

EXECUTIVE DIGEST

GENERAL FIXED ASSETS ACCOUNT GROUP AND CAPITAL OUTLAY PROGRAM

INTRODUCTION

This report contains the results of our performance and financial audit of the General Fixed Assets Account Group and the Capital Outlay Program, Department of Management and Budget (DMB). The performance portion of our audit covered the period October 1, 1992 through July 31, 1995 and the financial portion covered the period October 1, 1992 through September 30, 1994.

AUDIT PURPOSE

This performance and financial 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 audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND

The DMB Office of Financial Management has the primary responsibility for the State of Michigan's General Fixed

Assets Account Group (GFAAG). GFAAG is used to account for fixed assets (e.g., land, buildings, and equipment) owned by the State, except for assets of proprietary fund types which are recorded directly in those funds. GFAAG contained approximately \$2.9 billion of fixed assets as of September 30, 1994.

The DMB Office of Facilities is responsible for the capital outlay functions assigned to DMB. This responsibility includes capital outlay projects funded by the State Building Authority and all departments within the executive branch except the Departments of Transportation and Natural Resources. The State Building Authority Advance Financing Fund was established to account for capital outlay projects prior to bond issuance by the State Building Authority. The capital outlay program spent approximately \$134 million on the construction of buildings during fiscal year 1993-94. As of July 31, 1995, the Office of Facilities had 60 employees.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the Office of Facilities' use of contracted architectural services and internal on-site inspectors in the capital outlay process.

Conclusion: We concluded that the Office needs to establish performance indicators to help improve its effectiveness and efficiency related to the use of contracted architectural services (Finding 1). Also, we determined that the internal on-site inspectors performed in an effective and efficient manner.

Audit Objective: To assess the adequacy of the Office of Financial Management's internal control structure* as it relates to GFAAG and the Office of Facilities' internal control structure.

Conclusion: Our assessment disclosed reportable conditions* in the Office of Financial Management's and Office of Facilities' internal control structures. As noted in our report on the internal control structure, we identified one material weakness* in our financial audit of the State Building Authority. The Office of Facilities did not have internal control procedures to provide for review of year-end construction activity for costs that were incurred before September 30, 1993 and 1994. However, internal control procedures were subsequently established.

We also noted reportable conditions relating to reconciliation of balances, payment requests, and classification of costs (Findings 2 through 4).

Audit Objective: To assess the Office of Financial Management's and the Office of Facilities' compliance with applicable statutes, the *Michigan Administrative Code*, State policies and procedures, and DMB policies and procedures that could have a material effect on the financial statements.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the financial statements.

Audit Objective: To audit the State of Michigan's statement of general fixed assets as of September 30, 1994 and September 30, 1993 and the State Building Authority Advance Financing Fund financial statements as of and for the fiscal years ended September 30, 1994 and September 30, 1993.

Conclusion: We expressed an unqualified opinion on the financial statements. However, our audit disclosed two reportable conditions related to the internal control structure that resulted in errors in the financial statements (Finding 4 [reported under our internal control structure objective] and Finding 5). These errors were taken into consideration and did not affect our opinion on the financial statements.

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the General Fixed Assets Account Group and the Capital Outlay Program for the period October 1, 1992 through July 31, 1995 and to examine their financial records 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.

We reviewed the architectural firms' role in the capital outlay process, including the design of the building, review of construction billings, monitoring of construction, and preparation and review of construction change orders. We

also reviewed the monitoring of the architectural firms' performance by the Office of Facilities and the performance of the on-site inspectors hired by the Office to monitor construction.

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

Our audit report contains 5 findings and recommendations. DMB agreed with all 5 recommendations and either has taken steps or will take steps to comply with the recommendations.

DMB complied with 1 of 3 prior audit recommendations included within the scope of our current audit.