

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

LIBRARY OF MICHIGAN

October 1, 1994 through September 30, 1996

EXECUTIVE DIGEST

LIBRARY OF MICHIGAN

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Library of Michigan for the period October 1, 1994 through September 30, 1996.

AUDIT PURPOSE

This financial audit of the Library was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

Act 540, P.A. 1982 (Sections 397.11 - 397.24 of the *Michigan Compiled Laws*), created the Library of Michigan under the control of the Legislative Council and established an advisory Board of Trustees. The Library's primary mission* is to promote, advocate, and consistently work to achieve the highest level of library service to the State of Michigan and its residents. The Library's goals* and objectives* are to meet the information needs of the Legislature and State government, to assist Michigan libraries, and to act as a Statewide resource for the public.

The Internal Operations and Federal Programs Divisions have responsibility for the Library's accounting, financial reporting, and administration of federal grants. As of

* See glossary on page 32 for definition.

September 30, 1996, the Library had 96 full-time and 38 part-time employees. The Library's expenditures for fiscal year 1995-96 totaled \$30.6 million.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of the Library's internal control structure* , including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the Library's internal control structure did not disclose any material weaknesses*. However, we noted a reportable condition* related to accounts payable (Finding 1).

Audit Objective: To assess the Library's compliance with both State and federal laws and regulations that could have a material effect on either the Library's financial schedules or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with applicable laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Library's financial schedules or any of its major federal financial assistance programs. We did not identify any questioned costs during the audit period.

Audit Objective: To audit the Library's financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995.

* See glossary on page 32 for definition.

Conclusion: We expressed an unqualified opinion on the Library's financial schedules.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Library of Michigan for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit excluded capital outlay accounts which are administered by the Legislative Service Bureau.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes one finding and one corresponding recommendation. The Library's preliminary response indicated that it agreed with the finding and will take steps to comply with the recommendation.

The Library had complied with the one recommendation from our prior audit.

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The Honorable Dick Posthumus, Chairman
Legislative Council
State Capitol
Lansing, Michigan

Dear Senator Posthumus:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Library of Michigan for the period October 1, 1994 through September 30, 1996.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, finding, recommendation, and agency preliminary response; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains the Library of Michigan financial schedules and note to financial schedules; supplemental financial schedules; and a glossary of acronyms and terms.

Our comments, finding, and recommendation are organized by audit objective. The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork.

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

AUDITOR GENERAL

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Description of Agency

Act 540, P.A. 1982 (Sections 397.11 - 397.24 of the *Michigan Compiled Laws*), created the Library of Michigan under the control of the Legislative Council and established an advisory Board of Trustees. The State Librarian, by statute, has responsibility for the administrative and budgetary functions of the Library and reports to the Legislative Council.

The Library (including the Law Library) is located in Lansing. The Library's collections include 5.5 million items, with an emphasis on Michigan, public policy, and Michigan newspapers. The Library houses the eleventh largest collection of genealogy information in the United States and is a depository for both federal and State government documents.

The Library's primary mission is to promote, advocate, and consistently work to achieve the highest level of library service to the State of Michigan and its residents. The Library's goals and objectives are to meet information needs of the Legislature and State government, to assist Michigan libraries, and to act as a Statewide resource for the public.

The Library provides federal and State funding to Michigan libraries and coordinates library services throughout the State. It receives and administers federal funds under the federal Library Services and Construction Act to improve library services (Titles I and III) and to construct and renovate libraries (Title II). The Library distributes State funds to public libraries and public library cooperatives. Also, the Library coordinates and provides continuing education for public library personnel.

The Internal Operations and Federal Programs Divisions have responsibility for the Library's accounting, financial reporting, and administration of federal grants. As of September 30, 1996, the Library had 96 full-time and 38 part-time employees. The Library's expenditures for fiscal year 1995-96 totaled \$30.6 million.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Library of Michigan had the following objectives:

1. To assess the adequacy of the Library's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess the Library's compliance with both State and federal laws and regulations that could have a material effect on either the Library's financial schedules or any of its major federal financial assistance programs.
3. To audit the Library's financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995.

Audit Scope

Our audit scope was to examine the financial and other records of the Library of Michigan for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit excluded capital outlay accounts which are administered by the Legislative Service Bureau.

We considered the Library's internal control structure policies and procedures for its federal financial assistance programs and assessed the Library's compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, in addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition,

we followed up on the prior audit finding. The Library's major programs are identified on the schedule of federal financial assistance.

Agency Responses and Prior Audit Follow-Up

Our audit report includes one finding and one corresponding recommendation. The Library's preliminary response indicated that it agreed with the finding and will take steps to comply with the recommendation.

The agency preliminary response which follows the recommendation in our report was taken from the Library's written comments and oral discussions subsequent to our audit fieldwork.

The Library had complied with the one recommendation from our prior audit.

COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Library of Michigan's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the Library's internal control structure did not disclose any material weaknesses. However, we noted a reportable condition related to accounts payable.

The Michigan Administrative Information Network (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and control of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including the Library of Michigan, is affected to varying degrees by MAIN.

Because the Library's internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in the Library to include elements reviewed in our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

FINDING

1. Accounts Payable

The Library's control structure did not ensure that accounts payable were properly established at fiscal year-end.

If accounts payable are not properly established, this could result in material overstatements of accounts payable and expenditures.

State agencies can establish an accounts payable at fiscal year-end by processing a vendor payment transaction in October or November with a prior year effective date.

Our review of a sample of accounts payable established by vendor payment transactions disclosed:

- a. Four of 24 payment transactions for fiscal year 1995-96 were incorrectly established as accounts payable. The dollar value of these items totaled \$31,483.
- b. Five of 12 payment transactions for fiscal year 1994-95 were incorrectly established as accounts payable. The dollar value of these items totaled \$345,293.

Receiving documentation showed that the items were received after September 30 of each year. As a result, some overstatements of nonfederal accounts payable and expenditures occurred. Chapter 14 of the Department of Management and Budget (DMB) Year-End Closing Guide provides that goods or services must be received by September 30 for an accounts payable to be established.

RECOMMENDATION

We recommend that the Library strengthen its control structure to help ensure that accounts payable are properly established at fiscal year-end.

AGENCY PRELIMINARY RESPONSE

The audit finding was attributed to the major changes to DMB's existing year-end policies and procedures as they related to MAIN. Closing instructions, accounting reports, and training were confusing when presented by DMB and MAIN personnel who were struggling with the implementation of MAIN, especially during fiscal years 1994-95 and 1995-96.

The procedure that caused the finding to occur was the extension of the old year document processing deadline from October 15 to November 15. The Library was instructed by DMB Office of Financial Management staff to process all old year

obligations until the deadline in November regardless of when received. The Library staff relied on these instructions when processing old year obligations.

The Library has revised the internal year-end closing policies and procedures. All accounts payable will be established after September 30 for items received prior to October 1 so that accounts payable and expenditures will not be overstated.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess the Library's compliance with both State and federal laws and regulations that could have a material effect on either the Library's financial schedules or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with applicable laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Library's financial schedules or any of its major federal financial assistance programs. We did not identify any questioned costs during the audit period.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the Library's financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on the Library's financial schedules.

Independent Auditor's Report on
the Internal Control Structure

April 11, 1997

The Honorable Dick Posthumus, Chairman
Legislative Council
State Capitol
Lansing, Michigan

Dear Senator Posthumus:

We have audited the General Fund financial schedules of the Library of Michigan for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated April 11, 1997. We have also audited the Library of Michigan's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated April 11, 1997.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement and about whether the Library complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1996 and September 30, 1995, we considered the Library's internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network in order to determine our auditing procedures for the purpose of expressing our opinions on the Library's financial schedules and not to provide assurance on the internal control structure. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the Library's internal control structure. We also considered the Library's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Library of Michigan is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

Accounting Controls

- Revenue/receipts/accounts receivable
- Nonpayroll expenditures/accounts payable
- State aid to libraries
- Federal grant accounting and reporting
- Payroll expenditures

Administrative Controls

General requirements:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Special requirements:

- Types of services allowed or unallowed
- Matching, level of effort, and/or earmarking
- Obligation of federal funds
- Subrecipient monitoring

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1996 and September 30, 1995, the Library of Michigan expended 98.4% and 99.8%, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Library's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable condition is more fully described in Finding 1.

Also, our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the Library of Michigan is not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affect the Library's internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the Library's reportable condition described above is a material weakness. Three of the 29 reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the Library of Michigan's financial schedules and of its compliance with requirements applicable to its major federal financial assistance programs for the fiscal years ended September 30, 1996 and September 30, 1995, and this report on the internal control structure does not affect our reports thereon dated April 11, 1997.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

April 11, 1997

The Honorable Dick Posthumus, Chairman
Legislative Council
State Capitol
Lansing, Michigan

Dear Senator Posthumus:

We have audited the General Fund financial schedules of the Library of Michigan for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated April 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the Library of Michigan is the responsibility of the Library's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of the Library's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Library of Michigan complied, in all material respects, with the provisions referred to in the previous paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Library had not complied, in all material respects, with those provisions.

We have also audited the Library's compliance with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; obligation of federal funds; claims for advances and reimbursements; subrecipient monitoring; and

amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995. The management of the Library of Michigan is responsible for the Library's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Library's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Library of Michigan complied, in all material respects, with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; obligation of federal funds; claims for advances and reimbursements; subrecipient monitoring; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1996 and September 30, 1995.

In connection with our audit of the financial schedules of the Library for the fiscal years ended September 30, 1996 and September 30, 1995 and with our consideration of the Library's internal control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended September 30, 1996 and September 30, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed and unallowed that are applicable to those transactions. Also, we have applied procedures to test the Library's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements and the requirements applicable to the nonmajor programs, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Library's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Library of Michigan had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

April 11, 1997

The Honorable Dick Posthumus, Chairman
Legislative Council
State Capitol
Lansing, Michigan

Dear Senator Posthumus:

We have audited the accompanying schedule of General Fund revenue and the schedule of General Fund sources and disposition of authorizations of the Library of Michigan for the fiscal years ended September 30, 1996 and September 30, 1995. These financial schedules are the responsibility of the management of the Library. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Library are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Library's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Library or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and the sources and disposition of authorizations of the Library of Michigan for the fiscal years ended September 30, 1996 and September 30, 1995 on the basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion of the Library's financial schedules. The accompanying supplemental financial schedules, consisting of the schedule of General Fund assets and liabilities, the schedule of disposition of General Fund authorizations by line item, and the schedule of federal financial assistance, are presented for purposes of additional analysis and are not a required part of the Library's financial schedules referred to in the first paragraph. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the Library's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Library's financial schedules.

AUDITOR GENERAL

LIBRARY OF MICHIGAN
Schedule of General Fund Revenue
Fiscal Years Ended September 30

	1996	1995
REVENUE		
Federal revenue:		
Library Services and Construction Act	\$ 3,661,268	\$ 4,794,962
National Endowment for the Humanities	57,058	11,521
Total federal revenue	\$ 3,718,326	\$ 4,806,482
Services	98,922	152,069
Miscellaneous	12	73,516
Total Revenue	\$ 3,817,259	\$ 5,032,068

The accompanying note is an integral part of the financial schedules.

LIBRARY OF MICHIGAN
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Years Ended September 30

	<u>1996</u>	<u>1995</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 29,687,900	\$ 29,544,600
Balances carried forward	102,028	248,000
Restricted revenue	3,817,259	5,026,326
Budgetary transfers out	<u>(2,612,300)</u>	<u>(2,612,300)</u>
 Total	 <u>\$ 30,994,887</u>	 <u>\$ 32,206,626</u>
 DISPOSITION OF AUTHORIZATIONS		
Expenditures	\$ 30,627,715	\$ 32,103,840
Encumbrances carried forward	293,645	39,414
Unencumbered balances forward	68,163	62,614
Balances lapsed	<u>5,363</u>	<u>759</u>
 Total	 <u>\$ 30,994,887</u>	 <u>\$ 32,206,626</u>

The accompanying note is an integral part of the financial schedules.

Note to Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Library of Michigan for the fiscal years ended September 30, 1996 and September 30, 1995. The financial transactions of the Library 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 footnote accompanying these financial schedules relates directly to the Library. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Library of Michigan's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Library or the State's General Fund in accordance with generally accepted accounting principles.

SUPPLEMENTAL
FINANCIAL SCHEDULES

LIBRARY OF MICHIGAN
Schedule of General Fund Assets and Liabilities
As of September 30

	<u>1996</u>	<u>1995</u>
ASSETS		
Accounts Receivable:		
Due from federal agencies	\$ 1,381,761	\$ 1,056,741
Miscellaneous	34,423	45,917
	<hr/>	<hr/>
Total Accounts Receivable	\$ 1,416,184	\$ 1,102,658
 LIABILITIES		
Accounts payable	\$ 1,744,905	\$ 2,269,006
Deferred revenue	\$ 2,042	\$ 4,832
Due to Michigan Employment Security Agency for unemployment	\$ 4,112	\$ 4,112

The schedule of assets and liabilities is not a balance sheet and is not intended to report financial condition. The amounts presented include only those assets and liabilities for which the Library is directly responsible. The schedule excludes certain other assets and liabilities which are controlled and accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

LIBRARY OF MICHIGAN
Schedule of Disposition of General Fund Authorizations by Line Item
Fiscal Years Ended September 30

Line Item	1996				
	Total Authorizations	Expenditures	Encumbrances Carried Forward	Unencumbered Balances Forward	Balances Lapsed
Operations	\$ 7,528,551	\$ 7,268,288	\$ 256,081		\$ 4,181
State aid to libraries	12,934,400	12,934,400			
Detroit Public Library	5,871,600	5,871,600			
Subregional State aid	249,300	249,300			
Wayne County Library	48,700	48,700			
Kellogg IMAGIN project	17,642	12,761		4,882	
Federal - Library Services and Construction Act	3,661,268	3,636,172		25,096	
Newspaper Project	57,058	57,058			
Library automation	496,000	458,435	37,565		
Michigan Center for the Book	2,790	2,790			
Collected gifts and fees	126,397	88,211		38,186	
Receivable and payable write-offs	1,181				1,181
Total	\$ 30,994,887	\$ 30,627,715	\$ 293,645	\$ 68,163	\$ 5,363

1995

Total Authorizations	Expenditures	Encumbrances Carried Forward	Unencumbered Balances Forward	Balances Lapsed
\$ 7,576,789	\$ 7,536,155	\$ 39,414	\$ 462	\$ 759
12,934,400	12,934,400			
5,871,600	5,871,600			
249,300	249,300			
48,700	48,700			
77,732	60,090		17,642	
4,680,533	4,680,533			
11,521	11,521			
482,252	482,252			
3,584	3,584			
159,898	115,388		44,510	
110,317	110,317			
<u>\$ 32,206,626</u>	<u>\$ 32,103,840</u>	<u>\$ 39,414</u>	<u>\$ 62,614</u>	<u>\$ 759</u>

LIBRARY OF MICHIGAN
Schedule of Federal Financial Assistance
Fiscal Years Ended September 30, 1996 and 1995

Grantor Agency/Federal Assistance Program Title	Grant/ Contract Number	CFDA * Program Number	Award Period	Amount of Award
<u>U.S. Department of Education</u>				
Library Services and Construction Act:				
Public Library Services (Title I)	R034A60040-96F	84.034 **	10/02/95-09/30/97	\$ 3,082,408
	R034A50040	84.034 **	10/01/94-09/30/96	2,769,238
	R034A40040	84.034 **	10/01/93-09/30/95	2,786,064
	R034A30040	84.034 **	10/01/92-09/30/94	2,795,019
Interlibrary Cooperation and Resource Sharing (Title III)	R035A40040-96E	84.035 **	10/02/95-09/30/97	597,558
	R035A50040-95A	84.035 **	10/01/94-09/30/96	803,793
	R035A40040	84.035 **	10/01/93-09/30/95	667,690
	R035A30040	84.035 **	10/01/92-09/30/94	669,846
Public Library Construction and Technology Enhancement (Title II)	R154A60037	84.154 **	10/02/95 Until Completion	486,265
	R154A50036	84.154 **	10/01/94 Until Completion	539,382
	R154A40025	84.154 **	10/01/93 Until Completion	682,352
	R154A30015-93A	84.154 **	10/01/92 Until Completion	1,327,328
	R154A10041	84.154 **	10/01/90 Until Completion	592,437
	R154A90045-89B	84.154 **	10/01/88 Until Completion	712,667
	R154L81222	84.154 **	10/01/87 Until Completion	731,461
	W008701222	84.154 **	10/01/86 Until Completion	731,728
	W008601222	84.154 **	10/01/85 Until Completion	701,708
	W008501222	84.154 **	10/01/84 Until Completion	843,506
<u>National Endowment for the Humanities</u>				
Promotion of the Humanities -				
Division of Preservation and Access	PS-21053-95	45.149	7/1/95-5/31/97	193,272
	PS-20725-93	45.149	7/1/93-10/1/94	32,354
Total				<u>\$ 21,746,076</u>

* CFDA is defined as Catalog of Federal Domestic Assistance.

* Major program, as defined by the Single Audit Act.

Amounts Transferred and Expended - FY 1995-96

Amounts Transferred and Expended - FY 1994-95

Amounts Transferred and Expended - FY 1995-96			Amounts Transferred and Expended - FY 1994-95		
Directly Expended by Library	Distributed to Subrecipients	Total	Directly Expended by Library	Distributed to Subrecipients	Total
\$ 26,417	\$ 379,566	\$ 405,983	\$	\$	\$ 0
172,950	1,707,863	1,880,813	34,350	854,075	888,425
		0	35,427	2,425,921	2,461,348
		0	41,118		41,118
	35,358	35,358			0
355,385	431,736	787,121		7,561	7,561
	1,241	1,241	60,506	573,478	633,984
		0	65,013		65,013
		0			0
	334,018	334,018		7,261	7,261
	48,702	48,702		472,045	472,045
	80,511	80,511		19,021	19,021
		0		10,873	10,873
		0		42,187	42,187
		0		18,099	18,099
		0		27,060	27,060
		0		17,014	17,014
		0		11,633	11,633
57,058		57,058	10,110		10,110
		0	1,411		1,411
<u>\$ 611,810</u>	<u>\$ 3,018,995</u>	<u>\$ 3,630,805</u>	<u>\$ 247,935</u>	<u>\$ 4,486,228</u>	<u>\$ 4,734,163</u>

Glossary of Acronyms and Terms

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 statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
MAIN	Michigan Administrative Information Network.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial schedules, would not be prevented or detected.
mission	The agency's main purpose or the reason the agency was established.
objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.

OMB federal Office of Management and Budget.

reportable condition A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.

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