



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

JOHN E. NIXON, CPA
DIRECTOR

July 18, 2012

Mr. Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 8th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is the corrective action plan to address recommendations contained within the Office of the Auditor General's audit report of the Department of History, Arts, and Libraries.

Questions regarding the corrective action plan should be directed to Lora Mikula, Accounting and Financial Reporting Division Director at mikulal@michigan.gov or (517) 373-0447.

Sincerely,

Signature Redacted

Michael J. Moody, Director
Office of Financial Management

Attachment

cc: Dennis Muchmore, Chief of Staff, Executive Office
Wendy Wisniewski, Executive Assistant, Executive Office
Thomas H. McTavish, Auditor General
Charles Moss, Chair, House Appropriations Committee
Roger Kahn, M.D., Chair, Senate Appropriations Committee
Mary Ann Cleary, Director, House Fiscal Agency
Ellen Jeffries, Director, Senate Fiscal Agency

State Budget Office
Response to Office of the Auditor General
Financial Audit of the Department of History, Arts and Libraries
Audit Period October 1, 2008 through September 30, 2009
Response Date September 19, 2011

The former Michigan Department of History, Arts, and Libraries (HAL) was abolished effective October 1, 2009 per Executive Order 2009-36 which transferred its functions and budgetary resources to several other principal departments and agencies within the State. The executive order also stated that the State Budget Director shall determine and authorize the most efficient manner possible for handling HAL's financial transactions and records in MAIN. Consequently, the Office of the Auditor General (OAG) has addressed recommendations for certain findings to the State Budget Office.

Finding 2511001: Internal Control over Revenue

Part VII of the State of Michigan Financial Management Guide provides guidance to departments when establishing and evaluating their internal accounting and administrative control system. This guidance represents the General Framework as referenced in Public Act 431 of 1984, as amended. The guidance provided is derived from the Internal Control Integrated Framework, as authored by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and provides in-depth discussion of the five necessary elements of a sound internal control system.

The State Budget Office has evaluated the existing internal control policies and procedures and believes when followed the guidance is sound and effective. As noted in the OAG audit, the internal controls at HAL began to break down as staff was redeployed from HAL to other agencies in accordance with the executive order. The risk of this scenario being repeated in a similar future agency abolishment is mitigated by the accounting service center model implemented by the State Budget Office in accordance with Executive Order 2007-32 to consolidate accounting functions. The creation of accounting service centers to provide accounting services to small and mid-size state departments and agencies ensures review and approval of accounting transaction processing and reporting. Going forward, it is our intent to request an accounting service center to provide accounting services to abolished agencies to ensure proper internal controls are maintained.

Finding 2511002: Internal Control Over Expenditures

Part VII of the State of Michigan Financial Management Guide provides guidance to departments when establishing and evaluating their internal accounting and administrative control system. This guidance represents the General Framework as referenced in Public Act 431 of 1984, as amended. The guidance provided is derived from the Internal Control Integrated Framework, as authored by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and provides in-depth discussion of the five necessary elements of a sound internal control system.

The State Budget Office has evaluated the existing internal control policies and procedures and believes when followed the guidance is sound and effective. As noted in the OAG audit, the internal controls at HAL began to break down as staff was redeployed from HAL to other agencies in accordance with the executive order. The risk of this scenario being repeated in a similar future agency abolishment is mitigated by the accounting service center model implemented by the State Budget Office in accordance with Executive Order 2007-32 to consolidate accounting functions. The creation of accounting service centers to provide accounting services to small and mid-size state departments and agencies ensures review and approval of accounting transaction processing and reporting. Going forward, it is our intent to request an accounting service center to provide accounting services to abolished agencies to ensure proper internal controls are maintained.

Finding 2511003: Internal Control Over Financial Reporting

Part VII of the State of Michigan Financial Management Guide provides guidance to departments when establishing and evaluating their internal accounting and administrative control system. This guidance represents the General Framework as referenced in Public Act 431 of 1984, as amended. The guidance provided is derived from the Internal Control Integrated Framework, as authored by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and provides in-depth discussion of the five necessary elements of a sound internal control system.

The State Budget Office has evaluated the existing internal control policies and procedures and believes when followed the guidance is sound and effective. As noted in the OAG audit, the internal controls at HAL began to break down as staff was redeployed from HAL to other agencies in accordance with the executive order. The risk of this scenario being repeated in a similar future agency abolishment is mitigated by the accounting service center model implemented by the State Budget Office in accordance with Executive Order 2007-32 to consolidate accounting functions. The creation of accounting service centers to provide accounting services to small and mid-size state departments and agencies ensures review and approval of accounting transaction processing and reporting. Going forward, it is our intent to request an accounting service center to provide accounting services to abolished agencies to ensure proper internal controls are maintained.