

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF MANAGEMENT AND BUDGET

October 1, 2000 through September 30, 2002



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

*Including the Provisions of the Single Audit Act
 October 1, 2000 through September 30, 2002*

Department of Management and Budget

Report Number:
 07-100-03

Released:
 May 2003

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules and Financial Statements:

Auditor's Reports Issued

We issued unqualified opinions on the Department of Management and Budget's (DMB's) financial schedules and financial statements.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in DMB's internal control over financial reporting.

~ ~ ~ ~ ~

Noncompliance Material to the Financial Schedules or Financial Statements

We did not identify any instances of noncompliance applicable to the financial schedules or financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited one program as a major program and issued an unqualified opinion. The federal program audited as a major program is identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any material weaknesses in DMB's internal control over the major program. However, we did identify a reportable condition (Finding 1).

~ ~ ~ ~ ~

Required Reporting of Noncompliance

We identified an instance of noncompliance that is required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Finding 1).

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Systems of Accounting and Internal Control:

We determined that DMB was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

~ ~ ~ ~ ~

We audited the following program as a major program:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
39.003	Donation of Federal Surplus Personal Property	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

May 23, 2003

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Management and Budget (DMB) for the period October 1, 2000 through September 30, 2002.

This report contains our report summary; our independent auditor's reports on the financial schedules and on the financial statements; and DMB's financial schedules and the Advance Financing Funds financial statements, notes to the financial schedules and financial statements, and supplemental financial schedules. This report also contains our independent auditor's reports 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 and our schedule of findings and questioned costs. In addition, this report contains DMB's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our finding and recommendation are contained in Section III of the schedule of findings and questioned costs. The agency preliminary response is contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

February 21, 2003

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

We have audited the financial schedules of the Department of Management and Budget for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. 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.

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 financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Management and Budget's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, 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.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Management and Budget for the fiscal years ended September 30, 2002 and September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2003 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 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, as identified in the table of contents, 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.

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

February 21, 2003

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

We have audited the financial statements of the Advance Financing Funds, Department of Management and Budget, as of and for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Advance Financing Funds administered by the Department of Management and Budget and do not purport to, and do not, present fairly the financial position of the State of Michigan or its capital projects funds as of September 30, 2002 and September 30, 2001 and the changes in financial position thereof the fiscal years ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Advance Financing Funds as of

September 30, 2002 and September 30, 2001 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2003 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 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, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the Department's financial statements taken as a whole.

AUDITOR GENERAL

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Transfers
Fiscal Years Ended September 30
(In Thousands)

	2002	2001
REVENUES (Note 4)		
Taxes	\$ 5,936	\$
From federal agencies	2,500	4,056
From local agencies	165	163
From services	5,427	4,391
From licenses and permits	4,100	
Miscellaneous	40,359	47,516
Total Revenues	\$ 58,488	\$ 56,125
 TRANSFERS (Note 4)		
Transfers from other funds	\$ 722,161	\$ 310,395
Total Transfers	\$ 722,161	\$ 310,395
Total Revenues and Transfers	\$ 780,649	\$ 366,521

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

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

	<u>2002</u>	<u>2001</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 2,307,807	\$ 2,107,056
Budgetary adjustments	3,498	1,517
Balances carried forward	223,789	471,529
Restricted financing sources	140,989	116,333
Less: Intrafund expenditure reimbursements	<u>(102,956)</u>	<u>(76,787)</u>
Total	<u><u>\$ 2,573,127</u></u>	<u><u>\$ 2,619,648</u></u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 2,563,779	\$ 2,458,459
Less: Intrafund expenditure reimbursements	<u>(102,956)</u>	<u>(76,787)</u>
Net expenditures and transfers out	<u>\$ 2,460,823</u>	<u>\$ 2,381,672</u>
Balances carried forward:		
Multi-year projects	31,807	146,083
Encumbrances	17,135	37,858
Restricted revenues - not authorized	45,640	39,717
Balances lapsed	<u>17,722</u>	<u>14,319</u>
Total	<u><u>\$ 2,573,127</u></u>	<u><u>\$ 2,619,648</u></u>

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

ADVANCE FINANCING FUNDS
Department of Management and Budget
Balance Sheet
As of September 30
(In Thousands)

	<u>2002</u>	<u>2001</u>
ASSETS		
Current Assets		
Amounts due from other funds	\$ 142,834	\$ 125,832
Amounts due from component units	34,529	14,381
Amounts due from federal agencies	283	2,353
Amounts due from local units	15,090	11,957
Other current assets	476	6,602
Total Current Assets	<u>\$ 193,212</u>	<u>\$ 161,126</u>
 Total Assets	 <u>\$ 193,212</u>	 <u>\$ 161,126</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants outstanding	\$ 421	\$ 4,252
Accounts payable and other liabilities	179,337	158,636
Amounts due to other funds	73,672	173,697
Total Liabilities	<u>\$ 253,430</u>	<u>\$ 336,585</u>
 Fund Balance		
Unreserved	\$ (60,218)	\$ (175,460)
 Total Fund Balance	 <u>\$ (60,218)</u>	 <u>\$ (175,460)</u>
 Total Liabilities and Fund Balance	 <u>\$ 193,212</u>	 <u>\$ 161,126</u>

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

ADVANCE FINANCING FUNDS
Department of Management and Budget
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Year Ended September 30
(In Thousands)

	<u>2002</u>	<u>2001</u>
REVENUES		
From federal agencies	\$ 550	\$ 5,763
Miscellaneous		1,357
Total Revenues	<u>\$ 550</u>	<u>\$ 7,120</u>
EXPENDITURES		
Current:		
General Government	\$ 1,472	\$ 6,404
Education	7,804	9,428
Capital Outlay	38,004	110,692
Total Expenditures	<u>\$ 47,280</u>	<u>\$ 126,524</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (46,730)</u>	<u>\$ (119,404)</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	\$ 161,971	\$ 18,224
Transfers to other funds		(15,198)
Total Other Financing Sources (Uses)	<u>\$ 161,971</u>	<u>\$ 3,026</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 115,242	\$ (116,378)
Fund Balance - Beginning of fiscal year	<u>(175,460)</u>	<u>(59,082)</u>
Fund Balance - End of fiscal year	<u><u>\$ (60,218)</u></u>	<u><u>\$ (175,460)</u></u>

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

Notes to the Financial Schedules and Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the governmental operations of the Department of Management and Budget (DMB) for the fiscal years ended September 30, 2002 and September 30, 2001. The government operations of DMB 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 financial schedules include the General Fund financial activities of DMB. The financial schedules do not include the financial activities of the Advance Financing Funds (AFF), which are reflected in the accompanying financial statements. Also, the financial schedules do not include several other financial activities that are accounted for in various special revenue, capital projects, internal service, and trust funds and component units of the State that are audited separately or do not contain any federal assistance administered by DMB. Those funds include the State Building Authority (SBA), Motor Transport Fund, Office Services Revolving Fund, Information Technology Fund, Risk Management Fund, State Sponsored Group Insurance Fund, the retirement funds administered by the Office of Retirement Services, and the Michigan Strategic Fund.

The accompanying financial statements report the financial position and results of operations of DMB's AFF for the fiscal years ended September 30, 2002 and September 30, 2001. AFF is a part of the State of Michigan's reporting entity and is reported as a capital projects fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DMB and AFF. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; Compensated Absences; Leases; and Contingencies and Commitments.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules and financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules include only the revenues and transfers and the sources and disposition of authorizations for DMB's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DMB or the State's General Fund in accordance with generally accepted accounting principles.

The accompanying financial statements present only AFF. Accordingly, they do not purport to, and do not, present fairly the position and changes in financial position of the State of Michigan or its capital projects funds in accordance with generally accepted accounting principles. AFF reflects the activities of two subfunds: the State Building Authority Advance Financing Fund (SBAAFF) and the Site Preparation Economic Development Fund (SPEDF).

SBAAFF was established to account for expenditures incurred for buildings for State projects and higher education and for equipment prior to the issuance of SBA bonds. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to SBA projects are recorded in SBAAFF. At fiscal year-end, any deficit in SBAAFF's portion of the Common Cash pool is reclassified as an interfund liability to the General Fund.

SBA is not legally obligated for these projects until it sells bonds or commercial paper to finance the projects. Therefore, SBA records no

liability for the project costs and SBAAFF records no receivable for the unreimbursed project costs. This results in SBAAFF showing a fiscal year-end fund balance deficit. SBA will reimburse SBAAFF by recording a transfer and the deficit attributable to the bonded projects will be eliminated when SBA issues its bonds or obtains commercial paper.

SPEDF was created to account for expenditures incurred to prepare and sell State-owned sites declared as surplus that would provide economic benefit to the area or the State. Expenditures are recorded when incurred. Proceeds of the sale of fund properties will be deposited into SPEDF.

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 revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - 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 revenues - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted 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 revenues - authorized or restricted revenues - 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. A significant intrafund expenditure reimbursement was from the rental of State buildings.

- 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. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, DMB had not received legislative authorization to expend the revenues. Significant carry-forwards of this type were amounts for employee severance pay and amounts collected to operate the State's accounting system.
- 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.

Operating grants to State colleges and universities are included as part of DMB in the schedule of sources and disposition of General Fund authorizations. Appropriations and expenditures totaled \$2.00 billion and \$1.97 billion for fiscal years 2001-02 and 2000-01, respectively.

Note 3 Expenditure Credits

Expenditures recorded in AFF for the construction of buildings are substantially offset by expenditure credits. These expenditure credits were reimbursements of construction costs by colleges, universities, and SBA that were recorded in the same fiscal year as the related expenditures. Reimbursements not recorded in the same fiscal year are recorded as transfers (revenues). Recording expenditure credits is necessary to avoid overstating expenditures within the *SOMCAFR* because many of the reimbursing entities are included in

the State's reporting entity. The following table summarizes the amounts for the fiscal years ended September 30 (in thousands):

	<u>2002</u>	<u>2001</u>
Total expenditures	\$ 462,326	\$ 495,364
Expenditure credits	<u>(415,047)</u>	<u>(368,840)</u>
Net Expenditures	<u>\$ 47,280</u>	<u>\$ 126,524</u>

Note 4 Schedule of General Fund Revenues and Transfers

Federal revenue reported on the schedule of General Fund revenues and transfers consisted mainly of federal reimbursements for capital outlay projects. Revenue from taxes consisted of transfers of tax revenue from the Healthy Michigan Fund and the Michigan Health Initiative Fund required by Executive Order No. 2001-9. Services revenue consisted of revenue for interagency billings for costs of special maintenance projects completed by DMB staff. Licenses and permits revenue consisted of transfers of license fee revenue required by Executive Order No. 2001-9. Miscellaneous revenue consisted mainly of revenue for interagency billings for building occupancy costs and other central services provided by DMB. Miscellaneous revenue also included revenue for employee and visitor parking, private tenant rent, and recycling.

Transfers from other funds reported on the schedule of General Fund revenues and transfers were primarily transfers made from the Counter-Cyclical Budget and Economic Stabilization Fund. The Counter-Cyclical Budget and Economic Stabilization Fund was created by Act 76, P.A. 1977, to assist in stabilizing revenues and employment during periods of economic recession. In general, the law requires payments into the Fund when the annual growth rate exceeds 2% and allows withdrawals from the Fund when the annual growth rate is less than 0%. Funds can also be withdrawn when the State's unemployment rate is 8% or more, upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature. In fiscal years 2001-02 and 2000-01, the State recorded transfers from the Fund to the General Fund totaling \$452.8 million and \$270.0 million, respectively, to ensure a balanced General Fund budget. These transfers were made in accordance with statutes that authorized the transfers.

The transfers from other funds also included transfers from the Michigan Merit Award Trust Fund. This Fund was created by Act 94, P.A. 1999, to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. In fiscal year 2001-02, the State recorded transfers from the Fund to the General Fund totaling \$131.5 million. These transfers were made in accordance with Act 120, P.A. 2001, and Executive Order No. 2001-9.

Note 5 Correction

The DMB Office of Financial Management gave DMB Financial Services approval to correct the schedule of sources and dispositions of General Fund authorizations for the fiscal year ended September 30, 2001. The correcting entry resulted in increases to fiscal year 2000-01 balances carried forward and multi-year projects of \$7,610,847. The entry was needed to properly account for the collection of restricted revenues from prior years that provided for additional capital outlay authorizations during fiscal year 2000-01.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Transfers by Appropriation Unit
Fiscal Year Ended September 30, 2002
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES						
Taxes	\$	\$	\$ 5,936	\$	\$	\$ 5,936
From federal agencies	65	2,435				2,500
From local agencies		165				165
From services	5,427					5,427
From licenses and permits			4,100			4,100
Miscellaneous	26,954	12,104	1,100	201		40,359
Total Revenues	<u>\$ 32,446</u>	<u>\$ 14,704</u>	<u>\$ 11,136</u>	<u>\$ 201</u>	<u>\$ 0</u>	<u>\$ 58,488</u>
TRANSFERS						
Transfers from other funds	\$ 4,309	\$	\$ 717,852	\$	\$	\$ 722,161
Total Transfers	<u>\$ 4,309</u>	<u>\$ 0</u>	<u>\$ 717,852</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 722,161</u>
Total Revenues and Transfers	<u><u>\$ 36,755</u></u>	<u><u>\$ 14,704</u></u>	<u><u>\$ 728,988</u></u>	<u><u>\$ 201</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 780,649</u></u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Transfers by Appropriation Unit
Fiscal Year Ended September 30, 2001
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES						
Taxes	\$	\$	\$	\$	\$	\$ 0
From federal agencies	97	3,959				4,056
From local agencies		163				163
From services	4,391					4,391
From licenses and permits						0
Miscellaneous	20,417	27,099				47,516
Total Revenues	<u>\$ 24,905</u>	<u>\$ 31,220</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 56,125</u>
TRANSFERS						
Transfers from other funds	\$ 4,156	\$ 15,198	\$ 291,042	\$	\$	\$ 310,395
Total Transfers	<u>\$ 4,156</u>	<u>\$ 15,198</u>	<u>\$ 291,042</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 310,395</u>
Total Revenues and Transfers	<u>\$ 29,061</u>	<u>\$ 46,418</u>	<u>\$ 291,042</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 366,521</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2002
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
SOURCES OF AUTHORIZATIONS						
General purpose appropriations	\$ 43,868	\$ 259,053	\$	\$ 2,004,885	\$ 1	\$ 2,307,807
Budgetary adjustments		3,498				3,498
Balances carried forward	51,305	172,478			6	223,789
Restricted financing sources	129,570	11,420				140,989
Less: Intrafund expenditure reimbursements	(102,956)					(102,956)
Total	<u>\$ 121,786</u>	<u>\$ 446,449</u>	<u>\$ 0</u>	<u>\$ 2,004,885</u>	<u>\$ 7</u>	<u>\$ 2,573,127</u>
DISPOSITION OF AUTHORIZATIONS						
Gross expenditures and transfers out	\$ 191,017	\$ 367,877	\$	\$ 2,004,884	\$ 1	\$ 2,563,779
Less: Intrafund expenditure reimbursements	(102,956)					(102,956)
Net expenditures and transfers out	<u>\$ 88,060</u>	<u>\$ 367,877</u>	<u>\$ 0</u>	<u>\$ 2,004,884</u>	<u>\$ 1</u>	<u>\$ 2,460,823</u>
Balances carried forward:						
Multi-year projects	31	31,770			6	31,807
Encumbrances	3,508	13,627				17,135
Restricted revenues - not authorized	27,576	18,063				45,640
Balances lapsed	2,610	15,112				17,722
Total	<u>\$ 121,786</u>	<u>\$ 446,449</u>	<u>\$ 0</u>	<u>\$ 2,004,885</u>	<u>\$ 7</u>	<u>\$ 2,573,127</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2001
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
SOURCES OF AUTHORIZATIONS						
General purpose appropriations	\$ 56,026	\$ 75,968	\$	\$ 1,975,061	\$ 2	\$ 2,107,056
Budgetary adjustments		1,517				1,517
Balances carried forward	62,252	408,918			359	471,529
Restricted financing sources	103,981	12,352				116,332
Less: Intrafund expenditure reimbursements	(76,787)					(76,787)
Total	<u>\$ 145,472</u>	<u>\$ 498,755</u>	<u>\$ 0</u>	<u>\$ 1,975,061</u>	<u>\$ 361</u>	<u>\$ 2,619,648</u>
DISPOSITION OF AUTHORIZATIONS						
Gross expenditures and transfers out	\$ 169,971	\$ 313,170	\$	\$ 1,974,964	\$ 354	\$ 2,458,459
Less: Intrafund expenditure reimbursements	(76,787)					(76,787)
Net expenditures and transfers out	<u>\$ 93,184</u>	<u>\$ 313,170</u>	<u>\$ 0</u>	<u>\$ 1,974,964</u>	<u>\$ 354</u>	<u>\$ 2,381,672</u>
Balances carried forward:						
Multi-year projects	14,910	131,166			6	146,083
Encumbrances	10,738	27,120				37,858
Restricted revenues - not authorized	25,657	14,060				39,717
Balances lapsed	983	13,239		96		14,319
Total	<u>\$ 145,472</u>	<u>\$ 498,755</u>	<u>\$ 0</u>	<u>\$ 1,975,061</u>	<u>\$ 361</u>	<u>\$ 2,619,648</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2000 through September 30, 2002

Federal Agency/Program	CFDA (2) Program Number	For the Fiscal Year Ended September 30, 2001			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
<u>U.S. Department of Justice</u>					
Pass-Through Program:					
Michigan Department of Corrections					
Violent Offender Incarceration and Truth In Sentencing Incentive Grants					
	16.586	96-CV-VX-0026	\$ 5,926,098	\$	\$ 5,926,098
Total U.S. Department of Justice			\$ 5,926,098	\$ 0	\$ 5,926,098
<u>U.S. Department of Education</u>					
Pass-Through Program:					
Michigan Department of Education					
Rehabilitation Services: Vocational Rehabilitation Grants to States					
	84.126	H126A000031	\$ 4,710	\$	\$ 4,710
Total U.S. Department of Education			\$ 4,710	\$ 0	\$ 4,710
<u>National Archives and Records Administration</u>					
Direct Program:					
National Historical Publications and Records Grant					
	89.003		\$ 97,359	\$	\$ 97,359
Total National Archives and Records Administration			\$ 97,359	\$ 0	\$ 97,359
Total Financial Assistance			6,028,167	\$ 0	6,028,167
<u>Nonfinancial Assistance</u>					
<u>General Services Administration</u>					
Direct Program:					
Donation of Federal Surplus Personal Property (3)					
	39.003		\$ 5,748,721	\$	\$ 5,748,721
Total General Services Administration			\$ 5,748,721	\$ 0	\$ 5,748,721
Total Nonfinancial Assistance			\$ 5,748,721	\$ 0	\$ 5,748,721
Total Expenditures of Federal Awards			\$ 11,776,888	\$ 0	\$ 11,776,888

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Management and Budget (DMB) 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 and financial statements.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) For Donation of Federal Surplus Personal Property, the directly expended amount is the acquisition value of the property donated (sold) during the fiscal year. These values do not include service charges that are the basis for the sale price of inventory items.

For the Fiscal Year Ended September 30, 2002				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
96-CV-VX-0026	\$ 533,594	\$	\$ 533,594	\$ 6,459,692
	<u>\$ 533,594</u>	<u>\$ 0</u>	<u>\$ 533,594</u>	<u>\$ 6,459,692</u>
	\$	\$	\$	\$ 4,710
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,710</u>
	\$ 65,041	\$	\$ 65,041	\$ 162,400
	<u>\$ 65,041</u>	<u>\$ 0</u>	<u>\$ 65,041</u>	<u>\$ 162,400</u>
	\$ 598,635	\$ 0	\$ 598,635	\$ 6,626,802
	\$ 3,230,027	\$	\$ 3,230,027	\$ 8,978,748
	<u>\$ 3,230,027</u>	<u>\$ 0</u>	<u>\$ 3,230,027</u>	<u>\$ 8,978,748</u>
	\$ 3,230,027	\$ 0	\$ 3,230,027	\$ 8,978,748
	<u>\$ 3,828,662</u>	<u>\$ 0</u>	<u>\$ 3,828,662</u>	<u>\$ 15,605,550</u>



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

February 21, 2003

Mr. Mitch Irwin, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

We have audited the General Fund financial schedules and the Advance Financing Funds financial statements of the Department of Management and Budget as of and for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents, and have issued our reports thereon dated February 21, 2003. 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 and financial statements 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 and financial statement 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 financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 and 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. We noted no matters involving 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



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THOMAS H. MCTAVISH, C.P.A.
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

February 21, 2003

Mr. Mitch Irwin , Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Irwin:

Compliance

We have audited the compliance of the Department of Management and Budget 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 two-year period ended September 30, 2002. 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 its 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 Management and Budget complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to its major federal program for the two-year period ended September 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 1.

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 internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

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 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. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition identified in the previous paragraph is a material weakness.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Schedules and Financial Statements

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 and financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
A reportable condition identified that is not considered to be a material weakness?	Yes
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)?	Yes

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
39.003	Donation of Federal Surplus Personal Property

Dollar threshold used to distinguish between type A and type B programs: \$468,167

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules and Financial Statements

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

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (070301)

1. Federal Surplus Property Program

General Services Administration	CFDA: 39.003 Donation of Federal Surplus Personal Property
Award Number: Not applicable	Award Period: Not applicable
	Questioned Costs: \$0

DMB did not ensure that nonprofit organizations that purchase federal surplus property submitted required documentation of their nonprofit status.

Under the federal surplus property program, public agencies and qualified nonprofit organizations may purchase federal surplus property. Title 41, Part 102-37,

* See glossary at end of report for definition.

section 390 of the *Code of Federal Regulations* provides that a nonprofit organization purchasing surplus property must demonstrate that it meets licensing requirements for its program and prove that it is tax exempt under Section 501 of the *Internal Revenue Code*. DMB procedures require nonprofit organizations to submit documentation of their nonprofit status, such as a copy of their nonprofit organization license and a copy of their tax-exempt certificate issued by the Internal Revenue Service.

Our review of case records for a sample of 33 nonprofit organizations which purchased surplus property in fiscal years 2000-01 and 2001-02 noted that 14 organizations had not submitted a copy of their current State license. In addition, one of these organizations also had not submitted a copy of its tax-exempt certificate. These 14 organizations purchased federal surplus property with service cost charges totaling \$26,492 during the two years reviewed.

In response to our noted exceptions, DMB subsequently obtained copies of the State licenses for 11 nonprofit organizations.

RECOMMENDATION

We recommend that DMB ensure that nonprofit organizations that purchase federal surplus property submit required documentation of their nonprofit status.

OTHER SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET
Summary Schedule of Prior Audit Findings
As of September 30, 2002

There were no findings in the prior Department of Management and Budget Single Audit.

DEPARTMENT OF MANAGEMENT AND BUDGET

Corrective Action Plan

As of February 21, 2003

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

There were no findings related to the financial schedules and financial statements for fiscal years 2000-01 and 2001-02.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 070301

Finding Title: Federal Surplus Property Program

Management Views: We agree with this finding and recommendation and have complied.

Corrective Action: We have obtained the missing documents and will obtain all required documents prior to sales to nonprofit organizations in the future.

Anticipated Completion Date: Completed

Responsible Individual: Cynthia Johnson, Financial Services

Glossary of Acronyms and Terms

AFF	Advance Financing Funds.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
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 management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and 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 financial statement amounts.

material weakness A reportable condition related to the design or operation of internal control that 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 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.

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 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 Department'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.

SBA State Building Authority.

SBAFF State Building Authority Advance Financing Fund.

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 <i>Government Auditing Standards</i> 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	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SPEDF	Site Preparation Economic Development Fund.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did

not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.