services to other departments. The costs of the services are normally recouped through charges to user departments.

The Office of Services to the Aging was created as an autonomous agency within DMB and exercises its powers and functions independent of the director of DMB. The Office administers programs, under the provisions of federal and State guidelines, that support Michigan's older citizens.

The Office of Administrative Services is responsible for DMB's accounting and financial reporting. Responsibilities for federal grant management are shared by the Offices of Administrative Services, Drug Control Policy, Grants Administrative Services, and Services to the Aging. As of September 30, 1994, DMB had 1,315 full-time equated positions, including 42 at the Office of Services to the Aging.

DMB expenditures and operating transfers out for fiscal years 1993-94 and 1992-93 were approximately \$149 million and \$128 million, respectively, not including \$592 million and \$433 million, respectively, of transfers to the Counter-Cyclical Budget and Economic Stabilization Fund and rental payments to the State Building Authority.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

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

Conclusion: Our assessment of DMB's internal control structure did not disclose any material weaknesses. However, we did note reportable conditions in the areas of rent collections, controls over compliance, subrecipient monitoring, crime victims' compensation payments, accounts payable, journal voucher approval, and cash receipts (Findings 1, 2, and 4 through 8).

Our assessment indicated that DMB was not in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its internal audit functions. We noted that DMB's internal auditor did not report to the DMB director. Further, the internal auditor did not have an audit plan and did not perform all of the functions required of an internal auditor (Finding 3).

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

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DMB's financial schedules or any of its major federal financial assistance programs.**Audit Objective:** To audit DMB's financial schedules for the fiscal years ended September 30, 1994 and September 30, 1993.

Conclusion: We expressed an unqualified opinion on the financial schedules for the fiscal years ended September 30, 1994 and September 30, 1993. However, DMB overstated balances carried forward by approximately \$3.6 million as of September 30, 1994 for excess rent collections (Finding 1). The results of our audit of the financial schedules are further discussed in our independent auditor's report on the financial schedules.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Management and Budget for the period October 1, 1992 through September 30, 1994. 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.

Our audit objective for the assessment of the internal control structure included an evaluation of DMB'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*.

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

Our audit report included 8 findings and 11 recommendations. DMB complied or has taken action to comply with 10 of the recommendations and has partially complied with 1 recommendation.

DMB complied with 5 of the 10 prior audit recommendations included in the scope of our current audit.