



Michigan
Office of the Auditor General
REPORT SUMMARY

Management Letter

*State of Michigan Comprehensive Annual
Financial Report*

State Budget Office

*Department of Technology, Management &
Budget*

Report Number:
071-0010-11

Released:
April 2011

Generally accepted auditing standards require that significant deficiencies that come to the auditor's attention during the audit be reported. This management letter is the result of such items coming to our attention during the audit of the fiscal year 2009-10 State of Michigan Comprehensive Annual Financial Report (SOMCAFR), which resulted in an unqualified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

Significant Deficiencies:

**Impact of Community Health Automated
Medicaid Processing System (CHAMPS)
Defects on the Medicaid Accrual**

The Department of Community Health (DCH) did not have internal control in place to ensure that the effect of known CHAMPS defects were reviewed and included in the Medicaid accrual as necessary (Finding 1).

DCH Converted Claims

DCH did not have sufficient internal control to ensure that historical claims data was accurately converted from the Medicaid Management Information System (MMIS) data warehouse to the new CHAMPS data warehouse (Finding 2).

CHAMPS Payment Errors

DCH did not have internal control in place to prevent or detect and correct payment errors made through CHAMPS (Finding 3).

**Recording and Calculation of Medicaid
Accrual**

DCH did not ensure that all expenditures/expenses and revenues were properly accrued for amounts due or for amounts not yet collected at September 30, 2010 for Medicaid (Finding 4).

Payments to Long-Term Care Facilities

DCH did not have sufficient internal control to ensure that proper payments were made to long-term care skilled nursing facilities (Finding 5).

Reconciliation of Pharmacy Rebates

DCH did not have sufficient internal control to ensure that pharmaceutical rebates were accurately invoiced (Finding 6).

Reconciliation of School Aid Fund Subsidiary Accounting Records

The Michigan Department of Education's year-end closing procedures did not include a comparison of its accounts receivable subsidiary detail with the "Amounts due from local units" recorded in the Michigan Administrative Information Network (MAIN) (Finding 7).

Recording of November Tax Accruals

The Department of Treasury did not adjust its estimate for the November taxes payable and receivable when actual information was available (Finding 8).

Review of Accrual Methodologies

The Office of Financial Management (OFM), in conjunction with other State agencies, should review its process to track accrual methodologies and modify the methodologies as necessary to ensure that accounting estimates are reliable (Finding 9).

General Controls Over State Information Systems

The Department of Technology, Management & Budget (DTMB), in conjunction with other State departments, should continue to improve information technology general controls for significant financial related information systems (Finding 10).

Recording of Net Pension Obligations (NPOs) and Net Other Postemployment Benefits Obligations (NOPEBOs)

OFM did not estimate the long-term obligations for NPOs and NOPEBOs for non-State employees (Finding 11).

Consistency in Use of Single Business Tax (SBT) Historical Data

The Department of Treasury did not have internal control in place to ensure that it consistently applied its methodology related to the use of SBT historical data to estimate Michigan Business Tax (MBT) receivables (Finding 12).

On-Behalf Payments for Other Postemployment Benefits (OPEB)

DTMB did not have internal control in place to fully recognize expenditures and revenue associated with on-behalf payments made by the federal government related to OPEB (Finding 13).

~ ~ ~ ~ ~

Agency Response:

Our management letter includes 13 findings and 13 corresponding recommendations. DTMB's preliminary response indicates that OFM agrees with 9 of the recommendations, disagrees with 3 recommendations, and partially agrees with 1 recommendation.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General