



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Support Services Division
Office of Financial Management
Office of the State Budget
Department of Management and Budget

Report Number:
 07-130-05

Released:
 December 2005

The Support Services Division (SSD) is a division of the Office of Financial Management within the Office of the State Budget, Department of Management and Budget. SSD has primary responsibility for ensuring that an effective Statewide internal control structure is maintained. This responsibility is achieved through a blend of services, including security management, training, and support for the State's enterprise-wide financial management systems and oversight of government-wide internal control evaluation and reporting processes.

Audit Objective:

To assess the effectiveness of SSD's efforts in providing technical assistance, training, and oversight of the Statewide internal control structure.

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Audit Conclusion:

SSD's efforts were effective in providing technical assistance and training. However, SSD's efforts were moderately effective in providing oversight of the Statewide internal control structure. We noted a reportable condition related to the oversight of the Statewide internal control structure (Finding 1).

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Reportable Condition:

SSD did not sufficiently evaluate the completeness and accuracy of the detail supporting the State agencies' biennial internal control evaluation summary reports and did not verify that State agency corrective action plans were implemented and that the plans corrected the noted deficiencies.

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Agency Response:

Our audit report contains 1 finding and 1 corresponding recommendation. SSD indicated that it agrees with the recommendation.

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December 29, 2005

Ms. Mary A. Lannoye, State Budget Director
Office of the State Budget
Department of Management and Budget
George W. Romney Building
Lansing, Michigan

Dear Ms. Lannoye:

This is our report on the performance audit of the Support Services Division, Office of Financial Management, within the Office of the State Budget, Department of Management and Budget.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms.

The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. 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.

AUDITOR GENERAL

TABLE OF CONTENTS

**SUPPORT SERVICES DIVISION
OFFICE OF FINANCIAL MANAGEMENT
OFFICE OF THE STATE BUDGET
DEPARTMENT OF MANAGEMENT AND BUDGET**

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	6
Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	8
COMMENT, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE	
Effectiveness in Providing Technical Assistance, Training, and Oversight of the Statewide Internal Control Structure	11
1. Oversight of the Statewide Internal Control Structure	11
GLOSSARY	
Glossary of Acronyms and Terms	15

Description of Agency

The Support Services Division (SSD) is a division of the Office of Financial Management (OFM) within the Office of the State Budget, Department of Management and Budget. SSD has primary responsibility for ensuring that an effective Statewide internal control structure is maintained. This responsibility is achieved through a blend of services, including security management, training, and support for the State's enterprise-wide financial management systems and oversight of government-wide internal control evaluation and reporting processes. SSD also obtains and approves executive branch agencies' final agency response and corrective action plans for all Office of the Auditor General audit reports. SSD is divided into three main sections, Security Management and Audit Analysis (SMAA) Section, OFM Help Desk, and Training and Communications Section:

1. The SMAA Section is responsible for monitoring internal control activity required by Act 431, P.A. 1984, as amended. This includes developing and maintaining internal control monitoring tools and internal control policies and procedures and the collection of agency corrective action plans that address findings of external auditors, such as the Office of the Auditor General. This Section is also responsible for the oversight of security management for the State's financial management systems. The SMAA Section also develops scripts, which are program inquiries to sort and report specific data that meet defined criteria, to allow agency security administrators to monitor key internal controls regarding enterprise-wide security. There were two employees within the Section as of August 26, 2005.
2. The OFM Help Desk is responsible for providing assistance to users of the State's various financial systems, including the Michigan Administrative Information Network, Human Resources Management Network, Data Collection and Distribution System, and Management Information Database. During the period July 1, 2004 through June 30, 2005, the OFM Help Desk responded to approximately 21,500 calls. The OFM Help Desk is also responsible for the processing of vendor file registration and vendor file maintenance. There were nine employees within the section as of August 26, 2005.

3. The Training and Communications Section is responsible for developing and delivering State employee training; advising and consulting with customers on training matters; maintaining the Michigan Administrative Information Network user documentation and the OFM Web site; and developing and maintaining training policies and procedures. During the period October 1, 2003 through June 30, 2005, the Training and Communications Section conducted 501 training sessions in 63 instructor-led courses to over 2,600 participants. There were eight employees within the Section as of August 26, 2005.

Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objective

The objective of our performance audit* of the Support Services Division (SSD), Office of Financial Management (OFM), within the Office of the State Budget, Department of Management and Budget, was to assess the effectiveness* of SSD's efforts in providing technical assistance, training, and oversight of the Statewide internal control structure.

Audit Scope

Our audit scope was to examine the program and other records related to the Support Services Division. Our audit was conducted in accordance with *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.

Audit Methodology

Our audit procedures, conducted from March through August 2005, included examination of SSD records primarily for the period October 1, 2002 through June 30, 2005.

We conducted a preliminary review of SSD's operations to formulate a basis for defining the audit objective and scope. Our preliminary review included interviewing SSD personnel; reviewing applicable statutes, regulations, and rules; analyzing available data and statistics on SSD's activity levels; and reviewing SSD policies and procedures to obtain an understanding of SSD's operational activities and responsibilities.

To accomplish our audit objective, we evaluated SSD's procedures applied to internal control reports submitted by State agencies and to State agencies' responses to Office of the Auditor General (OAG) audit findings. Also, we analyzed the correlation between State agency internal control reports and OAG audit reports.

* See glossary at end of report for definition.

In addition, we completed time study analysis of the OFM Help Desk call volume and training time. We developed an understanding of the extent of cross-training and time spent on cross-trained activities for the OFM Help Desk and training staff.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 1 corresponding recommendation. SSD indicated that it agrees with the recommendation.

The agency preliminary response that follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Management and Budget to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

We released our prior performance audit of the Office of Financial Management, Department of Management and Budget (#0713097), in May 1998. Within the scope of this audit, we followed up 8 of the 11 prior audit recommendations. SSD complied with all 8 of the prior audit recommendations.

COMMENT, FINDING, RECOMMENDATION,
AND AGENCY PRELIMINARY RESPONSE

EFFECTIVENESS IN PROVIDING TECHNICAL ASSISTANCE, TRAINING, AND OVERSIGHT OF THE STATEWIDE INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the effectiveness of the Support Services Division's (SSD's) efforts in providing technical assistance, training, and oversight of the Statewide internal control structure.

Conclusion: **SSD's efforts were effective in providing technical assistance and training. However, SSD's efforts were moderately effective in providing oversight of the Statewide internal control structure.** We noted a reportable condition* related to the oversight of the Statewide internal control structure (Finding 1).

FINDING

1. Oversight of the Statewide Internal Control Structure

SSD did not sufficiently evaluate the completeness and accuracy of the detail supporting the State agencies' biennial internal control evaluation (ICE) summary reports and did not verify that State agency corrective action plans were implemented and that the plans corrected the noted deficiencies.

Increased evaluations and verifications would help SSD ensure that the design of the Statewide internal control structure was effective. An effective Statewide internal control structure is necessary to ensure that the State's assets are properly safeguarded, that programs are administered in compliance with applicable laws and regulations, and that financial information is materially correct.

During our review of SSD processes, we noted:

- a. SSD did not evaluate the detail supporting State agencies' ICE summary reports to ensure that the detail was complete and accurate. SSD received and reviewed only the summary ICE report from each State agency, which notes only material weaknesses. Without reviewing the detail ICE report, SSD

* See glossary at end of report for definition.

did not have sufficient details to assess the completeness and accuracy of each of the agencies' ICEs and did not have sufficient detail to assess the significance of the identified weaknesses that may affect Statewide internal control.

Section 18.1485(4) of the *Michigan Compiled Laws* requires State agencies to complete an ICE and report the results to the Department of Management and Budget. The purpose of this report is for State agencies to identify their various processes, systems, and programs and to document the associated internal control structure, as well as to identify any deficiencies in those internal controls.

To evaluate the completeness and accuracy of the State agencies' ICEs, we compared internal control and compliance findings published in Office of the Auditor General (OAG) audit reports during the period October 1, 2002 through June 30, 2005 with the ICEs prepared by seven State agencies for the period ended September 30, 2004. We evaluated whether the State agencies had identified the weaknesses noted in the internal control or compliance findings within their ICEs and if they had addressed the risk related to the weaknesses in one of the agencies' processes, systems, and/or programs and related controls. We noted that 18 (35%) of 51 findings identified as material conditions in the OAG audit reports were not identified in the ICEs. We also noted that 99 (47%) of 209 findings identified as reportable conditions were not identified in the ICEs. A properly completed ICE would have identified these material or reportable conditions or the controls that were developed to address the deficiency.

Similar procedures performed by SSD could help identify those State agencies that require assistance in correctly completing an ICE that contains all processes, systems, and/or programs and their related controls. Further analysis of the ICEs could also assist SSD in prioritizing its efforts to areas with the most significant weaknesses or in identifying agencies with the most need for training or other assistance.

- b. SSD did not conduct procedures to verify that the State agencies' plans to correct control deficiencies cited in OAG audit reports were implemented and that the plans corrected the noted deficiencies.

SSD received and approved the corrective action plans from State agencies related to recommendations in OAG audit reports. SSD uses a tracking system to list reported weaknesses and deficiencies and obtain the corresponding corrective action plan and the expected implementation date from the State agencies. However, SSD did not require the State agencies to report their progress toward compliance on a periodic basis and did not ensure that corrective action plans were implemented and that the plans corrected the noted weakness.

SSD indicated that it had limited staff resources within its Security Management and Audit Analysis (SMAA) Section, which is the section that is primarily responsible for monitoring the Statewide internal control structure, and that it could not perform additional analysis and functions that would help identify internal control weaknesses and determine if corrective action plans were implemented for identified weaknesses. SSD could be more effective in its responsibility of ensuring an effective Statewide internal control structure by cross-training other SSD employees to assist SMAA Section employees in conducting procedures necessary to achieve these responsibilities.

RECOMMENDATION

We recommend that SSD sufficiently evaluate the completeness and accuracy of the detail supporting the State agencies' ICE summary reports and verify that State agency corrective action plans are implemented and that the plans correct the noted deficiencies.

AGENCY PRELIMINARY RESPONSE

SSD agrees with the recommendation and indicated that the processes for evaluating agency ICE reports and monitoring progress on agency corrective action plans can be improved, but SSD believes that the responsibility for implementing such improvements is shared jointly between SSD, agency management, and the agency internal auditors. SSD informed us that it will incorporate the improvements suggested in this audit report into its ongoing efforts to work with agency management and the internal auditors to improve the overall ICE process.

GLOSSARY

Glossary of Acronyms and Terms

effectiveness	Program success in achieving mission and goals.
ICE	biennial internal control evaluation.
OAG	Office of the Auditor General.
OFM	Office of Financial Management.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
SMAA	Security Management and Audit Analysis.
SSD	Support Services Division.

