



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Report Number:
 19-105-05

Department of Civil Service

October 1, 2002 through September 30, 2004

Released:
 May 2006

A financial audit determines if the financial schedules are fairly presented, considers internal control over financial reporting, and determines compliance with State compliance requirements material to the financial schedules. This financial audit of the Department of Civil Service (DCS) was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on DCS's financial schedules.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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**Noncompliance and Other Matters
 Material to the Financial Schedules**

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

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Systems of Accounting and Internal Control:

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

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Background:

DCS was established by the Executive Organization Act of 1965. DCS is under the jurisdiction of the Civil Service Commission. The Commission is composed of four nonsalaried members, not more than two of whom should 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 Commission appoints a State Personnel Director to oversee DCS and to carry out the Commission's rules.

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<http://audgen.michigan.gov>



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

May 3, 2006

Ms. Susan Grimes Munsell, Chair
Civil Service Commission
and
Mr. James D. Farrell, State Personnel Director
Department of Civil Service
Capitol Commons Center
Lansing, Michigan

Dear Ms. Munsell and Mr. Farrell:

This is our report on the financial audit of the Department of Civil Service (DCS) for the period October 1, 2002 through September 30, 2004.

This report contains our report summary, our independent auditor's report on the financial schedules, DCS's financial schedules and notes to the financial schedules, and our independent auditor's report on internal control over financial reporting and on compliance and other matters. This report also contains a glossary of acronyms and terms.

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

AUDITOR GENERAL

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DEPARTMENT OF CIVIL SERVICE

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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

Ms. Susan Grimes Munsell, Chair
Civil Service Commission
and
Mr. James D. Farrell, State Personnel Director
Department of Civil Service
Capitol Commons Center
Lansing, Michigan

Dear Ms. Munsell and Mr. Farrell:

We have audited the accompanying financial schedules of the Department of Civil Service for the fiscal years ended September 30, 2004 and September 30, 2003, 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 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Civil Service'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 conformity 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 other financing sources and the sources and disposition of authorizations of the Department of Civil Service for the fiscal years ended September 30, 2004 and September 30, 2003 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2005 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

AUDITOR GENERAL

October 10, 2005

DEPARTMENT OF CIVIL SERVICE
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	<u>2004</u>	<u>2003</u>
REVENUES (Note 2)		
Taxes	\$ 520,112	\$ 629,989
From federal agencies		185,967
From local agencies	2,116	229,881
From services	208,341	234,243
From licenses and permits	1,003,565	1,177,595
Miscellaneous:		
State Sponsored Group Insurance Fund (Note 3)	5,487,323	6,041,516
Other	408,105	878,536
Total Revenues	<u>\$ 7,629,562</u>	<u>\$ 9,377,727</u>
OTHER FINANCING SOURCES (Note 2)		
Transfers from other funds	<u>4,594,844</u>	<u>4,779,918</u>
Total Revenues and Other Financing Sources	<u><u>\$ 12,224,406</u></u>	<u><u>\$ 14,157,645</u></u>

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

	<u>2004</u>	<u>2003</u>
SOURCES OF AUTHORIZATIONS (Note 4)		
General purpose appropriations	\$ 7,832,537	\$ 9,285,700
Budgetary transfers in (out)		191,800
Balances carried forward	1,448,769	1,957,562
Restricted financing sources	16,622,545	18,915,428
Less: Intrafund expenditure reimbursements	<u>(3,813,480)</u>	<u>(4,763,255)</u>
Total	<u>\$ 22,090,371</u>	<u>\$ 25,587,235</u>
 DISPOSITION OF AUTHORIZATIONS (Note 4)		
Gross expenditures and transfers out	\$ 24,223,216	\$ 28,566,027
Less: Intrafund expenditure reimbursements	<u>(3,813,480)</u>	<u>(4,763,255)</u>
Net expenditures and transfers out	<u>\$ 20,409,736</u>	<u>\$ 23,802,772</u>
Balances carried forward:		
Encumbrances	<u>\$ 286,127</u>	<u>\$ 1,448,769</u>
Total balances carried forward	<u>\$ 286,127</u>	<u>\$ 1,448,769</u>
Balances Lapsed	<u>\$ 1,394,508</u>	<u>\$ 335,694</u>
 Total	<u>\$ 22,090,371</u>	<u>\$ 25,587,235</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 (DCS) for the fiscal years ended September 30, 2004 and September 30, 2003. The financial transactions of DCS 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 DCS. The *SOMCAFR* provides more extensive general disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

DCS was established by the Executive Organization Act of 1965. DCS is under the jurisdiction of the Civil Service Commission. The Commission is composed of four nonsalaried members, not more than two of whom should 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 Commission appoints a State Personnel Director to oversee DCS and to carry out the Commission's rules. The Office of the State Personnel Director provides executive direction for DCS through a senior chief deputy director and a senior deputy director.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules 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 present only the revenues and other financing sources and the sources and disposition of authorizations for DCS's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DCS or the State's General Fund in conformity with generally accepted accounting principles.

Note 2 Revenues and Other Financing Sources Classification

Revenues and other financing sources consist of charges for the 1% civil service assessment and for miscellaneous services provided. DCS bills State departments and agencies for 1% of the total aggregate payroll paid from restricted funds for financing the operations of DCS as authorized by Article XI, Section 5 of the State Constitution. These 1% assessment revenues are classified based on the original funding sources (taxes, federal agencies, local agencies, services, licenses and permits, and miscellaneous) of the paying department or agency. One percent assessments paid by departments or agencies that are not included in the State's General Fund are classified as transfers from other funds.

The major sources of miscellaneous revenue include charges for administering the Employee Benefit Program and for processing transactions through the Human Resources Management Network (HRMN).

Note 3 Miscellaneous Revenue - State Sponsored Group Insurance Fund (SSGIF)

During fiscal years 2003-04 and 2002-03, DCS received revenues from SSGIF to pay the costs of processing employee benefit related transactions through HRMN and for administering the Employee Benefit Program, which was transferred to DCS by Executive Order No. 2002-13. The Employee Benefit Program includes health screening; group insurance plans for medical, dental, vision, disability, life, and long-term care benefits; pre-tax benefit programs; and other insurance continuation programs. Prior to fiscal year 2002-03, DCS received SSGIF revenues only to reimburse the costs of processing

transactions through HRMN. DCS received the following amounts from SSGIF during fiscal years 2003-04 and 2002-03:

	Fiscal Year	
	2003-04	2002-03
SSGIF revenues - HRMN	\$ 2,650,000	\$ 2,650,000
SSGIF revenues - Employee Benefit Program	2,837,323	3,391,516
	\$ 5,487,323	\$ 6,041,516

Note 4 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. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. 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.
- d. 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.

- e. 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. DCS receives intrafund expenditure reimbursements from other General Fund departments or agencies as payment of the 1% civil service assessment.
- 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.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



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

Ms. Susan Grimes Munsell, Chair
Civil Service Commission
and
Mr. James D. Farrell, State Personnel Director
Department of Civil Service
Capitol Commons Center
Lansing, Michigan

Dear Ms. Munsell and Mr. Farrell:

We have audited the financial schedules of the Department of Civil Service as of and for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents, and have issued our report thereon dated October 10, 2005. 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.

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 an opinion 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 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

October 10, 2005

GLOSSARY

Glossary of Acronyms and Terms

DCS	Department of Civil Service.
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.
HRMN	Human Resources Management Network.
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.
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 changes in financial position or cash flows in conformity with the disclosed basis of accounting.
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 misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
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 initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.

SOMCAFR *State of Michigan Comprehensive Annual Financial Report.*

SSGIF State Sponsored Group Insurance Fund.

unqualified opinion An auditor's opinion in which the auditor states that 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.

