



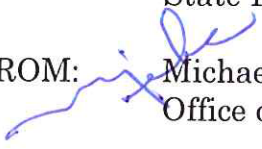
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GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

JOHN S. ROBERTS
DIRECTOR

November 18, 2014

TO: Office of Internal Audit Services
State Budget Office

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

SUBJECT: Corrective Action Plan for the FY 2013 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, 2012 through September 30, 2013. 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, 2012 through September 30, 2013
REPORT DATED: March 10, 2014

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
 - Finding 1, parts a., c., and d. (OFM and Treasury)
2. Recommendations - agree with and will comply:
 - Finding 1, parts b. and e. (OFM and Treasury)
 - Anticipated compliance – 12/15/2014
 - Finding 1, part e. (OFM and Treasury)
 - Anticipated compliance – To be determined
 - Finding 2, part a.(1) (OFM and Treasury)
 - Anticipated compliance – To be determined
 - Finding 2, part a.(2) (DCH)
 - Anticipated compliance – To be determined
 - Finding 3 (MDOT)
 - Anticipated compliance – To be determined
3. Recommendations - disagrees with:
 - Finding 2, part b. (OFM)

Office of Financial Management, State Budget Office
Audit Response
Report on Internal Control, Compliance, and other Matters
State of Michigan Comprehensive Annual Financial Report

Finding 1: Tax Accruals

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

Response:

- a. Treasury will continue to book receivables based on the best available information known at the time that the receivables are recorded. In this case, Treasury's Office of Accounting Services followed up with the Tax Processing Division to ensure that the assessment was accurate prior to recording the October 2013 receivables to be assessed. Additional information was received from the taxpayer between the time of the October accrual and when the November receivables to be assessed were recorded. The change in status of the assessment would have been ascertained without the auditors review based on the procedures followed by the Office of Accounting Services. Therefore, we do not believe that any specific corrective action is necessary.
- b. Treasury and OFM believe that there is now sufficient historical data to complete an analysis of the difference between the current approved methodology and the OAG's proposed methodology. Treasury and OFM will review the analysis and determine whether changes are appropriate.
- c. Treasury's Office of Accounting Services has revised its procedure for accruing MBT, CIT, and FTW to ensure that both sides of the transfer are included going forward.
- d. Treasury's Office of Accounting Services has revised its process to ensure that it verifies that the Office of Collections used the appropriate dates in their query when it receives the receivables to be assessed information in both October and November.
- e. See corrective action for Finding 2, part a.(1).

Finding 2: Monitoring of Payables and Receivables

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

Response:

- a. (1) OFM and Treasury will evaluate the existing monitoring and tracking methodologies in place. OFM will work with Treasury to develop a process that

would provide for a comparison of significant accounting estimates with subsequent activity for several components of the accrual, as deemed appropriate and necessary. Currently, Treasury's system does not have the capabilities necessary to track certain activity that would allow for a comparison of accounting estimates to take place. However, Treasury will ensure that the necessary capabilities will be incorporated into the new system it plans to implement in the future.

(2) DCH has continued to strengthen its internal control and the tracking of the Medicaid accrual. DCH is committed to continuing these efforts. DCH will continue to track the various components of the Medicaid accrual for reasonableness and document whether variations between estimates and subsequent activity warrant changing existing methodologies. DCH will continue to uniquely track each accrual component dependent upon materiality, risk, the complexity of the accrual calculation, and the various systems affecting the respective accrual components.

- b. OFM continues to disagree with the finding. OFM has delegated the responsibility for ensuring the proper liquidation of balances in subsequent fiscal years to the individual State departments. OFM continues to believe that the policies and procedures implemented as part of the delegation provide sufficient internal control to ensure that payable and receivable balances are validated or written off as appropriate. Therefore, no corrective action is necessary.

Finding 3: MDOT Contractor Payments

The OAG recommended 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.

Response:

MDOT agrees that comprehensive consideration of the dates of service when processing contractor payments might lead to accounts payable transactions that are more accurate. MDOT will need to evaluate the cost-effectiveness of such considerations relative to its applicable annual contractor expenditures of \$1.1 billion. However, MDOT's contractor payment system does not have the capability to collect the data necessary to properly evaluate the cost-effectiveness of more accurate accounts transactions. Currently, MDOT does not know when it can upgrade or replace its current system.

State Transportation Commission Resolution 2012-2 has reduced the amount of time available to make payments to contractors and, consequently, the population of accounts payable transactions that require estimates. Regardless, MDOT will continue to strive in a cost-effective manner to improve internal controls.