RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

ALTON L. PSCHOLKA
DIRECTOR

July 21, 2017

TO: Rick Lowe, 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 2016 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, 2015 through September 30, 2016. 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 Heather Boyd, Director, Accounting and Financial Reporting at boydh@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, 2015 through September 30, 2016
REPORT DATED: March 30, 2017

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
    - Finding 1 (Treasury)
    - Finding 2, part a. (Treasury)
2. Recommendations - agree with and will comply:
    - Finding 2, part b. (Treasury)
        - Anticipated compliance – October 31, 2017
    - Finding 2, part c. (Treasury)
        - Anticipated compliance – September 30, 2017
    - Finding 3 (OFM)
        - Anticipated compliance – September 2017
3. Recommendations – agency agrees but does not plan to comply due to cost/benefit
    - Finding 4 (MDOT)

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, 2015 through September 30, 2016

Finding 1: Preventing issuance and providing timelier resolution of duplicate tax refunds

The OAG recommended that Treasury improve internal control to prevent the issuance of duplicate tax refunds.

The OAG also recommended that Treasury act timelier to resolve duplicate tax refund issues.

Response/Planned Corrective Action

Treasury and OFM agree with the recommendations. Treasury has already implemented a change to the tax system that improves controls to prevent and detect duplicate MBT tax refunds. The operating effectiveness of this change has been confirmed through Treasury testing and validation. In addition, training has occurred and Treasury procedures are being reviewed and updated to ensure timely resolution of issues. Complied – No further corrective action is planned.

Finding 2: Establishing and Monitoring tax receivables and payables

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

Response/Planned Corrective Action

a. Treasury and OFM agree with the recommendation. Treasury staff have been trained on the proper rules for compiling the prepared sales tax amounts. In addition, the report that Accounting Services will be provided in subsequent fiscal years will contain the file period of the payment, so that Accounting Services staff can ensure that only filing periods prior to October 1 are included in the accrual. Complied – No further corrective action planned.

b. Treasury and OFM agree with the recommendation. The Office of Revenue and Tax Analysis (ORTA) understands the urgency of the GASB 34 Report and has a better understanding of how SAP impacts the GASB 34 Report. The Office of Accounting Services, ORTA, DTMB - Office of Internal Audit Services, and SAP contractors are meeting bi-weekly to ensure the SAP GASB 34 Report fixes are in production timely. The planned completion date for corrective action is June 30, 2017.

c. Treasury and OFM agree with the recommendation. For receivables, the Office of Internal Audit Services and Treasury staff are working on developing a methodology to evaluate significant tax accrual year-end estimates with subsequent payment activity. This methodology will include a quarterly data match that should allow Treasury management to determine if receivable tax accrual estimate methodology adjustments are necessary for the fiscal year 2017 year-end close process. The planned completion date for corrective action is October 31, 2017.

   For payables, the Office of Accounting Services staff are researching options for comparing the year-end payables to actual refunds paid. In addition, Individual Income Tax staff are researching possible reporting that can be done to provide the Office of Accounting Services with a comparison between estimates and actual refunds. Further research is needed to determine whether Discovery refunds can be identified separately from regular Individual Income Tax refunds. The planned completion date is September 30, 2017.

Finding 3: OFM capital asset reporting process

The OAG recommended that OFM ensure that sufficient procedures and oversight exist for capital asset reporting.

Response/Planned Corrective Action

OFM is in the process of cross training staff and updating procedures related to capital asset reporting. The planned completion date for corrective action is September 2017.

Finding 4: MDOT financial accounting practices

The OAG recommended that MDOT, in conjunction with OFM, improve internal control to ensure the evaluation dates of service when processing payments and liquidating prior year accounts payable estimates.

Response:

MDOT and OFM agree that comprehensive consideration of the dates of service when processing contractor payments might lead to accounts payable transactions that are more accurate. However, the service dates mentioned in the recommendation are not readily available to central office contractor payment staff and efficient access would require system changes. As a result, MDOT does not intend to implement the recommendation because it believes that the cost of the needed system changes would significantly outweigh the benefits derived from any resulting improvements in precision.