



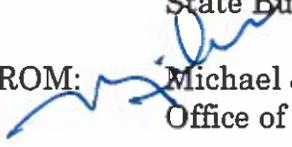
STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

RICK SNYDER
GOVERNOR

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DIRECTOR

July 9, 2018

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 2017 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, 2016 through September 30, 2017. 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, 2016 through September 30, 2017
REPORT DATED: March 16, 2018

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
 - Finding 1, part a. (DHHS)

 - Finding 1, part b. (DHHS)

 - Finding 1, part d. (DHHS)

 - Finding 6 (DTMB)

2. Recommendations - agree with and will comply:
 - Finding 1, part c. (DHHS)
 - Anticipated compliance – March 31, 2019

 - Finding 2 (DHHS)
 - Anticipated compliance – Fiscal Year 2019

 - Finding 3, part a. (Treasury)
 - Anticipated compliance – August 30, 2018

 - Finding 3, part b. (Treasury)
 - Anticipated compliance – October 31, 2017

 - Finding 3, part c. (Treasury)
 - Anticipated compliance – December 2018

 - Finding 4 (Treasury)
 - Anticipated compliance – September 2018

3. Recommendations – agency agrees but is evaluating options to determine cost/benefit
 - Finding 5 (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, 2016 through September 30, 2017

Finding 1: Significant improvement needed to MDHHS financial accounting

The OAG recommended that MDHHS ensure that sufficient internal control and procedures exist for the preparation and approval of accounting transactions, primarily involving year-end accruals.

Response/Planned Corrective Action

MDHHS and OFM agree that there are areas where internal control should be improved.

- a. MDHHS has had discussions with the OAG about the use of the Corrective Action Tracking System and will continue to discuss the use of CATS during the audit process to help ensure that everyone is using the system as intended and that its meeting staff needs. In addition, MDHHS management has reiterated to staff the importance of internal controls and the commitment to maintain and build upon an environment where all staff are comfortable raising issues if they have concerns. Corrective action is complete and ongoing.
- b. MDHHS management has sent communication to staff reiterating the need to continue to attach necessary supporting documentation for all transactions. SIGMA was implemented on October 1, 2017 with the functionality to attach supporting documentation electronically, which MDHHS is utilizing. MDHHS has reiterated to staff the importance of attaching appropriate documentation to support transactions. Corrective action is complete and ongoing.
- c. MDHHS continues to improve documentation of numerous processes and procedures and is in the process of building SharePoint sites for the storage of these processes and procedures. Corrective action is ongoing. The planned completion date for corrective action is March 31, 2019.
- d. MDHHS will continue to review and approve transactions in SIGMA based on established approval paths, which must be adhered to. The reviewer will perform a review of the transaction and then based on professional judgement will determine whether additional review of underlying query level detail is necessary. Corrective action is complete.

Finding 2: Improvements needed to transaction processing and documentation retention procedures. The OAG recommended that MDHHS ensure that accounts receivable and accounts payable transactions are derived using approved methodologies and that it maintains sufficient documentation to support year-end accruals.

Response/Planned Corrective Action

MDHHS and OFM agree that there are areas where internal control should be improved.

MDHHS is consolidating work related to all estimated accounts receivables and accounts payables into one area to help provide consistency in methodologies, calculations and reviews. While the consolidation of this work has begun, MDHHS does not expect all of this work to be consolidated until fiscal year 2019.

Finding 3: Continued improvements needed to processes for establishing and monitoring tax receivables and payables.

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

Response/Planned Corrective Action

- a. Treasury and OFM agree with the recommendation.

During the fiscal year 2017 closing process, Treasury reexamined its original corporate income tax (CIT) estimation methodology based on auditor suggestions and made adjustments to the CIT estimate. The new methodology will be used in the future. In addition, in the future Treasury's Office of Accounting will review and approve changes or additions to tax accrual methodologies and updated methodologies will be submitted to OFM and the OAG during the summer for their review.

The planned completion date for corrective action is August 30, 2018.

- b. Treasury and OFM agree with the recommendation.

For Business Taxes, Treasury submitted a request for an IT report to be created in SAP that will provide the information necessary to compare subsequent business tax refund activity from SAP to the balances booked during the year-end accrual process. The report is in the design phase and is expected to be tested and validated by July 31, 2018.

For Individual Income Tax (IIT) backlogs, a database download was obtained during the 2017 closing process that contains the underlying data that was used to calculate the IIT backlog payable accrual. This underlying data from the accrual is needed to compare to actual refund payments made for a comprehensive comparison to be completed.

The planned completion date for corrective action is October 31, 2018.

- c. Treasury and OFM agree with the recommendation.

Treasury will implement additional year-end validation procedures and checks to ensure the completion assertion is met to help reduce the possibility of excluding any CIT returns from future tax accrual calculations. Treasury will also implement additional validation procedures and checks to ensure any material changes in SUW return amounts prior to the SOMCAFR opinion date, but subsequent to booking of tax accruals, are accounted for and adjusted, as appropriate.

The planned completion date for corrective action is December 2018 in conjunction with year-end closing and the SOMCAFR opinion date.

- d. Treasury and OFM agree with the recommendation.

Treasury is implementing further validation procedures for collections for returns exceeding certain threshold collection amounts for IIT. Current underlying data for October and November IIT collections does not provide the information needed to determine if the collections were new-year or old-year and a manual sampling methodology will be necessary. Due to the large volume of returns and that the process will need to be manual it will not currently be possible to review every return for proper fiscal year classification. However, a sampling methodology for returns exceeding a certain threshold collection amount will greatly enhance the accuracy of this tax accrual.

The planned completion date for corrective action is December 2018 after November accruals are booked.

Finding 4: Improvements needed to Treasury's controls to ensure accurate and complete balances in the offset fund.

The OAG recommended that Treasury improve control over the offset fund to ensure that balances are accurate and complete.

Response/Planned Corrective Action

Treasury and OFM agree with the recommendation.

Treasury has submitted a request for an IT report to be created in the Garnishment and Levy system that will provide the information necessary to reconcile to the balances in the Offset Fund in SIGMA. A quote is being developed by DTMB for the cost and hours of the report creation and the quote is expected to be received in July 2018. The results of the quote will be

prioritized with all Treasury IT needs to determine if the cost of the report aligns with budgetary constraints and limitations.

The planned completion date for corrective action is September 30, 2018.

Finding 5: Improvements needed to MDOT financial accounting practices.

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

Response/Planned Corrective Action

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 staff and efficient access would require changes in its current payment system. The department is piloting a new payment system; however, full implementation of the system will not occur for several years. During this pilot the department will determine if service date information is readily available to central office staff. The department may revisit its methodology if the service date functionality is available in the new system. In addition, during calendar year 2018 MDOT plans to reach out to at least five other States to determine how they track dates of service when processing contractor payments. Until other options that are not cost prohibitive are identified, the department has concluded manual review of service dates while making payments in the new fiscal year is too labor intensive and could delay payment to contractors. In the meantime, MDOT will continue to use a First-In-First-Out approach for assigning payments to previously established accounts payable.

Finding 6: Improvements needed to DTMB financial accounting practices.

The OAG recommended that DTMB establish sufficient internal control to ensure the accuracy and completeness of accounting information recorded in the *SOMCAFR*.

Response/Planned Corrective Action

- a. DTMB and OFM agree with the recommendation. DTMB has already updated procedures to ensure that maintenance agreements are properly recorded as prepaid expenses.
- b. DTMB and OFM agree with the recommendation. DTMB has already updated its year end procedures by including a step for staff to reach out to program areas to obtain and verify data needed to properly record accounting entries.