

EXECUTIVE DIGEST

DEPARTMENT OF CIVIL SERVICE

INTRODUCTION

This report contains the results of our financial audit of the State Employees' Deferred Compensation Funds I and II, the State Sponsored Group Insurance Fund (SSGIF), and the Department of Civil Service for the period October 1, 1993 through September 30, 1995.

AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND

The Department of Civil Service was established by the Executive Organization Act of 1965. The Department is under the jurisdiction of a commission as provided for in Article 11, Section 5 of the State Constitution. During our audit period, the Department administered State Employees' Deferred Compensation Funds, SSGIF, and the personnel functions relating to State employees.

The State Employees' Deferred Compensation Fund I (457 Plan) and Fund II (401(k) Plan) were administered by the Employee Benefits Division, Employee Benefits and Health Services Bureau, Department of Civil Service, in accordance with the Internal Revenue Code, Internal Revenue Service requirements, and plan regulations. As of July 29, 1996,

the State Treasurer assumed responsibility for the Funds per Executive Order 1996-5.

The resources to operate both plans are derived from plan investment income. As of September 30, 1995, there were approximately 88,000 members in both plans and approximately 11,000 members were receiving deferred compensation payments.

SSGIF was administered by the Group Insurance Section of the Employee Benefits Division until July 29, 1996, when the director of the Department of Management and Budget assumed responsibility per Executive Order 1996-5. SSGIF was administratively established in fiscal year 1981-82 to account for employee and retiree insurance benefit program costs.

Five group insurance programs are currently offered to State employees: dental, vision, life, long-term disability (LTD), and health. Funding for the various insurance programs is based on the respective pay action determinations made by the Civil Service Commission and varies among employee groups. Retirees of the State of Michigan are offered the same programs with the exception of LTD.

In addition to the State Employees' Deferred Compensation Funds and SSGIF, the Department administers the family care programs, human resource development, and the personnel functions relating to State employees.

For fiscal year 1994-95, the Department reported total expenditures and operating transfers of \$23.6 million. As of September 30, 1995, the Department had 289 full-time employees.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the adequacy of the Fund I's, Fund II's, SSGIF's, and Department's internal control structures*.

Audit Conclusion: Our assessment of the adequacy of Fund I's and Fund II's internal control structures did not disclose any material weaknesses*. Our assessment of SSGIF's internal control structure did not disclose any material weaknesses; however, we noted reportable conditions* relating to eligibility for insurance coverage for separated employees, risk management reserves, reporting and disclosure of financial information, and reconciliation with the third party administrators' annual reports (Findings 1 through 4). Our assessment of the Department's internal control structure did not disclose any material weaknesses.

Also, 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.

Audit Objective: To assess the Fund I's, Fund II's, SSGIF's, and Department's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and Department policies and procedures that could have a material effect on the financial statements and schedules.

Audit Conclusion: Our assessment of the Funds', SSGIF's, and Department's compliance with applicable statutes, regulations, policies, and procedures did not disclose any instances of noncompliance that could have a material effect on the financial statements and schedules. We have no findings to report for this objective.

Audit Objective: To audit the Fund I's, Fund II's, and SSGIF's financial statements and the Department's financial schedules as of and for the fiscal years ended September 30, 1995 and September 30, 1994.

Conclusion: We expressed unqualified opinions on the Fund I's, Fund II's, and SSGIF's financial statements and on the Department's financial schedules for the fiscal years ended September 30, 1995 and September 30, 1994. We have no findings to report for this objective.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the State Employees' Deferred Compensation Fund I (457 Plan) and Fund II (401(k) Plan), the State Sponsored Group Insurance Fund, and the Department of Civil Service for the period October 1, 1993 through September 30, 1995. 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*.

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

Our audit report contains 4 findings and 4 corresponding recommendations. The Department's preliminary response indicated that it agreed and will comply with all the recommendations.

The Department had complied with 15 of the 17 prior audit recommendations included within the scope of our current audit.