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DIRECTOR

October 23, 2013

TO: Doug Ringler, Director  
Office of Internal Audit Services

FROM:  Michael J. Moody, Director  
Office of Financial Management

SUBJECT: Corrective Action Plan for the Report on Internal Control, Compliance,  
and other Matters for the State of Michigan Comprehensive Annual  
Financial Report

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In accordance with the State of Michigan's Financial Management Guide, Part VII, Chapter 4, Section 100, enclosed is a summary table identifying our responses and corrective action plan to address the recommendations in the Report on Internal Control, Compliance, and other Matters for the State of Michigan Comprehensive Annual Financial Report, covering the period of October 1, 2011 through September 30, 2012. The Office of Internal Audit Services, State Budget Office, approved the distribution of the plan.

Questions regarding the summary table or corrective action plan should be directed to Lora Mikula, Director, Accounting and Financial Reporting at [mikulal@michigan.gov](mailto:mikulal@michigan.gov) or 373-0447.

Enclosures

cc: Executive Office  
Office of the Auditor General  
House Fiscal Agency  
Senate Fiscal Agency

**Fiscal Year 2012 Corrective Action Plan for  
Report on Internal Control, Compliance, and other Matters  
State of Michigan Comprehensive Annual Financial Report**

**1. Audit Recommendations the agency has complied with:**

Finding 4 – Medicaid Physician Adjuster Payments

**2. Audit Recommendations the agency agrees with and will comply:**

Finding 1b, 1c, 1d – Tax Accruals

Finding 2 – Medicaid Accrual

Finding 3 – Capital Assets

Finding 5 – MDOT Contractor Payments

**3. Audit Recommendations the agency disagrees with:**

None

**4. Audit Recommendations the agency neither agrees or disagrees with:**

Finding 1a – Tax Accruals

**Fiscal Year 2012 Corrective Action Plan for  
Report on Internal Control, Compliance, and other Matters  
State of Michigan Comprehensive Annual Financial Report**

Finding 1: Tax Accruals

The Office of Financial Management (OFM), within the Department of Technology, Management, and Budget (DTMB), in conjunction with other State departments should improve internal control\* to prevent, or detect and correct, misstatements and ensure the reasonableness of the tax accruals.

- a. Treasury and OFM did not use the appropriate set of collectability percentages to estimate and record taxes receivable in relation to receivables to be assessed.
- b. Treasury and OFM did not ensure that liabilities relating to the Michigan Business Tax (MBT) were properly recorded.
- c. Treasury and OFM did not ensure that MBT cash collections were properly recorded in fiscal year 2011-12.
- d. Treasury and OFM did not ensure that delinquent tax assessments included within estimated receivable calculations represented valid amounts owed to the State.

Recommendation

We recommend that OFM, in conjunction with other State departments, improve internal control to prevent, or detect and correct misstatements and ensure the reasonableness of the tax accruals.

Preliminary Response:

Treasury and OFM neither agree nor disagree with part a. of the finding. OFM informed us that, at this time, insufficient historical data is available to determine whether it is appropriate to revise the estimation methodology. Treasury and OFM will reevaluate part a. of the finding when sufficient historical data becomes available.

Treasury and OFM agree with parts b., c., and d. of the finding. OFM reiterated that the identified errors were corrected prior to the issuance of the SOMCAFR and informed us that, as part of the annual review of tax accrual methodologies, Treasury and OFM will determine if changes are needed to minimize the risk of similar types of errors in the future.

Corrective Action

Regarding part a. of the finding, there is still not enough historical data available to determine whether it is appropriate to revise the estimation methodology. Treasury and OFM will reevaluate part a. of the finding when sufficient historical data becomes available, which is expected to be in fiscal year 2014.

Regarding parts b., c., and d. of the finding, Treasury and OFM are in the process of improving documentation of processes and estimation methodologies in order to prevent or detect misstatements. Documentation is expected to be completed by September 2013.

### Finding 2: Medicaid Accrual

The Department of Community Health (DCH) and OFM should continue to improve their internal control to prevent, or detect and correct misstatements and ensure the reasonableness of the Medicaid accrual. In our audit of the accrual, we noted that there was an increased awareness of the need to strengthen internal control over the Medicaid accrual. The accrual components were prepared timely, and DCH was very receptive to our requests for information and has improved its tracking of estimated accruals with actual results.

- a. DCH and OFM did not properly estimate the payable for the Health Plan Services component of the Medicaid accrual.
- b. DCH and OFM did not properly estimate the payable and receivable for the long term care (LTC) Quality Assurance Supplement (QAS) Program reconciliations component of the Medicaid accrual.
- c. DCH and OFM did not properly estimate the receivable for the third party liability recovery component of the Medicaid accrual.
- d. DCH and OFM should continue to improve internal control and fully implement a comprehensive tracking process to ensure that the processes used to develop the accounting estimates are reliable. A DCH comparison of the accounting estimates with subsequent activity would help provide assurance regarding the reliability of the processes used to develop the estimates.

### Recommendation

We recommend that DCH and OFM continue to improve internal control to prevent, or detect and correct misstatements and ensure the reasonableness of the Medicaid accrual.

### Preliminary Response:

DCH/OFM agreed to continually improve internal control to prevent misstatements and ensure the reasonableness of the Medicaid accrual.

### Corrective Action

As noted in the auditing finding, DCH has strengthened its internal control and the tracking of the Medicaid accrual. DCH is committed to continuing these efforts. The issues noted in parts a, b and c of the finding were corrected and process changes were made to help ensure similar circumstances will not arise in the future. Also, DCH has significantly improved its comprehensive tracking process noted in part d of the finding to help ensure approved accrual methodologies are providing reliable estimates. DCH will continue to track the various components of the Medicaid accrual based upon each component's materiality, risk, the complexity

of the accrual calculation, and the various systems affecting the respective accrual components. Changes to approved accrual methodologies will be considered when sufficient tracking data provides assurances that an alternative methodology will provide a better estimate in a cost effective manner.

### Finding 3: Capital Assets

DTMB did not have sufficient internal control in place to ensure that computer software acquisition and development costs incurred by State agencies were properly identified and reported to OFM.

#### Recommendation

We recommend that DTMB improve internal control to ensure that computer software acquisition and development costs incurred by State agencies are properly identified and reported to OFM.

#### Preliminary Response:

DTMB and OFM agree with the recommendation. OFM informed us that it will work with DTMB to ensure that capitalizable computer software acquisition and development costs incurred by State agencies are identified and appropriately reported to OFM.

#### Corrective Action

As part of the year-end request for capital assets information, OFM will emphasize the need for agencies to report computer software acquisition and development costs incurred by the agencies. OFM will also obtain a listing of major software projects from DTMB and contact those agencies to ensure that those projects are being considered in their evaluation and response.

### Finding 4: Medicaid Physician Adjuster Payments

DCH did not have sufficient internal control in place to ensure that amounts already paid to medical providers through the standard Medicaid reimbursement process were properly aggregated for purposes of calculating Physician Adjuster Program payments.

#### Recommendation

We recommend that DCH improve internal control to ensure that amounts already paid to medical providers through the standard Medicaid reimbursement process are properly aggregated for purposes of calculating Physician Adjuster Program payments.

#### Preliminary Response:

DCH and OFM agree with the recommendation. OFM informed us that DCH has modified the aggregate query for determining future payments to providers.

#### Corrective Action

Corrective action is complete.

### Finding 5: MDOT Contractor Payments

The Michigan Department of Transportation (MDOT), in conjunction with OFM, did not have sufficient internal control in place to evaluate the dates of service when processing contractor payments and liquidating prior year accounts payable estimates.

#### Recommendation

We recommend that MDOT, in conjunction with OFM, improve internal control to evaluate the dates of service when processing contractor payments and liquidating prior year accounts payable estimates.

#### Preliminary Response:

MDOT and OFM agree with the recommendation. OFM informed us that MDOT will improve its internal control to evaluate dates of service when processing contractor payments and liquidating prior year accounts payable estimates.

#### Corrective Action

MDOT will implement process changes in fiscal year 2014 to evaluate dates of service when processing contractor payments and liquidating prior year accounts payable estimates.