

EXECUTIVE DIGEST

DEPARTMENT OF MANAGEMENT AND BUDGET

INTRODUCTION

This report contains the results of our financial audit* , including the provisions of the Single Audit Act, of the Department of Management and Budget (DMB) for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of DMB 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

DMB has two separate and distinct components overseen by the DMB director and the State budget director, who are appointed by the Governor.

DMB is responsible for providing centralized Statewide services to other departments. The DMB director has responsibility for management services and for procurement and information technology. The State budget director has responsibility in the areas of budget and financial management. DMB recoups a portion of the costs of these services through charges to user departments. The following offices provide these

Statewide services: Offices of Financial Management, Michigan Information Center, Facilities, Retirement Services, Support Services, Purchasing, Information Technology Solutions, Computing and Telecommunications, and the State Employer, and the Michigan Administrative Information Network.

The State Building Authority Advance Financing Fund (SBAAFF) was created in 1988 to account for expenditures incurred for employment, higher education, and State projects prior to the issuance of State Building Authority bonds.

The Office of Services to the Aging was created as an autonomous agency within DMB and exercised its powers and functions independent of the DMB director. The Office of Services to the Aging administers programs, under the provisions of federal and State guidelines, that support Michigan's older citizens. This Office was transferred to the Department of Community Health in May 1997 by Executive Order 97-5.

The Office of Administrative Services and the Office of Services to the Aging handled their respective responsibilities for federal assistance program management through the fiscal year ended September 30, 1997. For fiscal year 1997-98, the Office of Administrative Services managed all federal assistance programs within DMB.

As of September 30, 1998, DMB had 1,488 full-time equated positions. For the fiscal year ended September 30, 1998, DMB's General Fund expenditures were \$2.1 billion, of which \$1.7 billion were grants to colleges and universities. For the fiscal year ended

September 30, 1998, SBAAFF expenditures were \$39.9 million.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit DMB's financial schedules and its SBAAFF financial statements, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed unqualified opinions on DMB's financial schedules and its SBAAFF financial statements.

Audit Objective: To assess and report on DMB'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 statements, and on its internal control* over financial reporting, based on our audit of the financial schedules and statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to accounts payable, budgetary and financial reporting, and misclassification of expenditures (Findings 1 through 3).

In addition, our assessment indicated that DMB 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 DMB'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 each 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 each major federal program did not disclose any material weaknesses. However, we identified a reportable condition in the Office of Services to the Aging related to payroll-personnel distributions (Finding 4).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the General Fund operations and the State Building Authority Advance Financing Fund of the Department of Management and Budget for the period October 1, 1996 through September 30, 1998. 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.

The scope of this audit did not include the separate funds administered by DMB that did not receive any federal financial assistance. Those funds, which are audited

separately and included in other audit reports, are: the Counter-Cyclical Budget and Economic Stabilization Fund, State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology Revolving Fund, Risk Management Fund, State Sponsored Group Insurance Fund, and the retirement funds administered by the Office of Retirement Services.

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

As a result of a prior audit recommendation, DMB has made significant improvements in the area of security administration. These improvements include quarterly security reviews of DMB systems and programs. DMB has shared its security review package with other State agencies and intends to incorporate it into security guidelines being developed by the Office of Financial Management.

Our audit report contains 4 findings and corresponding recommendations. The corrective action plan indicates that DMB agrees with 2 of the 3 findings and all 3 of the recommendations related to DMB. The corrective action plan also indicates that the Department of Community Health agrees with the 1 finding and recommendation related to the Office of Services to the Aging.

As disclosed in DMB's summary schedule of prior audit findings, DMB complied with the 5 prior Single Audit* recommendations included in the 3 prior audit findings.