

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, 1994 through September 30, 1996.

AUDIT PURPOSE

This financial audit of DMB 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 federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

DMB is responsible for providing centralized Statewide services in the areas of budget and financial management, management services, and procurement and information technology. Several offices within DMB provide these services to other departments. The costs of the services are normally recouped through charges to user departments. These offices include the Offices of Financial Management, Financial Information Services, Facilities, Retirement Systems, Support Services, Purchasing, Information Technology, Computing and Telecommunications, Services to the Aging, Drug Control Policy, and the State Employer.

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

Responsibilities for federal assistance program management are shared by Aging, the Office of Administrative Services (OAS), and the Office of Drug Control Policy.

As of September 30, 1996, DMB had 1,615 full-time equated positions, including 45 at Aging. DMB expenditures and operating transfers out totaled approximately the following amounts (in millions):

	<u>Fiscal Year</u>	
	<u>1995-96</u>	<u>1994-95</u>
State Building Authority (SBA)		
Advance Financing Fund	\$ 85	\$ 91
General Fund:		
General Operations	\$ 182	\$ 155
Transfers to the		
Counter-Cyclical Budget and		
Economic Stabilization Fund	\$ 91	\$ 320
Rental payments to SBA	\$ 151	\$ 150
Capital outlay program	\$ 27	\$ 21
Grants to colleges and universities	\$ 1,559	\$ 1,495

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, our assessment indicated that, during our audit period, 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, such as internal control reviews. Reviews of DMB's internal control structure are very important because many of DMB's systems are Statewide systems that affect all State departments. These include systems operated by the budget offices and the Offices of Financial Management, Facilities, Retirement Systems, Support Services, Purchasing, Information Technology, Computing and Telecommunications, and the State Employer. However, after our audit period, DMB hired a new internal auditor who was developing an audit plan. Consequently, we have not included in this audit report an audit finding and recommendation regarding changes in the internal audit function.

In addition, our assessment disclosed other reportable conditions* in DMB's internal control structure in the areas

of user class* combinations, receipts, and controls over compliance (Findings 1 through 3).

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

Audit Objective: To audit DMB's financial schedules and its State Building Authority Advance Financing Fund financial statements for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed unqualified opinions on DMB's financial schedules and statements for the fiscal years ended September 30, 1996 and September 30, 1995. The results of our audit of the financial schedules and statements are further discussed in our independent auditor's reports on the financial schedules and on the financial statements.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the General Fund operations and the financial and other records of the State Building Authority Advance Financing Fund of the Department of Management and Budget for the period October 1, 1994 through September 30, 1996. 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 scope of this audit did not include the separate funds administered by DMB that did not administer any federal financial assistance programs. Those funds, which are audited separately and included in other audit reports, include: the Counter-Cyclical Budget and Economic Stabilization Fund, Vietnam Veterans' Memorial Monument Fund, State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology Revolving Fund, Risk Management Fund, and the retirement funds administered by the Office of Retirement Systems.

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 report included 3 findings and 5 recommendations. DMB's preliminary response indicated that it agreed with all of the findings and has complied or will comply with all of the recommendations.

DMB complied with 8 of the 11 prior audit recommendations included within the scope of our current audit and is in the process of complying with another prior audit recommendation. We repeated the other 2 prior audit recommendations in this report.