

FINANCIAL AUDIT  
OF THE  
EXECUTIVE OFFICE

October 1, 1996 through September 30, 1998

The Honorable John M. Engler  
Governor of Michigan  
State Capitol  
Lansing, Michigan

Dear Governor Engler:

This is our report on the financial audit of the Executive Office for the period October 1, 1996 through September 30, 1998.

This report contains our description of agency and independent auditor's reports on compliance and on internal control over financial reporting and on the financial schedule. This report also contains the Executive Office's schedule of sources and disposition of General Fund authorizations, a note to the financial schedule, and a supplemental financial schedule.

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

AUDITOR GENERAL

This page left intentionally blank.

## **TABLE OF CONTENTS**

### **EXECUTIVE OFFICE**

#### **INTRODUCTION**

	<u>Page</u>
Report Letter	1
Description of Agency	4

#### **INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES**

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	5
Independent Auditor's Report on the Financial Schedule	7
Executive Office Financial Schedule	
Schedule of Sources and Disposition of General Fund Authorizations	9
Note to the Financial Schedule	10

#### **SUPPLEMENTAL FINANCIAL SCHEDULE**

Schedule of Disposition of General Fund Authorizations by Appropriation Line Item	12
--	----

## Description of Agency

The Executive Office includes the Governor and Lieutenant Governor and their staffs.

As Michigan's chief executive officer, the Governor sets overall policy direction for the executive branch, appoints most department directors and members of State boards and commissions, recommends the State budget to the Legislature, and has numerous other responsibilities outlined by the Constitution of 1963 and State statutes.

The Lieutenant Governor performs gubernatorial functions in the Governor's absence; presides over the State Senate; provides a tie-breaking vote in the Senate; serves as a member of the State Administrative Board; and represents the Governor and the State at selected local, State, and national meetings. The Lieutenant Governor heads a number of Executive Office task forces, commissions, and committees; assists the Governor in formulating and implementing State policies and programs; and assists the Executive Office in working with the public and with other government agencies.

The Office of Administrative Services, Department of Management and Budget, provides expenditure processing and payroll-personnel services to the Executive Office.

Executive Office activities are financed from the General Fund. As of September 30, 1998, the Executive Office had 67 classified employees and 10 unclassified employees. Executive Office expenditures were \$5.1 million for fiscal year 1997-98.

In July 1973, the Department of Civil Service established the job classification series of Executive Office Administrator, Representative, and Aide. This was done to enable the Executive Office to appoint leadership in the various departments "sufficient to implement policy and provide liaison." The Department of Civil Service reviews each of these appointments and requires the Executive Office to document that each position is closely associated with its Office projects assigned to the departments where the positions are established. The number of employees in the various departments has been relatively constant over the past several years and, as of September 30, 1998, there were 33 of these positions in addition to the 67 classified employees and 10 unclassified employees in the Executive Office.

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

March 31, 1999

The Honorable John M. Engler  
Governor of Michigan  
State Capitol  
Lansing, Michigan

Dear Governor Engler:

We have audited the schedule of sources and disposition of General Fund authorizations of the Executive Office for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated March 31, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Executive Office's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Executive Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial schedule 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.

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

AUDITOR GENERAL

Independent Auditor's Report on  
the Financial Schedule

March 31, 1999

The Honorable John M. Engler  
Governor of Michigan  
State Capitol  
Lansing, Michigan

Dear Governor Engler:

We have audited the accompanying schedule of sources and disposition of General Fund authorizations of the Executive Office for the fiscal years ended September 30, 1998 and September 30, 1997. This financial schedule is the responsibility of the Executive Office management, in conjunction with the Department of Management and Budget management. Our responsibility is to express an opinion on this financial schedule based on our audit. The financial transactions of the Executive Office 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 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 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 1b, the accompanying financial schedule includes only the sources and disposition of authorizations for the Executive Office's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the Executive Office or the State's General Fund in accordance with generally accepted accounting principles.



In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the sources and disposition of authorizations of the Executive Office for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated, March 31, 1999 on our consideration of the Executive Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying supplemental financial schedule, the schedule of disposition of General Fund authorizations by appropriation line item, is presented for purposes of additional analysis and is not a required part of the Executive Office's financial schedule referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedule and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedule taken as a whole.

AUDITOR GENERAL

EXECUTIVE OFFICE

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

	<u>1998</u>	<u>1997</u>
<b>SOURCES OF AUTHORIZATIONS</b>		
General purpose appropriations	\$ 4,931,800	\$ 4,985,800
Balances carried forward	<u>219,397</u>	<u>12,476</u>
Total	<u>\$ 5,151,197</u>	<u>\$ 4,998,276</u>
 <b>DISPOSITION OF AUTHORIZATIONS</b>		
Expenditures	\$ 5,118,384	\$ 4,741,680
Balances carried forward	2,334	219,397
Balances lapses	<u>30,479</u>	<u>37,199</u>
Total	<u>\$ 5,151,197</u>	<u>\$ 4,998,276</u>

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

## Note to the Financial Schedule

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedule reports the results of the financial transactions of the Executive Office for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of the Executive Office 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 note accompanying this financial schedule relates directly to the Executive Office. 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 schedule contained in this report is 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 schedule includes only the sources and disposition of authorizations for the Executive Office's General Fund accounts. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the Executive Office or the State's General Fund in accordance with generally accepted accounting principles.

SUPPLEMENTAL  
FINANCIAL SCHEDULE

EXECUTIVE OFFICE

Schedule of Disposition of General Fund Authorizations by Appropriation Line Item  
Fiscal Years Ended September 30

	1998				1997			
	<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u>	<u>Balances</u> <u>Carried</u> <u>Forward</u>	<u>Balances</u> <u>Lapsed</u>	<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u>	<u>Balances</u> <u>Carried</u> <u>Forward</u>	<u>Balances</u> <u>Lapsed</u>
<u>Executive Office</u>								
Governor's Salary	\$ 127,100	\$ 127,037	\$	\$ 63	\$ 123,800	\$ 123,737	\$	\$ 63
Salaries and Wages - Unclassified	665,200	645,024		20,176	648,900	632,292		16,608
Executive Office	4,265,097	4,252,540	2,334	10,223	4,123,743	3,891,146	219,397	13,200
Lieutenant Governor's Salary	93,800	93,783		17	91,400	91,397		3
Regulatory Reform					<u>10,433</u>	<u>3,108</u>		<u>7,325</u>
Total	<u>\$ 5,151,197</u>	<u>\$ 5,118,384</u>	<u>\$ 2,334</u>	<u>\$ 30,479</u>	<u>\$ 4,998,276</u>	<u>\$ 4,741,680</u>	<u>\$ 219,397</u>	<u>\$ 37,199</u>