

## EXECUTIVE DIGEST

### DEPARTMENT OF STATE

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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 State for the period October 1, 1992 through September 30, 1994.

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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 Department of State is responsible for registering and licensing motor vehicles and related functions, regulating Michigan elections, registering lobbyists, and preserving historical records. The Department collects numerous fees and taxes in carrying out these functions.

For the fiscal year ended September 30, 1994, the Department collected \$1.4 billion of revenues for State purposes and expended \$130.1 million for its operations.

As of September 30, 1994, the Department had 2,201 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 internal control structure disclosed the following material weakness:

- The Department did not have a comprehensive system to properly account for or control motor vehicle license plate and year tab inventories. This material weakness in controls could result in losses, unrecorded revenue, and an inability to trace cash and inventory discrepancies to the responsible source. (Finding 1)

The Department informed us that it will comply with our corresponding recommendation and that it is currently in the preliminary stages of developing a request for proposal for new branch office computers. This Next Generation Branch Office Automation System is expected to allow the Department to record all inventory activity in a timely manner and to include a "confirmation of receipt" process.

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 found that the

Department's organizational structure did not provide for organizational independence of the Internal Audit Division and that internal audit activities pertaining to Department programs and operations were limited (Findings 2 and 3).

Our assessment also disclosed other reportable conditions relating to revenue distributions, payroll, encumbrances, purchase orders, and fixed assets (Findings 4 through 9).

**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 its major federal financial assistance program.

**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 program. However, as reported under the internal control structure objective, our assessment disclosed instances of noncompliance related to the establishment of encumbrance carry-forwards (Finding 7). Our audit did not disclose any questioned costs relating to the Department's federal financial assistance programs for the audit period.

**Audit Objective:** To audit the Department'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.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of State 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 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 included 9 findings and 10 recommendations. The Department agreed with the findings and has complied or will comply with all but one recommendation. The Department disagrees with the Department of Management and Budget requirement discussed in Finding 6.

The Department complied with 5 of the 12 recommendations in our prior Single Audit. Six of the recommendations are repeated in this report, and 1 recommendation was rewritten for this report.