



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

Program-Specific Audit

In Accordance With the Single Audit Act Amendments of 1996

*Donation of Federal Surplus Personal
 Property Program*

Department of Management and Budget

October 1, 2004 through September 30, 2006

Report Number:
 071-0100-07

Released:
 May 2007

A program-specific audit is an audit of an individual federal program that is designed to meet the needs of an entity's federal grantor agency. The audit determines if the schedule of expenditures of federal awards is fairly presented, considers internal control over the federal program compliance, and assesses compliance with direct and material requirements of the federal program. An auditee may elect to have a program-specific audit in lieu of a Single Audit when the auditee expends federal awards under only one federal program and the federal program's laws, regulations, or grant agreements do not require a financial statement audit of the auditee.

Financial Schedule:

Auditor's Report Issued

We issued an unqualified opinion on the Department of Management and Budget's schedule of expenditures of federal awards.

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Federal Award:

Auditor's Report Issued on Compliance

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

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Internal Control Over Federal Program

We identified reportable conditions related to internal control over the federal program (Findings 1 and 2). We do not consider these reportable conditions to be material weaknesses.

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 1 and 2).

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We audited the following federal program:

<u><i>CFDA Number</i></u>	<u><i>Program Title</i></u>	<u><i>Compliance Opinion</i></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: <http://audgen.michigan.gov>



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THOMAS H. MCTAVISH, C.P.A.
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May 18, 2007

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Ms. Webb Sharpe:

This is our report on the program-specific audit, in accordance with the Single Audit Act Amendments of 1996, of the Donation of Federal Surplus Personal Property Program, Department of Management and Budget (DMB), for the period October 1, 2004 through September 30, 2006.

This report contains our report summary, our independent auditor's report on the schedule of expenditures of federal awards, and DMB's schedule of expenditures of federal awards. This report also contains our independent auditor's report on compliance with requirements applicable to the Donation of Federal Surplus Personal Property 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 findings and recommendations are contained in Section III of the schedule of findings and questioned costs. The agency preliminary responses are 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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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULE



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

Independent Auditor's Report on
the Schedule of Expenditures of Federal Awards

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Ms. Webb Sharpe:

We have audited the accompanying schedule of expenditures of federal awards for the Donation of Federal Surplus Personal Property (Federal Surplus) Program of the Department of Management and Budget for the period October 1, 2004 through September 30, 2006. This financial schedule is the responsibility of the Department's management. Our responsibility is to express an opinion on this financial schedule based on our audit of the Federal Surplus Program.

We conducted our audit 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 U.S. Office of Management and Budget (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 the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. 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 schedule presents only the federal grant activity of the Department on the accrual basis of accounting and in accordance with the requirements of OMB Circular A-133. Accordingly, this financial schedule does not purport to, and does not, constitute a complete financial presentation of the Department; its General Fund accounts; its special revenue, capital projects, internal service, and

trust funds; or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the expenditures of federal awards under the Federal Surplus Program of the Department of Management and Budget for the period October 1, 2004 through September 30, 2006 on the basis of accounting described in Note (1).

AUDITOR GENERAL

March 13, 2007

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006

<u>Federal Agency/Program</u>	<i>CFDA</i> * Program Number	Nonfinancial Assistance Distributed to Subrecipients For the Fiscal Year Ended		Total Nonfinancial Assistance Distributed for the Two-Year Period
		September 30		
		2005	2006	
<u>General Services Administration</u>				
Direct Program:				
Donation of Federal Surplus Personal Property (2)	39.003	\$ 1,762,868	\$ 2,338,838	\$ 4,101,706
Total General Services Administration		<u>\$ 1,762,868</u>	<u>\$ 2,338,838</u>	<u>\$ 4,101,706</u>
Total Expenditures of Federal Awards		<u>\$ 1,762,868</u>	<u>\$ 2,338,838</u>	<u>\$ 4,101,706</u>

Significant Accounting Policies:

- (1) Basis of Presentation: This schedule presents only the federal grant activity of the Department of Management and Budget on the accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- (2) Valuation: For the Donation of Federal Surplus Personal Property Program, the directly expended amount is the fair market value of property donated (sold) during the fiscal year. In accordance with General Services Administration guidelines, the fair market value is 23.3% of the original acquisition cost of the property. Revenue is not recognized when property is received and expenditures are not recognized when property is donated because it is a noncash financial transaction. The donee does not pay for the property but does pay a small service charge to cover the operating costs of the program. The service charges were \$302,741 and \$202,700 for fiscal years 2004-05 and 2005-06, respectively, and were recorded in the State's Office Services Revolving Fund.

* *CFDA* is defined as *Catalog of Federal Domestic Assistance*.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND INTERNAL CONTROL



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AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Requirements Applicable to the
Donation of Federal Surplus Personal Property Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Ms. Webb Sharpe:

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 the Donation of Federal Surplus Personal Property (Federal Surplus) Program for the two-year period ended September 30, 2006. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Federal Surplus 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 the Federal Surplus 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 first paragraph that are applicable to the Federal Surplus Program for the two-year period ended September 30, 2006. However, the

results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

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 the Federal Surplus Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer the Federal Surplus Program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to the 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 the internal control over compliance would not necessarily disclose all matters in the 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 believe that neither of the reportable conditions 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, and the federal awarding agency 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

March 13, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedule

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	Not applicable
Reportable conditions* identified that are not considered to be material weaknesses?	Not applicable
Noncompliance or other matters material to the financial schedule?	Not applicable

Federal Award

Internal control over federal program:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for the federal program:	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

Identification of federal program:

<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: \$300,000

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedule

Not applicable.

Section III: Findings and Questioned Costs* Related to Federal Award

FINDING (0710701)

1. Utilization Reviews

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

The Department of Management and Budget's (DMB's) internal control did not ensure that the Donation of Federal Surplus Personal Property (Federal Surplus) Program complied with federal laws and regulations regarding special tests and provisions. Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions for the Federal Surplus Program.

Title 41, Chapter 102-37, section 480 and Appendix B of the *Code of Federal Regulations (CFR)* state that State Agencies for Surplus Property (SASPs) must conduct utilization reviews on any passenger motor vehicle or any property that has a unit acquisition cost of \$5,000 or more to ensure donee* compliance with the terms, conditions, reservations, and restrictions of the Warehouse Application and Delivery Agreement*. Also, a 1995 General Services Administration memorandum reemphasized federal requirements for the utilization of donated property and SASP responsibilities to ensure compliance with federal regulations, including annual utilization surveys on all aircraft and on vessels 50 feet or more in length.

We judgmentally sampled 24 items with an acquisition cost of \$5,000 or more from the property that DMB passed through to donees during fiscal years 2004-05 and 2005-06. In addition, we reviewed DMB's entire population of 11 aircraft and 2 vessels held by donees. We determined that DMB used utilization surveys as its

* See glossary at end of report for definition.

review process to ensure donee compliance. Our review of DMB's utilization surveys sent during our audit period noted:

- a. DMB did not have a procedure to ensure that utilization surveys were returned within a designated time period or were followed up if not returned. Four (17%) of 24 surveys sent to donees were not returned for 8 to 10 months. In addition, 1 (4%) survey had not been returned as of the end of our audit fieldwork, 10 months after the initial survey request was sent.
- b. DMB had not conducted the annual utilization surveys for one or both fiscal years of our audit period for 3 (27%) of the 11 aircraft and 1 (50%) of the 2 vessels held by donees.

RECOMMENDATION

We recommend that DMB improve its internal control to ensure that the Federal Surplus Program complies with federal laws and regulations regarding special tests and provisions.

FINDING (0710702)

2. **Subrecipient* Monitoring**

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

DMB's internal control did not ensure that the Federal Surplus Program complied with federal laws and regulations regarding subrecipient monitoring. As a result, DMB could not be assured that donated property was used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements. Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of donated property for the Federal Surplus Program.

OMB Circular A-133, Section 400(d)(2), requires that a pass-through entity advise subrecipients of requirements imposed on them by federal laws and regulations

* See glossary at end of report for definition.

and the provisions of contracts or grant agreements. Also, OMB Circular A-133, Section 400(d)(4), requires that a pass-through entity ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements. In addition, federal regulation 41 *CFR* 102-37.355 states that, if SASPs donate \$500,000 or more in federal property to a donee in a fiscal year, they must ensure that the donee has an audit performed in accordance with OMB Circular A-133. Federal regulation 41 *CFR* 102-37.355 further states that, if a donee receives less than \$500,000 in donated property, the SASP is responsible for making sure the donee is aware that the OMB Circular A-133 requirements exist.

DMB provided 3 donees with more than \$500,000 in donated property and 103 donees with less than \$500,000 in donated property during at least one fiscal year of audit period. Our review of these donees disclosed:

- a. DMB did not advise the 106 donees of the OMB Circular A-133 or *CFR* audit requirements.
- b. DMB did not ensure that the 3 donees who received more than \$500,000 in donated property during at least one fiscal year of our audit period had met the OMB Circular A-133 or *CFR* audit requirements.

RECOMMENDATION

We recommend that DMB improve its internal control to ensure that the Federal Surplus Program complies with federal laws and regulations regarding subrecipient monitoring.

The status of the findings related to federal awards that were reported in prior Single Audits* is disclosed in the summary schedule of prior audit findings.

* See glossary at end of report for definition.

OTHER SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET
Summary Schedule of Prior Audit Findings
As of March 13, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules in the prior Single Audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004

Finding Numbers: 070501 and 070301

Finding Title: Documentation of Nonprofit Status

Finding: The Department of Management and Budget's (DMB's) internal control did not ensure that nonprofit organizations receiving federal surplus property submitted required documentation of their nonprofit status.

Comments: DMB has corrected the noted deficiency.

DEPARTMENT OF MANAGEMENT AND BUDGET

Corrective Action Plan

As of April 30, 2007

FINDINGS RELATED TO THE FINANCIAL SCHEDULE

Not applicable.

FINDINGS RELATED TO FEDERAL AWARD

Finding Number: 0710701
Finding Title: Utilization Reviews

Management Views: We agree with this finding and will comply by August 31, 2007.

Corrective Action: We will revise procedures to comply with federal requirements by establishing a tracking tool to monitor due dates for utilization surveys and monitor survey responses. Management will perform quarterly reviews to ensure compliance.

Anticipated Completion Date: August 31, 2007

Responsible Individual: Joyce Van Coevering

Finding Number: 0710702
Finding Title: Subrecipient Monitoring

Management Views: We agree with this finding and will comply by August 31, 2007.

Corrective Action: We will revise procedures to comply with federal requirements by including the audit requirements in

the donee application packet, as well as providing notice to the donee of the donation value for Single Audit purposes. Management will perform annual reviews to ensure compliance.

Anticipated Completion Date: August 31, 2007

Responsible Individual: Joyce Van Coevering

GLOSSARY

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
DMB	Department of Management and Budget.
donee	A service educational activity; a public agency that uses federal surplus personal property to carry out or promote one or more public purposes; an eligible nonprofit, tax-exempt entity or public health institution; or a State or local government agency that receives federal personal property, through an SASP, that is no longer required for federal use.
Federal Surplus Program	Donation of Federal Surplus Personal Property Program.
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 or program-specific audit and it meets other criteria related to prior audit results. In accordance with State statute, this program-specific audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement	A misstatement in the financial schedule that causes the schedule to not present fairly the expenditures of federal awards 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 either misstatements caused by error or fraud in amounts that would be material in relation to the schedule of expenditures of federal awards or noncompliance with applicable requirements of laws, regulations, contracts, and grants that may be material in relation to the 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.
program-specific audit	An audit of an individual federal program, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of an entity's federal grantor agency. 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, the program-specific audit requires the assessment of compliance with requirements that could have a direct and material effect on the federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the

audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the schedule of expenditures of federal awards or (2) administer the federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the schedule of expenditures of federal awards may also be reported.

SASP

State Agency for Surplus Property.

Single Audit

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

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:

- a. The schedule of expenditures of federal awards is fairly presented in conformity with the disclosed basis of accounting; or
- b. The audited agency complied, in all material respects, with the cited requirements that are applicable to the federal program.

Warehouse
Application and
Delivery Agreement

An agreement between the SASP and the donee stating that the donated property was delivered to and accepted by the donee and that all terms, conditions, reservations, and restrictions included in the agreement are agreed upon.

