



STATE OF MICHIGAN

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
LANSING

RICK SNYDER
GOVERNOR

JOHN E. NIXON, CPA
DIRECTOR

July 23, 2012

Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Department of Technology, Management & Budget, Michigan State Police Retirement System (MSPRS) Comprehensive Annual Financial Report.

Questions regarding the attached summary table or corrective action plans should be directed to me.

Sincerely,

Signature Redacted

Michael R. Gilliland, Director
Financial Services

Attachment

- c: Rep. Chuck Moss, Chair, House Appropriations
- Senator Rodger Kahn, Chair, Senate Appropriations
- Mark Freeman, Office of the Auditor General
- Dennis Muchmore, Executive Office
- Dick Posthumus, Executive Office
- House Fiscal Agency
- Senate Fiscal Agency
- Phillip Jeffery, DTMB
- Rick Lowe, DTMB
- Kurt Weiss, DTMB
- Matt Sweeney, DTMB
- Phil Stoddard, DTMB
- Ron Foss, DTMB

Department of Technology, Management and Budget
Michigan State Police Retirement System (MSPRS)
October 1, 2009 through September 30, 2011

Summary of Agency Responses to Recommendations

1. Audit recommendations DTMB fully complied with: None
2. Audit recommendations DTMB agrees with and will comply: #1
3. Audit recommendations DTMB disagrees with: #2

Agency's plan to address the recommendations:

1. Finding #1 – Controls over Financial Reporting

The Department of Technology, Management & Budget agrees with the recommendation but notes that misclassifications were corrected in the State's accounting records and the published financial statements were accurate. Financial Services will revise existing financial statement preparation and review processes to enhance existing controls for calculating and recording activity related to programs and incentives and update procedures as needed by August 30, 2012.

Regarding items a and b, Existing procedures for financial statement preparation and review processes, are being revised to enhance existing controls, including monthly and/or quarterly reconciliations and an internal year-end closing calendar to identify and correct issues in a timely manner. In addition, communications between the FS and the Office of Retirement Services (ORS), to monitor ERRP payment requests and subsequent receipts, were initiated to ensure all information is captured and recorded appropriately.

Regarding item c, FS, ORS, the Office of Financial Management (OFM), and Treasury's Bureau of Investments (BOI), are collaborating to implement new MAIN accounting processes to separate the Pension and OPEB plans within the MSERS to eliminate the need for any allocations between the columns. In addition, existing procedures for financial statement preparation and review processes will be revised to enhance existing controls for calculating and recording activity related to programs and incentives.

2. Finding #2 – Deferred Retirement Option Program (DROP)

DTMB disagrees with the assertion that its recording of expenses for DROP benefits is inconsistent with generally accepted accounting principles. GASB Statement No. 25, paragraph 26, states that "plan liabilities for benefits and refunds should be recognized when due and payable in accordance with the terms of the plan." Section 38.1624a(6) of the Michigan Compiled Laws states that "a DROP participant shall not have any claim to an funds in his or her deferred retirement option plan account until he or she retires at the termination of his or her deferred retirement option plan participation." DTMB believes that Section 38.1624a(6) of the Michigan Compiled Laws makes clear that DROP benefits do not become due and payable until the employee ends his or her participation in DROP by retiring or electing a distribution option. Therefore, DTMB believes that recording expenses for DROP benefits in accordance with the distribution option selected at retirement is consistent with generally accepted accounting principles.

FS records the change in DROP liability each year as of September 30, 2011 between the Employer Contributions and the Retired Benefits Reserves to ensure funding for accumulated DROP benefits is available when distributions occur. FS obtained verification from OFM's Accounting and Financial Reporting Division on June 14, 2012, that the current treatment is appropriate. DTMB has determined that no further action is required.