

FINANCIAL AUDIT  
OF THE

DEPARTMENT OF CIVIL SERVICE

October 1, 1998 through September 30, 2000

## EXECUTIVE DIGEST

# DEPARTMENT OF CIVIL SERVICE

---

### INTRODUCTION

This report contains the results of our financial audit\* of the Department of Civil Service for the period October 1, 1998 through September 30, 2000.

---

### 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 provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements.

---

### BACKGROUND

The Department was established by the Executive Organization Act of 1965. The Department is under the jurisdiction of the Civil Service Commission. The Commission is composed of four nonsalaried members, not more than two of whom shall be members of the same political party, appointed by the Governor for terms of eight years. Article XI, Section 5 of the State Constitution created the Commission.

The Office of the State Personnel Director provides executive direction for the Department and includes the Office of Internal Audit and, with the Office of the State Employer, jointly oversees the Office of Performance Excellence. The Office of the General Counsel, which

\* See glossary at end of report for definition.

serves the Commission and the State Personnel Director, is also part of the Office of the State Personnel Director. In addition, the Office of the State Personnel Director oversees the Department's Bureaus of Technical Review and Employee Relations, Human Resource Services, and Administrative Services.

In conjunction with the Department of Management and Budget and the Office of the State Employer, during fiscal years 1999-2000 and 1998-99, the Department temporarily assigned 39 employees to the Human Resources Management Network (HRMN) project. Implemented in March 2001, HRMN replaced the existing human resource system with a fully integrated network system for the executive, legislative, and judicial branches of government. The mission\* of HRMN is to provide an integrated human resources management system delivering payroll, personnel, and employee benefits functionality and data exchange with retirement systems, resulting in streamlined business processes, better information for customers, reduced costs, improved services, and flexibility to manage the dynamic State work force of tomorrow.

To coincide with the implementation of HRMN on March 18, 2001, the Civil Service Commission approved a number of amendments to the civil service rules and issued new and revised regulations. Effective May 1, 2001, the Department published a new comprehensive book of Department regulations that replaced all prior versions.

In addition to General Fund appropriations, the Department receives funding from a 1% assessment of payroll for programs funded by restricted funding sources within the State.

\* See glossary at end of report for definition.

For fiscal year 1999-2000, the Department reported net expenditures and operating transfers out of approximately \$34.0 million. As of September 30, 2000, the Department had 205 full-time employees.

---

**AUDIT OBJECTIVES  
AND CONCLUSIONS**

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

**Audit Objective:** To audit 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.

---

**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Civil Service 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

\* See glossary at end of report for definition.

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

---

**PRIOR AUDIT  
FOLLOW-UP**

The Department complied with the prior audit recommendation included within the scope of our current audit.

January 8, 2002

Ms. Susan Grimes Munsell, Chairperson  
Civil Service Commission  
and  
Mr. John F. Lopez, State Personnel Director  
Department of Civil Service  
Capitol Commons Center  
Lansing, Michigan

Dear Ms. Munsell and Mr. Lopez:

This is our report on the financial audit of the Department of Civil Service for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives, audit scope, and prior audit follow-up; comments; and independent auditor's reports on compliance and on internal control over financial reporting and on the financial schedules. This report also contains the Department of Civil Service financial schedules and notes to the financial schedules and a glossary of acronyms and terms.

Our comments are organized by audit objective.

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

AUDITOR GENERAL

This page left intentionally blank.

## TABLE OF CONTENTS

### DEPARTMENT OF CIVIL SERVICE

#### INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	8
Audit Objectives, Audit Scope, and Prior Audit Follow-Up	10

#### COMMENTS

Compliance and Internal Control Over Financial Reporting	11
Financial Accounting and Reporting	11

#### INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	12
Independent Auditor's Report on the Financial Schedules	14
Department of Civil Service Financial Schedules	
Schedule of General Fund Revenues and Operating Transfers	16
Schedule of Sources and Disposition of General Fund Authorizations	17
Notes to the Financial Schedules	18

#### GLOSSARY

Glossary of Acronyms and Terms	21
--------------------------------	----

## Description of Agency

The Department of Civil Service was established by the Executive Organization Act of 1965. The Department is under the jurisdiction of the Civil Service Commission. The Commission is composed of four nonsalaried members, not more than two of whom shall be members of the same political party, appointed by the Governor for terms of eight years. Article XI, Section 5 of the State Constitution created the Commission.

The Office of the State Personnel Director provides executive direction for the Department and includes the Office of Internal Audit and, with the Office of the State Employer, jointly oversees the Office of Performance Excellence. The Office of the General Counsel, which serves the Commission and the State Personnel Director, is also part of the Office of the State Personnel Director. In addition, the Office of the State Personnel Director oversees the Department's Bureaus of Technical Review and Employee Relations, Human Resource Services, and Administrative Services.

The Bureau of Technical Review and Employee Relations provides neutral dispute resolution services for many different aspects of labor and management relations and Statewide coordination of training and development programs for State employees.

The Bureau of Human Resource Services provides human resource services to all State departments and agencies, including recruitment, applicant credential review, applicant assessment, employment list processing, organizational development and position classification, and employee evaluation. The Office of Compliance monitors and reviews agency human resource office activities related to personnel and payroll transactions involving classified employees and contracted services.

The Bureau of Administrative Services provides administrative, personnel, financial, and information technology and technical support services for the Department.

In conjunction with the Department of Management and Budget, during fiscal years 1999-2000 and 1998-99, the Department temporarily assigned 39 employees to the Human Resources Management Network (HRMN) project. Implemented in March 2001, HRMN replaced the existing human resource system with a fully integrated network system for the executive, legislative, and judicial branches of government. The mission of HRMN is to provide an integrated human resources management system delivering payroll, personnel, and employee benefits functionality and data exchange

with retirement systems, resulting in streamlined business processes, better information for customers, reduced costs, improved services, and flexibility to manage the dynamic State work force of tomorrow.

To coincide with the implementation of HRMN on March 18, 2001, the Civil Service Commission approved a number of amendments to the civil service rules and issued new and revised regulations. Effective May 1, 2001, the Department published a new comprehensive book of Department regulations that replaced all prior versions.

In addition to General Fund appropriations, the Department receives funding from a 1% assessment of payroll for programs funded by restricted funding sources within the State.

For fiscal year 1999-2000, the Department reported net expenditures and operating transfers out of approximately \$34.0 million. As of September 30, 2000, the Department had 205 full-time employees.

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

### Audit Objectives

Our financial audit of the Department of Civil Service had the following objectives:

1. 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.
2. To audit the Department's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Civil Service 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.

### Prior Audit Follow-Up

The Department complied with the prior audit recommendation included within the scope of our current audit.

## COMMENTS

### COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

#### COMMENT

**Audit Objective:** To assess and report on the Department of Civil Service'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.

### FINANCIAL ACCOUNTING AND REPORTING

#### COMMENT

**Audit Objective:** To audit 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.

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

July 27, 2001

Ms. Susan Grimes Munsell, Chairperson  
Civil Service Commission  
and  
Mr. John F. Lopez, State Personnel Director  
Department of Civil Service  
Capitol Commons Center  
Lansing, Michigan

Dear Ms. Munsell and Mr. Lopez:

We have audited the General Fund financial schedules of the Department of Civil Service for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our report thereon dated July 27, 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 of Civil Service'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 of Civil Service'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 reportable 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 Civil Service Commission, the State's management, and the Legislature 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  
the Financial Schedules

July 27, 2001

Ms. Susan Grimes Munsell, Chairperson  
Civil Service Commission  
and  
Mr. John F. Lopez, State Personnel Director  
Department of Civil Service  
Capitol Commons Center  
Lansing, Michigan

Dear Ms. Munsell and Mr. Lopez:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Civil Service 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 financial transactions of the Department of Civil Service are accounted for principally in the General Fund of the State of Michigan.

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 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 revenues and operating transfers and the sources and disposition of authorizations for the Department of Civil Service's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of either the Department of Civil Service or the State's General Fund 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 revenues and operating transfers and the sources and disposition of General Fund authorizations of the Department of Civil Service 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 July 27, 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.

AUDITOR GENERAL

DEPARTMENT OF CIVIL SERVICE  
Schedule of General Fund Revenues and Operating Transfers  
Fiscal Years Ended September 30

	2000	1999
<b>REVENUES</b>		
1% Assessment (Note 2):		
Taxes	\$ 471,957	\$ 628,181
Federal	3,483,237	1,389,690
Local agencies	248,750	239,963
Services	63,010	320,132
Licenses and permits	1,179,220	862,010
Miscellaneous	302,858	164,989
Total 1% Assessment Revenues	\$ 5,749,034	\$ 3,604,966
Other:		
Services	\$ 241	\$ 87
Miscellaneous:		
State Sponsored Group Insurance Fund	2,650,000	2,650,000
Other sources	73,644	23,514
Total Other Revenues	\$ 2,723,886	\$ 2,673,601
Total Revenues	\$ 8,472,920	\$ 6,278,568
 <b>OPERATING TRANSFERS</b>		
1% Assessment:		
From other funds	\$ 3,812,635	\$ 3,494,595
Total Operating Transfers	\$ 3,812,635	\$ 3,494,595
Total Revenues and Operating Transfers	\$ 12,285,556	\$ 9,773,164

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

DEPARTMENT OF CIVIL SERVICE  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	2000	1999
<b>SOURCES OF AUTHORIZATIONS (Note 3)</b>		
General purpose appropriations	\$ 11,997,200	\$ 19,659,400
Balances carried forward	11,764,105	7,361,008
Restricted financing sources	18,063,921	14,367,031
Less: Intrafund expenditure reimbursements	<u>(5,851,142)</u>	<u>(4,615,448)</u>
Total	<u>\$ 35,974,084</u>	<u>\$ 36,771,990</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 3)</b>		
Gross expenditures and operating transfers out	\$ 39,874,163	\$ 29,615,253
Less: Intrafund expenditure reimbursements	<u>(5,851,142)</u>	<u>(4,615,448)</u>
Net expenditures and operating transfers out	<u>\$ 34,023,020</u>	<u>\$ 24,999,804</u>
Balances carried forward:		
Multi-year projects	\$ 1,679,059	\$ 10,413,895
Encumbrances	<u>224,905</u>	<u>1,350,209</u>
Total balances carried forward	<u>\$ 1,903,965</u>	<u>\$ 11,764,105</u>
Balances lapsed	<u>\$ 47,099</u>	<u>\$ 8,080</u>
Total	<u>\$ 35,974,084</u>	<u>\$ 36,771,990</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 financial transactions of the Department of Civil Service for the fiscal years ended September 30, 2000 and September 30, 1999. The financial transactions of the Department of Civil Service are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the Department of Civil Service. 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, Compensated Absences, and Leases.

#### 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. 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 revenues and operating transfers and the sources and disposition of authorizations for the Department of Civil Service's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Revenue Classification

The Department does not operate programs that would routinely receive revenues from these revenue sources. The revenues reported under the 1% assessment category are classified based on their primary funding sources when the individual departments receive the revenue. This is because many of the programs, within other departments, do not receive a direct appropriation for operations and, as a result, they do not have operating funds to pay the 1% assessment. The programs use the revenue received from their regular operations to fund their share of the 1% assessment.

The revenues and operating transfers reported on the schedule of sources and disposition of General Fund authorizations reflect only those amounts that are restricted to the Department. They do not reflect those amounts of revenue that flow directly to the General Fund. The schedule of revenues and operating transfers includes all revenues and operating transfers recorded by the Department.

Note 3 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. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- f. 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.
- g. 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.

## Glossary of Acronyms and Terms

<b>financial audit</b>	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.
<b>HRMN</b>	Human Resources Management Network.
<b>internal control</b>	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.
<b>material weakness</b>	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 and/or financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
<b>mission</b>	The agency's main purpose or the reason that the agency was established.
<b>SOMCAFR</b>	<i>State of Michigan Comprehensive Annual Financial Report.</i>

**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.