

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

October 1, 1997 through September 30, 1999

EXECUTIVE DIGEST

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs for the period October 1, 1997 through September 30, 1999.

AUDIT PURPOSE

This financial audit of the Department 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 Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The Department of Military and Veterans Affairs is responsible for training the Michigan National Guard to ensure military preparedness and for operating and maintaining military training sites and support facilities. In addition, the Department oversees grants to 12 veterans' service organizations in accordance with the appropriations acts.

The Department is also responsible for the supervision and direction of the Grand Rapids Home for Veterans and

* See glossary at end of report for definition.

the D.J. Jacobetti Home for Veterans, which provide domiciliary and nursing care to aged and disabled military veterans.

In addition, the Department is responsible for the supervision and direction of the Michigan Veterans' Trust Fund. The Fund provides grants to assist veterans and their dependents. The Fund also provides administrative support for the Vietnam Veterans' Memorial Monument Fund. Responsibilities related to the administration of federal awards are shared by the Office of Financial Services and the Construction and Facilities Management Office.

For fiscal year 1998-99, the Department's total General Fund expenditures and operating transfers were \$86,452,871. As of September 30, 1999, the Department had 991 employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion* on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on the Department's compliance with certain provisions of laws,

* See glossary at end of report for definition.

regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified a reportable condition* related to the schedule of expenditures of federal awards (Finding 1).

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to the Department's major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to the Department's major federal program did not disclose

* See glossary at end of report for definition.

any material weaknesses. However, we identified a reportable condition related to the schedule of expenditures of federal awards (Finding 2).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the financial and other records of the Department of Military and Veterans Affairs for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; 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*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We also followed up on the audit findings and recommendations reported in the prior financial related audit of the Department of Military and Veterans Affairs. The Department complied with all 3 of the prior recommendations that were included in the scope of our current audit.

The scope of this audit did not include the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, which we audit separately. These Funds did not administer any federal financial assistance programs.

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

Our audit report contains one finding and one corresponding recommendation. The Department's corrective action plan indicates that it agrees with the recommendation and plans to implement it.

As disclosed in the Department's summary schedule of prior audit findings, there were no findings or recommendations in the Department's prior Single Audit* report.

* See glossary at end of report for definition.

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September 29, 2000

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Military and Veterans Affairs financial schedules and notes to the financial schedules, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary response is 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.

Sincerely,

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

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Description of Agency

The Department of Military and Veterans Affairs is responsible for training the Michigan National Guard to ensure military preparedness and for operating and maintaining military training sites and support facilities. In addition, the Department oversees grants to 12 veterans' service organizations in accordance with the appropriations acts.

The Department is also responsible for the supervision and direction of the Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans. The Grand Rapids Home for Veterans was established in 1885 and provides domiciliary and nursing care to aged and disabled military veterans of the State. The D.J. Jacobetti Home for Veterans, located in Marquette, began operations in 1981 to provide domiciliary and nursing care to aged and disabled military veterans in Michigan's Upper Peninsula.

In addition, the Department is responsible for the supervision and direction of the Michigan Veterans' Trust Fund. The Fund provides grants to assist veterans and their dependents. The Fund also provides administrative support for the Vietnam Veterans' Memorial Monument Fund. Responsibilities related to the administration of federal awards are shared by the Office of Financial Services and the Construction and Facilities Management Office.

For fiscal year 1998-99, the Department's total General Fund expenditures and operating transfers were \$86,452,871. As of September 30, 1999, the Department had 991 employees.

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

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs had the following objectives:

1. To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

We expressed an unqualified opinion on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial schedules taken as a whole.

2. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified a reportable condition related to the schedule of expenditures of federal awards (Finding 1).

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

The finding related to our assessment of compliance and internal control over financial reporting is contained in Section II of the schedule of findings and questioned costs*.

3. To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to the Department's major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to the Department's major federal program did not disclose any material weaknesses. However, we identified a reportable condition related to the schedule of expenditures of federal awards (Finding 2).

The finding related to our assessment of compliance and internal control over compliance applicable to the Department's major federal program is contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Military and Veterans Affairs for the period October 1, 1997 through September 30, 1999. Our audit was conducted 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 and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We also followed up on the audit findings and recommendations reported in the prior financial related audit of the Department of Military and Veterans Affairs. The

* See glossary at the end of report for definition.

Department complied with all 3 of the prior recommendations that were included in the scope of our current audit.

The scope of this audit did not include the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, which we audit separately. These Funds did not administer any federal financial assistance programs.

We considered the Department's internal control over compliance applicable to each major federal program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to 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. In addition, we followed up on the Department's summary schedule of prior audit findings. The Department's major federal program is identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains one finding and one corresponding recommendation. The Department's corrective action plan indicates that it agrees with the recommendation and plans to implement it.

The Department's corrective action plan, which is included in this report, was prepared by the Department as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Military and Veterans Affairs to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in the Department's summary schedule of prior audit findings, there were no findings or recommendations in the Department's prior Single Audit report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be a material weakness?	Yes
Noncompliance material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be a material weakness?	Yes
Type of auditor's report issued on compliance for major programs:	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 major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
12.401	National Guard Military Operations and Maintenance Projects

Dollar threshold used to distinguish between type A and type B programs: \$1,923,958

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (510001)

1. Schedule of Expenditures of Federal Awards (SEFA)

This finding is included in Section III of the schedule of findings and questioned costs (510002).

Section III: Findings and Questioned Costs Related to Federal Awards

Applicable To: All federal programs.

FINDING (510002)

2. Schedule of Expenditures of Federal Awards (SEFA)

The Department of Military and Veterans Affairs did not have internal control procedures to reconcile program expenditures reported on its SEFA with expenditure amounts reported in the Michigan Administrative Information Network (MAIN).

* See glossary at end of report for definition.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires each recipient of federal awards to identify in its accounts all federal awards received and expended and to report these on its SEFA. Additionally, Section 18.1461 of the *Michigan Compiled Laws* requires each recipient of federal assistance to prepare a SEFA and have it included in the recipient's Single Audit report. The Department of Management and Budget Year-End Closing Guide requires that departments reconcile information reported on their SEFAs with MAIN.

Our review disclosed that the Department did not reconcile and verify the information reported in its SEFA with the State's accounting records and with the federal award agreements for fiscal years 1998-99 and 1997-98. Among the errors we noted were:

- a. The Department incorrectly reported the amount of expenditures for the National Guard Military Operations and Maintenance Projects. The Department prepared the SEFA using information from individual billings. These amounts did not always reconcile with the amounts reported in MAIN. The Department understated expenditures for the National Guard Military Operations and Maintenance Projects by \$293,826 in fiscal year 1998-99 and by \$355,557 in fiscal year 1997-98.
- b. The Department understated the amounts directly expended for the Veterans State Domiciliary Care and Nursing Home Care. The Department reported these amounts on an appropriation year basis rather than a fiscal year basis. We noted an understatement of \$152,274 in fiscal year 1998-99 and \$16,092 in fiscal year 1997-98.
- c. The Department understated the amounts of Medicare revenue received from Blue Cross Blue Shield for reimbursement of services. Again, the Department reported these amounts on an appropriation year basis rather than a fiscal year basis. We noted an understatement of \$9,218 in fiscal year 1998-99 and \$1,376 in fiscal year 1997-98.

- d. The Department did not report federal assistance received through the U.S. Department of Justice's drug forfeiture program. The Department received \$8,923 and \$2,774 in fiscal years 1998-99 and 1997-98, respectively.
- e. Award amounts for the various appendices of the National Guard Military Operations and Maintenance Projects were sometimes reported incorrectly because of subsequent modifications by the U.S. Department of Defense.

If internal control procedures are not effectively used or are inadequately designed, errors can occur on the SEFA. As a result of our audit, the Department revised its SEFA to reflect the correct expenditures of federal awards. Therefore, there were no questioned costs associated with these errors.

RECOMMENDATION

We recommend that the Department develop and implement internal control procedures to reconcile program expenditures reported on its SEFA with expenditure amounts reported in MAIN.

Independent Auditor's Report on
the Financial Schedules

May 24, 2000

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department 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 schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Military and Veterans Affairs' 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 Department 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 operating transfers and the sources and disposition of authorizations of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1999 and September 30, 1998, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of certain General Fund assets and liabilities and the schedule of disposition of General Fund authorizations by appropriation unit, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

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

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

May 24, 2000

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the General Fund financial schedules of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated May 24, 2000. 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 Department's financial schedules are 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. A reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

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 schedules 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 financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 the reportable condition described in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities 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.

Sincerely,

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

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

May 24, 2000

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

Compliance

We have audited the compliance of the Department of Military and Veterans Affairs 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 each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal 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 generally accepted auditing standards; 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 a major federal 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 Military and Veterans Affairs complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 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 a major federal 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 a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 2.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major 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 the reportable condition described in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities 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.

Sincerely,

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

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
REVENUE		
Federal Revenue:		
National Guard Bureau	\$ 16,684,988	\$ 13,459,445
Veterans Administration State Home Program	12,410,046	10,860,066
Medicare	841,510	514,265
Department of Justice	<u>70,635</u>	<u>18,625</u>
Total Federal Revenue	<u>\$ 30,007,179</u>	<u>\$ 24,852,401</u>
Cost-of-care assessments	\$ 16,181,571	\$ 15,336,156
Armory Rental Program	282,260	268,994
Armory sales	23,000	59,462
Miscellaneous	<u>180,067</u>	<u>160,770</u>
Total Revenue	\$ 46,674,077	\$ 40,677,782
OPERATING TRANSFERS		
From component units	<u>23,332</u>	<u>22,574</u>
Total Revenue and Operating Transfers	<u>\$ 46,697,409</u>	<u>\$ 40,700,357</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 39,581,300	\$ 35,153,500
Balances carried forward	6,786,668	7,035,084
Restricted financing sources	<u>46,575,161</u>	<u>40,630,392</u>
Total	<u>\$ 92,943,129</u>	<u>\$ 82,818,976</u>
 DISPOSITION OF AUTHORIZATIONS		
Expenditures and operating transfers out	<u>\$ 86,452,871</u>	<u>\$ 75,223,149</u>
Balances carried forward		
Multi-year projects	\$ 1,850,018	\$ 1,574,739
Encumbrances	675,656	1,446,823
Restricted revenue - authorized	1,486,375	1,389,218
Restricted revenue - not authorized	<u>1,600,616</u>	<u>2,375,888</u>
Total balances carried forward	<u>\$ 5,612,666</u>	<u>\$ 6,786,668</u>
Balances lapsed	<u>\$ 877,593</u>	<u>\$ 809,158</u>
Total	<u>\$ 92,943,129</u>	<u>\$ 82,818,976</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 1999 and September 30, 1998. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the Department. 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 operating transfers and the sources and disposition of authorizations for the Department of Military and Veterans Affairs' General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

c. Pension Benefits

The Department received annual appropriations for military retirement benefits for the Michigan National Guard members and special duty officers.

These appropriations are made from the General Fund on a pay-as-you-go basis. Expenditures for the military retirement plan totaled \$2.2 million for fiscal year 1998-99 and \$2 million for fiscal year 1997-98. The actuarially determined unfunded liabilities for the military retirement plan as of September 30, 1999 totaled \$33.5 million.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- d. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. The Department also had authorizations for large capital outlay projects that were accounted for by

the Department of Management and Budget. Unexpended authorizations carried forward for these projects totaled \$26,268,106 for fiscal year 1998-99 and \$28,497,992 for fiscal year 1997-98.

- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- f. Restricted revenue - authorized: Revenue that, by statute or the State Constitution, is restricted for use to a particular department program or activity. Generally, this revenue may be expended upon receipt without additional legislative authorization.
- g. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are revenues collected by the veterans' homes for cost-of-care assessments and U.S. Department of Veterans Affairs federal assistance.
- h. Balances lapsed: Department authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

SUPPLEMENTAL
FINANCIAL SCHEDULES

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DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Certain General Fund Assets and Liabilities
As of September 30

ASSETS	<u>1999</u>	<u>1998</u>
Accounts receivable from federal agencies	\$ 6,355,461	\$ 5,083,747
Due from component units	\$ 23,332	\$ 22,574
Miscellaneous accounts receivable	\$ 65,999	\$ 36,609
Inventories	\$ 384,464	\$ 248,200
LIABILITIES		
Accounts payable	\$ 4,339,655	\$ 7,866,036
Deferred revenue	\$ 61,295	\$ 105,903
Due to other funds	\$ 7,074	\$ 11,199
Other liabilities	\$ 709,865	\$ 459,186

This schedule of certain General Fund assets and liabilities is not representative of a balance sheet and is not intended to report financial condition. This schedule presents certain significant General Fund assets and liabilities which result directly from the operations of, and are the responsibility of, the Department of Military and Veterans Affairs. The schedule excludes certain other assets, such as land, buildings, equipment, equity in Common Cash, and cash in transit, and certain other liabilities, such as warrants outstanding, that are accounted for centrally by the State.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Years Ended September 30

<u>Appropriation Unit</u>	1999			
	<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u> <u>and Operating</u> <u>Transfers Out</u>	<u>Balances</u> <u>Carried</u> <u>Forward</u>	<u>Balances</u> <u>Lapsed</u>
Headquarters and armories	\$ 10,745,122	\$ 10,372,459	\$ 17,601	\$ 35,063
Military training sites and support facilities	12,933,148	12,645,416	5,271	32,461
Departmentwide support	12,449,110	9,683,703	2,227,896	584,711
Veterans' service organizations	3,735,200	3,485,100	250,000	100
Grand Rapids Home for Veterans	38,395,297	38,286,972	205,151	105,975
D.J. Jacobetti Home for Veterans	13,510,894	11,700,354	1,995,734	111,021
Michigan Veterans' Trust Fund	253,900	175,639		8,261
Vietnam Veterans' Memorial Monument Fund	920,457	9,444	911,013	
Court settlements		90,000		
Accounts receivable write-offs		<u>3,785</u>		
Total	<u>\$ 92,943,129</u>	<u>\$ 86,452,871</u>	<u>\$ 5,612,666</u>	<u>\$ 877,593</u>

1998			
<u>Total</u> <u>Authorizations</u>	<u>Expenditures</u> <u>and Operating</u> <u>Transfers Out</u>	<u>Balances</u> <u>Carried</u> <u>Forward</u>	<u>Balances</u> <u>Lapsed</u>
\$ 8,187,501	\$ 8,152,969	\$ 31,673	\$ 12,816
10,254,426	10,381,841	8,356	223,229
10,792,447	7,735,038	2,760,420	145,989
3,306,900	3,306,800		100
35,940,771	34,512,273	1,202,682	7,931
13,090,630	10,817,231	1,863,080	354,420
246,300	185,426		60,874
1,000,000	79,543	920,457	
	<u>52,028</u>		<u>3,800</u>
<u>\$ 82,818,976</u>	<u>\$ 75,223,149</u>	<u>\$ 6,786,668</u>	<u>\$ 809,158</u>

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
 Schedule of Expenditures of Federal Awards (a)
 For the Period October 1, 1997 through September 30, 1999

Grantor Agency/Federal Assistance Program Title	CFDA (b) Program Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 1998			
			Directiv Expended by Department	Distributed to Subrecipient	In-Kind Assistance (c)	Total Expended, Distributed, and In-Kind Assistance
U.S. Department of Defense						
National Guard Military Operations and Maintenance Projects:						
Army National Guard Real Property Operations and Maintenance	12.401		\$ 5,805,218	\$ 990,813	\$ 1,548,235	\$ 8,344,266
Army National Guard Environmental Resources Management	12.401		1,782,158		886,871	2,669,029
Army National Guard Security Guard Activities	12.401		301,019			301,019
Army National Guard Electronic Security Systems	12.401		57,894			57,894
Army National Guard Telecommunications	12.401		843,330			843,330
Army National Guard Aviation Operations	12.401		33,420			33,420
Army National Guard Automated Target Systems	12.401		133,510			133,510
Army National Guard Store Front Recruiting Office Leases	12.401					
Air National Guard Facilities Operations and Maintenance	12.401		1,674,673		4,616,841	6,291,514
Air National Guard Environmental	12.401					
Air National Guard Security Guard Activities	12.401		716,584		48,202	764,786
Air National Guard Fire Protection	12.401		1,937,092		155,971	2,093,063
Master Youth Cooperative Agreement - Challenge Program	12.401					
Master Youth Cooperative Agreement - Starbase Program	12.401			223,450		223,450
Total U.S. Department of Defense			\$ 13,284,898	\$ 1,214,263	\$ 7,256,120	\$ 21,755,281
U.S. Department of Justice						
Direct Program						
Equitable Sharing of Federally Forfeited Property	16		\$ 2,775	\$	\$	\$ 2,775
Pass-Through Program						
Michigan Department of Community Health Byrne Formula Grant Program	16.579	MYC 2000				
Total U.S. Department of Justice			\$ 2,775	\$ 0	\$ 0	\$ 2,775
U.S. Department of Veterans Affairs						
Veterans State Domiciliary Care	64.014		\$ 790,939	\$	\$	\$ 790,939
Veterans State Nursing Home Care	64.015		10,184,376	205,015		10,389,391
Total U.S. Department of Veterans Affairs (d)			\$ 10,975,315	\$ 205,015	\$ 0	\$ 11,180,330
Total Expenditures of Federal Awards			\$ 24,262,988	\$ 1,419,278	\$ 7,256,120	\$ 32,938,386

(a) Basis of Presentation: This schedule includes the federal grant activity of the Department of Military and Veterans Affairs and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

(b) CFDA is defined as the *Catalog of Federal Domestic Assistance*.

(c) As part of the National Guard Cooperative Agreement, the U.S. Department of Defense also provided in-kind assistance in the form of direct federal payment for services and supplies for the military operations and maintenance projects.

(d) The Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans received federal Medicare Program revenue totaling \$852,414 in fiscal year 1998-99 and \$479,616 in fiscal year 1997-98. The Medicare revenue was received from Blue Cross Blue Shield. Medicare revenue is not considered federal assistance, but rather as reimbursement from Blue Cross Blue Shield for the purchase of services provided by the Homes. Therefore, Medicare revenue is not included on this schedule.

For the Fiscal Year Ended September 30, 1999

Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (c)	Total Expended, Distributed, and In-Kind Assistance	Total Expended, Distributed, and In-Kind Assistance for the Two-Year Period
\$ 6,475,229	\$ 1,281,123	\$ 48,000	\$ 7,804,352	\$ 16,148,618
2,216,873		623,400	2,840,273	5,509,302
336,332			336,332	637,351
45,384			45,384	103,278
1,240,612			1,240,612	2,083,942
33,420			33,420	66,840
228,214			228,214	361,724
41,039			41,039	41,039
2,310,153		4,616,841	6,926,994	13,218,508
28,269		23,418	51,687	51,687
1,001,090		48,202	1,049,292	1,814,078
2,148,472		50,368	2,198,840	4,291,903
342,080			342,080	342,080
	212,278		212,278	435,728
\$ 16,447,167	\$ 1,493,401	\$ 5,410,229	\$ 23,350,797	\$ 45,106,078
\$ 8,923	\$	\$	\$ 8,923	\$ 11,698
70,635			70,635	70,635
\$ 79,558	\$ 0	\$ 0	\$ 79,558	\$ 82,333
\$ 859,648	\$	\$	\$ 859,648	\$ 1,650,587
11,698,139	186,663		11,884,802	22,274,193
\$ 12,557,787	\$ 186,663	\$	\$ 12,744,450	\$ 23,924,780
\$ 29,084,512	\$ 1,680,064	\$ 5,410,229	\$ 36,174,805	\$ 69,113,191

OTHER REQUIRED SCHEDULES

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Summary Schedule of Prior Audit Findings

As of May 24, 2000

There were no findings in the prior Department of Military and Veterans Affairs Single Audit report.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Corrective Action Plan

As of August 15, 2000

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 510001
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)
See Finding 510002 with the findings related to the federal awards.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 510002
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)
Management Views: We agree with the recommendation to develop and implement internal control procedures to reconcile program expenditures reported on the SEFA with expenditure amounts reported in MAIN and have complied.
Corrective Action: We have developed detailed expenditure and revenue schedules that will provide the basis for preparing the SEFA. We will continue to report award amounts using the most current Master Cooperative Agreement modification.
Anticipated Completion Date: October 1, 2000
Responsible Individual: Joel A. Wortley, Chief Financial Officer, Office of Financial Services

Glossary of Acronyms and Terms

CFDA	<i>Catalog of Federal Domestic Assistance.</i>
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) 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 and it meets other criteria related to prior audit results. In accordance with State statute, Single Audits of the State of Michigan are conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
MAIN	Michigan Administrative Information Network.
material misstatement	A misstatement in the financial schedules that causes the schedules to not present fairly the revenue and operating transfers and the sources and disposition of authorizations in conformity with generally accepted accounting principles.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal financial assistance programs or on financial schedule amounts.

material weakness	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 either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major 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.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
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 Department's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contract, and grants.
SEFA	schedule of expenditures of federal awards.
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 generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> 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.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.