

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF STATE

October 1, 1998 through September 30, 2000

EXECUTIVE DIGEST

DEPARTMENT OF STATE

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, 1998 through September 30, 2000.

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 Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The mission* of the Department of State is to provide the most efficient and effective services to the people of Michigan through the licensing of drivers and the registration and titling of vehicles, the regulation of automobile dealers and repair facilities, the registration of voters and administration of elections, the preservation of Michigan's history, and the streamlined collection of revenue.

The deputy Secretary of State for Department Services Administration is responsible for the financial and

* See glossary at end of report for definition.

administrative operations of the Department, including federal grant management.

For the fiscal year ended September 30, 2000, the Department collected \$2.1 billion in revenue and operating transfers in and had expenditures and operating transfers out of \$166.9 million. As of September 30, 2000, the Department had 2,329 employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit the Department's financial schedules and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the Department's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion* on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial

* See glossary at end of report for definition.

schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: We issued an unqualified opinion on the Department's compliance with requirements applicable to the Department's major federal program. Also, our assessment of internal control over compliance applicable to the Department's major federal program did not disclose any material weaknesses.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of State for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the

* See glossary at end of report for definition.

records and such other auditing procedures as we considered necessary in the circumstances.

PRIOR AUDIT
FOLLOW-UP

There were no findings in the Department's prior Single Audit.

June 20, 2001

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of State for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of State financial schedules and notes to the financial schedules, supplemental financial schedules, other schedules, and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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TABLE OF CONTENTS

DEPARTMENT OF STATE

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	9
Audit Objectives and Conclusions, Audit Scope, and Prior Audit Follow-Up	11

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	13
Section II: Findings Related to the Financial Schedules	14
Section III: Findings and Questioned Costs Related to Federal Awards	14

INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES

Independent Auditor's Report on the Financial Schedules	15
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	17
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	19
Department of State Financial Schedules	
Schedule of Revenue and Operating Transfers - General Fund, Special Revenue Funds, and Expendable Trust Funds	22
Schedule of Sources and Disposition of General Fund Authorizations	24
Notes to the Financial Schedules	25

SUPPLEMENTAL FINANCIAL SCHEDULES

Schedule of Revenue - Special Revenue Funds	30
Schedule of Revenue - Expendable Trust Funds	32
Schedule of Certain General Fund Assets and Liabilities	33
Schedule of Expenditures of Federal Awards	34

OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	37
Corrective Action Plan	38

GLOSSARY

Glossary of Acronyms and Terms	39
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Description of Agency

The Department of State is 1 of 18 principal departments of Michigan government. The Department's executive officer is the Secretary of State, an elected official with a four-year term. The Department is responsible for registering motor vehicles; licensing motor vehicle operators, chauffeurs, motor repair facilities, motor vehicle dealers, motor vehicles, watercraft, snowmobiles, and motorcycles; and collecting the fees and taxes thereon. The Department's responsibilities also include regulating Michigan elections; registering lobbyists; certifying mechanics; and preserving historical government and public records.

The mission of the Department of State is to provide the most efficient and effective services to the people of Michigan through the licensing of drivers and the registration and titling of vehicles, the regulation of automobile dealers and repair facilities, the registration of voters and administration of elections, the preservation of Michigan's history, and the streamlined collection of revenue.

During our audit period the Department was organized into the Executive Office and three main organizational units: Department Services Administration, Regulatory Services Administration, and Service Delivery Administration. Each of the three organizational units is headed by a deputy Secretary of State.

The deputy Secretary of State for Department Services Administration is responsible for the financial and administrative operations of the Department, including federal grant management and historical preservation. The deputy Secretary of State for Department Services Administration is also responsible for overseeing the operations of the Bureau of Elections, Bureau of Administrative Services, Bureau of Resource Management Systems, and Michigan Historical Center.

The deputy Secretary of State for Regulatory Services Administration is responsible for overseeing the operations of the Bureau of Automotive Regulation and the Bureau of Legal Services. The deputy Secretary of State for Service Delivery Administration is responsible for overseeing the operations of the Bureau of Driver and Vehicle Records and the Bureau of Branch Office Services, including 177 branch offices.

For the fiscal year ended September 30, 2000, the Department collected \$2.1 billion in revenue and operating transfers in and had expenditures and operating transfers out of \$166.9 million. As of September 30, 2000, the Department had 2,329 employees.

Effective October 1, 2000, the Department of State began operating under a new organizational structure, composed of five administration directors reporting to a chief operating officer. The five administrations are Resource Management Systems Administration, Central Records Administration, Field Services Administration, Regulatory Services Administration, and Department Services Administration. The new organizational structure aligns programmatic responsibilities to optimize customer service and business processes and reflects the growing importance of information technology as a strategic business driver. The five administrations oversee programs related to information technology, data and records administration, branch office operations, legal issues and driver safety, and history and elections, as well as administrative support services.

Audit Objectives and Conclusions, Audit Scope,
and Prior Audit Follow-Up

Audit Objectives and Conclusions:

Our financial audit, including the provisions of the Single Audit Act, of the Department of State had the following objectives:

1. To audit the Department's financial schedules and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the Department's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

2. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

3. To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

We issued an unqualified opinion on the Department's compliance with requirements applicable to the Department's major federal program. Also, our assessment of internal control over compliance applicable to the Department's major federal program did not disclose any material weaknesses.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of State for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 considered the Department's internal control over compliance applicable to each major federal program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Department's major federal program is identified in Section I of the schedule of findings and questioned costs*.

Prior Audit Follow-Up

There were no findings in the Department's prior Single Audit.

* See glossary at end of report for definition.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	No

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program
15.904	Historic Preservation Fund Grants-In-Aid

* See glossary at end of report for definition.

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

We did not report any findings related to the financial schedules.

Section III: Findings and Questioned Costs Related to Federal Awards

We did not report any findings related to federal awards.

* See glossary at end of report for definition.

Independent Auditor's Report on
the Financial Schedules

March 30, 2001

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

We have audited the accompanying schedule of revenue and operating transfers - General Fund, special revenue funds, and expendable trust funds and the schedule of sources and disposition of General Fund authorizations of the Department of State for the fiscal years ended September 30, 2000 and September 30, 1999. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations of the Department are accounted for principally in the General Fund of the State of Michigan. In addition, the Department is responsible for collecting fees for various special revenue funds and expendable trust funds.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department's General Fund accounts and revenue collections for applicable special revenue funds and expendable trust funds, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of the Department, the State's General Fund, its special

revenue funds, or its expendable trust funds in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of State for the fiscal years ended September 30, 2000 and September 30, 1999, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2001 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of revenue - special revenue funds, schedule of revenue - expendable trust funds, and schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

March 30, 2001

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

We have audited the financial schedules of the Department of State for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 30, 2001

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

Compliance

We have audited the compliance of the Department of State with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of State complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

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DEPARTMENT OF STATE
Schedule of Revenue and Operating Transfers
General Fund, Special Revenue Funds, and Expendable Trust Funds
For the Fiscal Years Ended September 30
(In Thousands)

	<u>General Fund</u>		<u>Special Revenue Funds</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
REVENUE				
Taxes:				
Sales taxes	\$ 241,669	\$ 239,327	\$ 664,397	\$ 658,090
Use taxes	105,343	104,213	52,664	52,099
Resident motor vehicle taxes			710,900	668,023
Nonresident motor vehicle taxes			<u>46,321</u>	<u>41,399</u>
Total taxes	<u>\$ 347,012</u>	<u>\$ 343,540</u>	<u>\$ 1,474,281</u>	<u>\$ 1,419,611</u>
Federal agencies	<u>\$ 679</u>	<u>\$ 806</u>	<u>\$ 0</u>	<u>\$ 0</u>
From services:				
Commercial lookup fees	\$ 29,664	\$ 28,786	\$	\$
Other	<u>32</u>	<u>3</u>		
Total from services	<u>\$ 29,695</u>	<u>\$ 28,789</u>	<u>\$ 0</u>	<u>\$ 0</u>
From licenses and permits:				
Motor vehicle operator and chauffeur licenses	\$ 34,718	\$ 33,081	\$14,025	\$ 12,621
Automobile repair facility and mechanic licenses	4,379	4,309		
Motor vehicle annual license transfer fee			9,871	10,092
Motor vehicle title fees	3,864	3,870	35,563	35,724
Watercraft registrations			9,326	10,418
Other	<u>12,686</u>	<u>10,843</u>	<u>9,691</u>	<u>10,009</u>
Total from licenses and permits	<u>\$ 55,647</u>	<u>\$ 52,103</u>	<u>\$ 78,478</u>	<u>\$ 78,864</u>
Miscellaneous	<u>\$ 2,902</u>	<u>\$ 1,951</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Revenue	<u>\$ 435,935</u>	<u>\$ 427,189</u>	<u>\$ 1,552,759</u>	<u>\$ 1,498,475</u>
OPERATING TRANSFERS				
From special revenue funds:				
Michigan Transportation Fund	\$ 46,463	\$ 37,279	\$	\$
Marine Safety Fund	<u>972</u>	<u>934</u>		
Total from special revenue funds	<u>\$ 47,435</u>	<u>\$ 38,213</u>	<u>\$ 0</u>	<u>\$ 0</u>
From expendable trust funds:				
Gifts, Bequests, and Deposits Investment Fund	\$ 73	\$ 63	\$	\$
Assigned Claims Plan Fund	<u>680</u>	<u>611</u>		
Total from expendable trust funds	<u>\$ 753</u>	<u>\$ 675</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Operating Transfers	<u>\$ 48,188</u>	<u>\$ 38,888</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Revenue and Operating Transfers (Note 1c)	<u>\$ 484,123</u>	<u>\$ 466,076</u>	<u>\$ 1,552,759</u>	<u>\$ 1,498,475</u>

The accompanying notes are an integral part of the financial schedules.

Expendable Trust Funds		Totals (Memorandum Only)	
2000	1999	2000	1999
\$	\$	\$ 906,065	\$ 897,417
		158,007	156,312
		710,900	668,023
		46,321	41,399
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,821,293</u>	<u>\$ 1,763,151</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 679</u>	<u>\$ 806</u>
\$	\$	\$ 29,664	\$ 28,786
		32	3
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,695</u>	<u>\$ 28,789</u>
\$	\$	\$ 48,743	\$ 45,702
		4,379	4,309
		9,871	10,092
		39,427	39,594
		9,326	10,418
		22,378	20,852
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 134,125</u>	<u>\$ 130,967</u>
<u>\$ 55,513</u>	<u>\$ 48,132</u>	<u>\$ 58,415</u>	<u>\$ 50,083</u>
<u>\$ 55,513</u>	<u>\$ 48,132</u>	<u>\$ 2,044,208</u>	<u>\$ 1,973,796</u>
\$	\$	\$ 46,463	\$ 37,279
		972	934
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,435</u>	<u>\$ 38,213</u>
\$	\$	\$ 73	\$ 63
		680	611
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 753</u>	<u>\$ 675</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 48,188</u>	<u>\$ 38,888</u>
<u>\$ 55,513</u>	<u>\$ 48,132</u>	<u>\$ 2,092,395</u>	<u>\$ 2,012,683</u>

DEPARTMENT OF STATE
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 60,784	\$ 67,974
Balances carried forward	22,533	18,476
Restricted financing sources	<u>106,988</u>	<u>95,995</u>
Total	<u>\$ 190,305</u>	<u>\$ 182,445</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures and operating transfers out	<u>\$ 166,861</u>	<u>\$ 158,619</u>
Balances carried forward:		
Multi-year projects	\$ 8,911	\$ 8,261
Encumbrances	2,519	4,658
Restricted revenue - authorized	840	757
Restricted revenue - not authorized	<u>10,667</u>	<u>8,857</u>
Total balances carried forward	<u>\$ 22,937</u>	<u>\$ 22,533</u>
Balances lapsed	<u>\$ 507</u>	<u>\$ 1,297</u>
Overexpended	<u>\$</u>	<u>\$ (4)</u>
Total	<u>\$ 190,305</u>	<u>\$ 182,445</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the governmental operations of the Department of State for the fiscal years ended September 30, 2000 and September 30, 1999. The governmental operations of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. In addition, the Department is responsible for collecting fees for various funds, as discussed in Note 1.c.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds and expendable trust funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department's General Fund accounts and revenue collections for applicable special revenue funds and expendable trust funds. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of the Department, the State's General Fund, its special revenue funds, or its expendable trust funds in accordance with accounting principles generally accepted in the United States of America.

- c. The Department of State is responsible for collecting taxes and other revenue related to its own operations and those of certain other State departments. This revenue is accounted for in the General Fund, special revenue funds, and expendable trust funds. The special revenue funds include the Michigan Transportation Fund, State Trunkline Fund, Michigan State Waterways Fund, School Aid Fund, and Marine Safety Fund. The expendable trust funds include the Gifts, Bequests, and Deposits Investment Fund and the Assigned Claims Plan Fund. The amounts shown in the schedule of revenue and operating transfers represent only the amounts collected by the Department of State and do not represent total fund revenue and operating transfers for the funds.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

- d. Multi-year projects: Unexpended general purpose authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Examples of significant fiscal year 1999-2000 carry-forwards of this type are the qualified voter file upgrade (\$2.5 million), Intelligent Terminal technology projects (\$1.5 million), information technology rearchitecture (\$1.1 million), seat belt studies (\$0.75 million), document management system (\$0.5 million), branch office system equipment (\$0.5 million), branch office system upgrade (\$0.4 million), and central records branch operations (\$0.4 million).
- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenue - authorized: Revenue that, by statute or the State Constitution, is restricted for use to a particular program or activity. Generally, this revenue may be expended upon receipt without additional legislative authorization. Examples of significant fiscal year 1999-2000 carry-forwards of this type are revenues from sales of Michigan Vehicle Code books (\$229,000), the Museum Store merchandise (\$207,000), and Heritage Fund publications (\$397,000).
- g. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity, including revenue set aside to fund encumbrances in that particular program or activity. However, the expenditure of the portion of restricted revenue not set aside for encumbrances is subject to annual legislative appropriation. Examples of significant fiscal year 1999-2000 carry-forwards of this type are revenue from the interdepartmental grant from the Michigan Transportation Fund (\$4.2 million), fees for looking up driver and vehicle records (\$2.5 million), Motor Vehicle Accident Claims Fund revenue (\$1.4 million), automobile repair facility fees (\$1 million), and driver license fees (\$0.9 million).

- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended: The total of the overexpenditure of line-item authorizations. The Department is required to seek a supplemental appropriation to authorize the expenditure.

Note 3 Subsequent Event

On May 29, 2001, the Governor issued Executive Order No. 2001-1, which will result in the transfer, effective August 5, 2001, of the Department of State's responsibilities associated with administration of State historical sites, State archives, and State cultural resources and treasures. The transfer will move approximately 80 full-time equated positions and approximately \$8.7 million of the Department's appropriations, including three federal programs (Historic Preservation Fund Grants-In-Aid, *CFDA* No. 15.904; National Maritime Heritage Grants, *CFDA* No. 15.925; and Institute of Museum and Library Services, *CFDA* No. 45.301), to the newly created Department of History, Arts and Culture.

SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF STATE
Schedule of Revenue - Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	Michigan		State Trunkline Fund		Michigan State	
	Transportation Fund				Waterways Fund	
	2000	1999	2000	1999	2000	1999
REVENUE						
Taxes:						
Sales taxes	\$	\$	\$	\$	\$	\$
Use taxes						
Resident motor vehicle taxes	710,900	668,023				
Nonresident motor vehicle taxes	46,321	41,399				
Total taxes	<u>\$ 757,221</u>	<u>\$ 709,422</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
From licenses and permits:						
Motor vehicle operator and chauffeur licenses	\$	\$	\$ 14,025	\$ 12,621	\$	\$
Motor vehicle annual license transfer fees	9,871	10,092				
Motor vehicle title fees	35,563	35,724				
Watercraft registrations					4,756	5,313
Other	9,691	10,009				
Total from licenses and permits	<u>\$ 55,126</u>	<u>\$ 55,825</u>	<u>\$ 14,025</u>	<u>\$ 12,621</u>	<u>\$ 4,756</u>	<u>\$ 5,313</u>
Total Revenue	<u><u>\$ 812,347</u></u>	<u><u>\$ 765,247</u></u>	<u><u>\$ 14,025</u></u>	<u><u>\$ 12,621</u></u>	<u><u>\$ 4,756</u></u>	<u><u>\$ 5,313</u></u>

The amounts shown represent only the amounts collected by the Department of State and do not represent total revenue for the funds.

<u>School Aid Fund</u>		<u>Marine Safety Fund</u>		<u>Total Special Revenue Funds</u>	
<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
\$ 664,397	\$ 658,090	\$	\$	\$ 664,397	\$ 658,090
52,664	52,099			52,664	52,099
				710,900	668,023
				46,321	41,399
<u>\$ 717,060</u>	<u>\$ 710,188</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,474,281</u>	<u>\$ 1,419,611</u>
\$	\$	\$	\$	\$ 14,025	\$ 12,621
				9,871	10,092
				35,563	35,724
		4,570	5,105	9,326	10,418
				9,691	10,009
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,570</u>	<u>\$ 5,105</u>	<u>\$ 78,478</u>	<u>\$ 78,864</u>
<u>\$ 717,060</u>	<u>\$ 710,188</u>	<u>\$ 4,570</u>	<u>\$ 5,105</u>	<u>\$ 1,552,759</u>	<u>\$ 1,498,475</u>

DEPARTMENT OF STATE
Schedule of Revenue - Expendable Trust Funds
Fiscal Years Ended September 30
(In Thousands)

	Gifts, Bequests, and Deposits Investment Fund		Assigned Claims Plan Fund		Total Expendable Trust Funds	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	REVENUE					
Miscellaneous:						
History donations	\$ 7	\$ 18	\$	\$	\$ 7	\$ 18
Mann House trust	33	30			33	30
Museum donations	1	1			1	1
Assessments to insurers			54,672	47,340	54,672	47,340
Uninsured motorists			799	737	799	737
Interest				6		6
Total Revenue	<u>\$ 42</u>	<u>\$ 49</u>	<u>\$ 55,471</u>	<u>\$ 48,083</u>	<u>\$ 55,513</u>	<u>\$ 48,132</u>

The amounts shown represent only the amounts collected by the Department of State and do not represent total revenue for the funds.

DEPARTMENT OF STATE
Schedule of Certain General Fund Assets and Liabilities
As of September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
ASSETS		
Accounts Receivable:		
From services provided	\$ 3,419	\$ 3,468
From district courts	\$ 717	\$ 688
From federal agencies	\$ 149	\$ 280
Checks returned for not sufficient funds	\$ 1,897	\$ 1,421
Miscellaneous	\$ 4,086	\$ 4,547
LIABILITIES		
Deferred revenue	\$ 312	\$ 356
Accounts payable	\$ 293	\$ 785
Unearned receipts payable	\$ 119	\$ 170
Due to other funds	\$ 2	\$ 16
Due to component units	\$ 74	\$ 75
Other recognized liabilities	\$ 5,014	\$ 5,046

This schedule presents certain General Fund assets and liabilities that result from the operations of, and are the responsibility of, the Department of State. The schedule does not include certain other assets, such as equity in Common Cash and cash in transit, and certain other liabilities, such as warrants outstanding and payroll liability, which are accounted for centrally by the State.

DEPARTMENT OF STATE
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1998 through September 30, 2000
(In Thousands)

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 1999		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of the Interior					
Direct Programs:					
Historic Preservation Fund Grants-In-Aid	15.904		\$ 690	\$ 112	\$ 802
National Maritime Heritage Grants	15.925			4	4
Total U.S. Department of the Interior			\$ 690	\$ 116	\$ 806
U.S. Department of Transportation					
Pass-Through Program:					
Michigan Department of State Police State and Community Highway Safety (Repeat Offender Program) (3)	20.600	AL-99-07	\$ 90	\$	\$ 90
Total U.S. Department of Transportation			\$ 90	\$ 0	\$ 90
National Foundation on the Arts and the Humanities					
Direct Program:					
Institute of Museum and Library Services	45.301		\$	\$	\$ 0
Total National Foundation on the Arts and the Humanities			\$ 0	\$ 0	\$ 0
Total Expenditures of Federal Awards			\$ 780	\$ 116	\$ 896

- (1) Basis of Presentation: This schedule includes the federal grant activity of the Department of State and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) The pass-through agency records the federal revenue related to this program and the Department of State records an expenditure credit.
- (4) Subsequent Event: On May 29, 2001, the Governor issued Executive Order No. 2001-1, which will result in the transfer, effective August 5, 2001, of the Department of State's responsibilities associated with administration of State historical sites, State archives, and State cultural resources and treasures. The transfer will move three federal programs (Historic Preservation Fund Grants-In-Aid, CFDA No. 15.904; National Maritime Heritage Grants, CFDA No. 15.925; and Institute of Museum and Library Services, CFDA No. 45.301) to the newly created Department of History, Arts and Culture.

<u>For the Fiscal Year Ended September 30, 2000</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 656	\$ 33	\$ 689	\$ 1,491
			4
\$ 656	\$ 33	\$ 689	\$ 1,495
\$ 44	\$	\$ 44	\$ 134
\$ 44	\$ 0	\$ 44	\$ 134
\$ 3	\$	\$ 3	\$ 3
\$ 3	\$ 0	\$ 3	\$ 3
<u>\$ 703</u>	<u>\$ 33</u>	<u>\$ 736</u>	<u>\$ 1,632</u>

OTHER SCHEDULES

DEPARTMENT OF STATE
Summary Schedule of Prior Audit Findings
As of September 30, 2000

There were no findings in the prior Department of State Single Audit.

DEPARTMENT OF STATE
Corrective Action Plan
As of March 30, 2001

There were no findings for fiscal years 1998-99 and 1999-2000.

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a

relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

mission The agency's main purpose or the reason that the agency was established.

OMB U.S. Office of Management and Budget.

questioned cost A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.