



STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

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July 7, 2016

TO: Bryan Weiler, Acting Internal Auditor
Office of Internal Audit Services
State Budget Office

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

SUBJECT: Corrective Action Plan for the FY 2015 Report on Internal Control,
Compliance, and other Matters for the State of Michigan
Comprehensive Annual Financial Report

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 contained within the Office of the Auditor General's Report on Internal Control, Compliance, and other Matters for the State of Michigan Comprehensive Annual Financial Report, covering the period of October 1, 2014 through September 30, 2015. 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 or 373-0447.

Enclosures

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

AUDIT REPORT SUMMARY

DEPARTMENT: Office of Financial Management, State Budget Office
AUDIT PERIOD: October 1, 2014 through September 30, 2015
REPORT DATED: March 11, 2016

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
 - Finding 2, part b. (MDHHS)
 - Finding 4, part a. (MDOT)

2. Recommendations - agree with and will comply:
 - Finding 1, part a-f. (Treasury)
 - Anticipated compliance – September 2016

 - Finding 2, part a. (Treasury)
 - Anticipated compliance – To be determined

 - Finding 3 (MDHHS)
 - Anticipated compliance – September 2016

 - Finding 4, part b. (MDOT)
 - Anticipated compliance – To be determined

Office of Financial Management, State Budget Office
Audit Response
Report on Internal Control, Compliance, and other Matters
State of Michigan Comprehensive Annual Financial Report
October 1, 2014 through September 30, 2015

Finding 1: Establishing tax receivables and payables

The OAG recommended that Treasury and OFM enhance internal control to prevent, or detect and correct, misstatements and ensure the reasonableness and accuracy of the tax accruals.

Response/Planned Corrective Action

Treasury and OFM agree that the reasonableness and accuracy of tax accruals is essential. Treasury is currently working with OFM, the Office of Internal Audit Services (OIAS) and the Office of the Auditor General to identify improvements to the current internal control processes. The detailed tax accrual procedures are being updated and will be shared with OFM to give a more detailed explanation of the processes. Treasury and OIAS are also working collaboratively to determine if any additional internal controls can be added to the processes.

In addition, work is being done to improve the reporting capabilities of the SAP system. The errors that were identified in the FY15 review have added to a project to update the system to provide better information. Once the GASB 34 reports are finalized and ready for production, Treasury will provide the information to the OAG for their review to see if there are any additional gaps that need to be addressed prior to the FY16 year-end process. Additional reviews will be put into place to address other internal controls that were found during the FY15 audit.

Corrective action continues to be ongoing with planned completion prior to beginning the FY16 year-end process.

Finding 2: Monitoring receivables and payables

The OAG recommended that OFM, in conjunction with State departments, continue to improve internal control to ensure the validity and reasonableness of estimated receivable and payable amounts reported within the *SOMCAFR*.

Response/Planned Corrective Action

- a. Treasury and OFM agree that, when possible, significant accounting estimates should be compared with subsequent activity. However, for the tax accrual components identified by the auditors, the level of detail necessary to track this information is not available in the current State Treasury Accounts Receivable System. As part of Treasury's ongoing initiative to upgrade existing mainframe systems, it will include requirements to ensure the ability to track the information necessary to compare and evaluate accounting estimates to subsequent activity. No specific corrective action is planned and no specific date for compliance is available at this time.
- b. MDHHS and OFM agree that material variances between estimates and subsequent activity should be analyzed to determine if the related estimation methodology requires adjustment. MDHHS will continue to track the various components of the Medicaid accrual for reasonableness and adjust estimation methodologies as needed. Complied - No further corrective action is planned.

Finding 3: AIDS Drug Assistance Program receivables

The OAG recommended that MDHHS, in conjunction with OFM, strengthen internal control to improve the accuracy of the ADAP receivable.

Response/Planned Corrective Action

MDHHS will revise its internal control procedures to ensure that the data used in calculation of the ADAP receivable is complete and accurate. Specifically, MDHHS will no longer utilize a collection of spreadsheets to calculate the accrual. It will utilize a database for future accruals to help ensure that drug purchase data is not misstated or omitted in our calculation of this accrual. MDHHS has established a separate table in the database that will maintain the names of the drug manufacturers tied to their assigned "Labeler" code. In addition, steps will be taken in the accrual review to ensure that the cut-off date for rebates received is established as 9/30 of the fiscal year just ended. The planned completion date for corrective action is September 2016.

Finding 4: MDOT project and financial accounting practices

The OAG recommended that MDOT, in conjunction with OFM, improve internal control to ensure that activity reported within the *SOMCAFR* is properly accounted for in accordance with GAAP.

Response:

- a. MDOT has updated its procedures to ensure that prior fiscal years are analyzed and considered when making year-end adjustments. Complied – No further corrective action is planned.

- b. While MDOT and OFM agree that evaluation of service dates might improve the precision of accounts payable calculations, MDOT does not believe that it would be cost effective to revise its current process or that any resulting improvements in precision would be material. MDOT will consider the inclusion of service dates as it develops requirements for a replacement contractor system. No specific corrective action is planned and no specific date for compliance is available at this time.