



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

Performance Audit

Report Number:
071-0137-12

Selected Internal Service Fund Activities

*Department of Technology, Management,
and Budget*

Released:
September 2012

The Department of Technology, Management, and Budget (DTMB) administers internal service funds that provide various services to both State and non-State agencies. Agencies are billed for goods and services based on rates established to cover actual costs.

Audit Objective:

To assess the effectiveness of DTMB's efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund.

Audit Conclusion:

We concluded that DTMB's efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund were effective. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness of DTMB's efforts to ensure that billings to its customers reflect the appropriate costs of those services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund.

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September 12, 2012

John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nixon:

This is our report on the performance audit of Selected Internal Service Fund Activities, Department of Technology, Management, and Budget (DTMB).

This report contains our report summary; description of selected internal service fund activities administered by DTMB; audit objectives, scope, and methodology and prior audit follow-up; comments; two exhibits, presented as supplemental information; and a glossary of acronyms and terms.

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

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General

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Description of Selected Internal Service Fund Activities Administered
by the Department of Technology, Management, and Budget

The Department of Technology, Management, and Budget administers five internal service funds*: Information Technology Fund, Motor Transport Fund, Office Services Revolving Fund, Risk Management Fund, and State Sponsored Group Insurance Fund. These funds provide various services to both State and non-State agencies. Agencies are billed for goods and services based on rates established to cover actual costs.

We did not review the Risk Management Fund and the State Sponsored Group Insurance Fund within the scope of this audit. Our audit included the following funds:

a. Information Technology Fund

The Information Technology Fund was created to provide telecommunication and information technology* (IT) services for State agencies. User agencies are billed for the cost of such services through either a manual IT invoice* process or an interface IT invoice* process. During fiscal year 2001-02, the use of the Fund was expanded to account for all IT activities of the executive branch as prescribed in Executive Order No. 2001-03.

The Fund had operating expenses of \$523.5 million, operating revenue of \$522.1 million, and net loss of \$1.4 million for fiscal year 2010-11 and net assets of \$61.4 million as of September 30, 2011.

b. Motor Transport Fund

The Motor Transport Fund was created by Act 260, P.A. 1947, and was continued by Act 431, P.A. 1984, as amended (Sections 18.1213 - 18.1215 of the *Michigan Compiled Laws*). The Fund was created to provide vehicle and travel services to State agencies. Services include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short-term usage. Agencies are charged for services rendered on a monthly basis.

* See glossary at end of report for definition.

The Fund had operating expenses of \$59.0 million, operating revenue of \$59.1 million, and net income of \$0.1 million for fiscal year 2010-11 and net assets of \$8.5 million as of September 30, 2011.

c. Office Services Revolving Fund

The Office Services Revolving Fund was created by Act 262, P.A. 1952, and was continued by Act 431, P.A. 1984, as amended (Section 18.1269 of the *Michigan Compiled Laws*). The Fund was created to provide printing, reproduction, microfilm, mailing, distribution of federal and State surplus property, and material management services. The cost of these services is charged to user departments and agencies. Resulting revenue is credited to the Fund and is used for administration and operation of the Fund programs.

The Fund had operating expenses of \$92.6 million, operating revenue of \$99.5 million, and net income of \$6.8 million for fiscal year 2010-11 and net assets of \$4.3 million as of September 30, 2011.

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

Audit Objectives

Our performance audit* of Selected Internal Service Fund Activities, Department of Technology, Management, and Budget (DTMB), had the following objectives:

1. To assess the effectiveness* of DTMB's efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund.
2. To assess the effectiveness of DTMB's efforts to ensure that billings to its customers reflect the appropriate costs* of those services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund.

Audit Scope

Our audit scope was to examine the program and other records of selected internal service funds administered by the Department of Technology, Management, and Budget. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. Our audit procedures, conducted from April through June 2012, generally covered the period October 1, 2009 through February 29, 2012.

Our audit report includes a summary of operating revenues by source prepared by DTMB and examples of user charges as presented in DTMB fiscal year 2011-12 service rate publications (Exhibits 1 and 2) that relate to our audit objectives. Our audit was not directed toward concluding on this supplemental information and, accordingly, we did not audit the supplemental information and make no conclusion on it.

* See glossary at end of report for definition.

Our audit scope did not include the Risk Management Fund and the State Sponsored Group Insurance Fund.

Audit Methodology

To establish our audit objectives and gain an understanding of DTMB's activities related to selected internal service funds, we conducted a preliminary review. This included interviewing DTMB staff and discussing their functions and responsibilities; examining applicable policies, procedures, and methodologies; reviewing billing processes; and examining applicable records.

To assess the effectiveness of DTMB's efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund, we evaluated DTMB's processes for setting billing rates. Also, we reviewed the balance sheets and operating statements required to be submitted to the U.S. Department of Health and Human Services by U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations*), to ensure that working capital reserves did not exceed more than 60 days of cash expenditures.

To assess the effectiveness of DTMB's efforts to ensure that billings to its customers reflected the appropriate costs of those services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund, we reviewed the services provided and the processes used by DTMB for billing its customers. Also, we selected a random sample of 71 of 409,159 billing transactions. In addition, we selected a judgmental sample of 10 of 754 Information Technology Fund manual billings. Our samples were selected to ensure that the billings tested provided a true representation of the entire population.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Prior Audit Follow-Up

We released our prior performance and financial related audit of Selected Internal Service Funds, Department of Management and Budget (07-137-01), in June 2002. Within the scope of this audit, we followed up on 3 of the 5 prior audit recommendations. DTMB complied with all 3 prior audit recommendations.

COMMENTS

**EFFECTIVENESS OF EFFORTS TO RECOVER
ACTUAL COSTS OF SERVICES PROVIDED THROUGH THE
INFORMATION TECHNOLOGY FUND, MOTOR TRANSPORT FUND,
AND OFFICE SERVICES REVOLVING FUND**

COMMENT

Audit Objective: To assess the effectiveness of the Department of Technology, Management, and Budget's (DTMB's) efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund.

Audit Conclusion: We concluded that DTMB's efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund were effective. Our audit report does not include any reportable conditions* related to this audit objective.

**EFFECTIVENESS OF EFFORTS TO ENSURE
THAT BILLINGS TO CUSTOMERS REFLECT THE
APPROPRIATE COSTS OF SERVICES PROVIDED THROUGH THE
INFORMATION TECHNOLOGY FUND, MOTOR TRANSPORT FUND,
AND OFFICE SERVICES REVOLVING FUND**

COMMENT

Audit Objective: To assess the effectiveness of DTMB's efforts to ensure that billings to its customers reflect the appropriate costs of those services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund.

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* See glossary at end of report for definition.

SUPPLEMENTAL INFORMATION

SELECTED INTERNAL SERVICE FUND ACTIVITIES
Department of Technology, Management, and Budget
Operating Revenue by Source
For Fiscal Years 2009-10 and 2010-11

Source	Fiscal Year 2009-10			Total Revenue
	Information Technology Fund	Motor Transport Fund	Office Services Revolving Fund	
State Agencies:				
Agriculture	\$ 2,757,459	\$ 1,329,004	\$ 505,014	\$ 4,591,477
Attorney General	2,304,009	267,574	176,066	2,747,649
Auditor General	47,219	10,940	2,811	60,970
Civil Rights	769,703	18,880	70,178	858,761
Civil Service	3,864,881	21,286	289,185	4,175,352
Community Health	55,369,365	1,236,056	8,469,562	65,074,983
Corrections	31,879,511	10,259,887	12,489,568	54,628,966
Education (1)	15,081,281	156,230	549,453	15,786,964
Energy, Labor, and Economic Growth (2)	66,205,284	3,179,777	10,423,481	79,808,542
Environmental Quality (3)	9,996,534	1,849,290	523,293	12,369,117
Executive Office	1,658,622	10,153	22,285	1,691,060
Gaming Control Board	1,756,459	69,990	75,679	1,902,128
House of Representatives		5,225	1,086,274	1,091,499
Human Services	145,509,654	5,289,717	14,467,918	165,267,289
Information Technology (4)	103,679	1,110,376	714,773	1,928,828
Judiciary	921,126	21,267	36,605	978,998
Legislative Retirement System			809	809
Legislative Service Bureau	21,863	15,288	3,411	40,562
Library of Michigan (History, Arts and Libraries) (1)			14,669	14,669
Licensing and Regulatory Affairs (2)				0
Lottery	4,451,183	776,940	156,795	5,384,918
Management and Budget (4)	29,962,449	933,054	5,659,983	36,555,486
Michigan Strategic Fund (1)	557,374	152,272	70,869	780,515
Military and Veterans Affairs	1,245,451	574,840	408,507	2,228,798
Natural Resources (1) (3)	16,124,819	8,409,302	1,852,520	26,386,641
Natural Resources and Environment (3)				0
Senate		5,978	244,065	250,043
Senate Fiscal Agency		1,094	858	1,952
State	28,443,258	400,656	8,965,761	37,809,675
State Police	33,154,608	17,640,262	772,506	51,567,376
Transportation	31,229,674	888,499	453,508	32,571,681
Treasury	30,536,497	255,471	7,256,972	38,048,940
Other:				
Colleges and universities		1,014,580	22,779,077	23,793,657
Non-State agencies	162,308	195,485	6,210,522	6,568,315
Total Operating Revenue	\$ 514,114,270	\$ 56,099,373	\$ 104,752,977	\$ 674,966,620

The accompanying notes are an integral part of this exhibit.

Source: Revenue summaries prepared by the Department of Technology, Management, and Budget.

UNAUDITED

Exhibit 1

Fiscal Year 2010-11

Information Technology Fund	Motor Transport Fund	Office Services Revolving Fund	Total Revenue
\$ 2,562,042	\$ 1,342,350	\$ 488,080	\$ 4,392,472
2,133,094	261,330	176,181	2,570,605
41,581	5,820	3,118	50,519
941,319	19,813	59,767	1,020,899
4,230,839	12,464	215,198	4,458,501
55,015,963	1,278,800	7,216,982	63,511,745
32,987,627	9,962,487	10,660,126	53,610,240
14,582,017	172,941	446,418	15,201,376
			0
7,453,623	1,076,512	383,973	8,914,108
683,248	9,436	28,505	721,189
1,888,295	83,335	45,981	2,017,611
	5,089	521,342	526,431
147,823,460	6,115,601	15,731,775	169,670,836
141,575	1,148,814	678,347	1,968,736
835,408	19,364	44,809	899,581
		1,583	1,583
615,422	16,510	4,295	636,227
			0
68,970,398	3,161,275	8,635,010	80,766,683
3,224,119	790,511	147,927	4,162,557
29,724,002	1,064,745	3,890,294	34,679,041
520,567	144,476	55,572	720,615
1,006,786	629,729	462,936	2,099,451
19,101,607	5,194,224	1,102,546	25,398,377
	4,598,539	966,010	5,564,549
	5,679	238,920	244,599
	323	20	343
24,738,002	425,187	8,820,787	33,983,976
34,039,921	18,575,867	946,994	53,562,782
33,990,453	1,154,222	461,539	35,606,214
34,447,315	461,260	7,116,267	42,024,842
	1,194,285	20,575,416	21,769,701
374,233	217,586	9,325,070	9,916,889
<u>\$ 522,072,916</u>	<u>\$ 59,148,574</u>	<u>\$ 99,451,788</u>	<u>\$ 680,673,278</u>

Notes to Exhibit 1

- (1) Executive Order No. 2009-36 abolished the Department of History, Arts and Libraries and transferred its functions to several other principal departments and agencies within the State, including the Department of Natural Resources, the Department of Education, the Michigan Strategic Fund, and the Michigan State Housing Development Authority.
- (2) Executive Order No. 2011-4 renamed the Department of Energy, Labor, and Economic Growth as the Department of Licensing and Regulatory Affairs.
- (3) Executive Order No. 2009-45 consolidated the Department of Environmental Quality and the Department of Natural Resources to create the Department of Natural Resources and Environment. Executive Order No. 2011-1 abolished the Department of Natural Resources and Environment and reestablished both the Department of Environmental Quality and the Department of Natural Resources.
- (4) Executive Order No. 2009-55 consolidated the Department of Information Technology and the Department of Management and Budget to create the Department of Technology, Management, and Budget.

SELECTED INTERNAL SERVICE FUND ACTIVITIES
Department of Technology, Management, and Budget
Examples of User Charges
For Fiscal Year 2011-12

Information Technology Fund

Local call	\$.10 per call
Long distance call	\$.0445 per minute (domestic)
Office automation rate	\$71.42 per work station per month
Wireless device support fee	\$35 per device per month
Personnel voice mailbox	\$3.25 per mailbox per month

Motor Transport Fund

Midsized passenger vehicle	\$230 per month plus \$.1938 per mile
Large passenger vehicle	\$257 per month plus \$.2042 per mile
Police deluxe	\$302 per month plus \$.2438 per mile
Minivan	\$268 per month plus \$.2635 per mile

Office Services Revolving Fund

Metered mail	\$.0424 per piece
Presorted mail	\$.020 per piece
Manual mail preparation	\$60 per hour
Consolidate printing	\$.054 per image
Warrant printing	\$.062 per image
Delivery services	\$113.70 minimum per hour

Source: Department of Technology, Management, and Budget fiscal year 2011-12 service rate publications.

GLOSSARY

Glossary of Acronyms and Terms

appropriate costs	The resulting costs when the rates and number of units billed to customers are properly applied based on published DTMB rates and actual usage.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
information technology (IT)	Any equipment or interconnected system that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. It commonly includes hardware, software, procedures, services, and related resources.
interface IT invoice	Automated invoices to State agencies for IT services that are paid by the State agencies once entered into the State's accounting system by DTMB.
internal service fund	A fund established to account for financial transactions for services provided by a State agency to other State and non-State governmental agencies.
manual IT invoice	Monthly invoices directly billed to State agencies for IT services.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate

decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

