



STATE OF MICHIGAN  
STATE BUDGET OFFICE  
LANSING

GRETCHEN WHITMER  
GOVERNOR

CHRIS KOLB  
DIRECTOR

October 22, 2019

**MEMORANDUM**

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 2018 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 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, 2017 through September 30, 2018. 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](mailto:boydh@michigan.gov) or 241-6530.

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, 2017 through September 30, 2018  
REPORT DATED: June 28, 2019

### **Summary of Agency Responses to Recommendations**

1. Recommendations - complied with:

- Finding 3, part b. (MDHHS)
- Finding 4, part a. (MDOT)
- Finding 4, part c.1 (OFM)
- Finding 4, part d. (OFM)
- Finding 5, part a.1. (OFM)
- Finding 5, part a.2. (MDHHS)
- Finding 5, part b.1. (LARA)
- Finding 5, part b.2.(MDOT)
- Finding 5, part b.3. (DTMB)
- Finding 5, part d. (OFM)
- Finding 7, part b. (MDHHS)
- Finding 8, part a.1. (Treasury)
- Finding 8, part b. (MDOT)
- Finding 10, part c. (MDOT)

2. Recommendations - agree with and will comply:

- Finding 1 (OIAS)
  - Anticipated compliance – Guidance will be improved by December 2019. Implementation of enhanced oversight procedures is to be determined based on an assessment to be completed by December 2019.
- Finding 2 (Treasury)
  - Anticipated compliance - September 2019.
- Finding 3 part a.1. (Treasury)
  - Anticipated compliance part a1 – No longer including confidential information. Remediation of data prior to July 2019 to be completed by October 2019.
- Finding 3 part a.2. (MDHHS)

- Anticipated compliance – Feasibility and cost review completed by December 2019. Final completion date to be determined after feasibility and cost review is complete.
- Finding 4 part b. (MDOT)
  - Anticipated compliance – Short term fix related to queries - September 2019, Long term configuration fix – December 2019.
- Finding 4 part c.2. (OFM)
  - Anticipated compliance – September 2019
- Finding 5 part a.2. (Treasury)
  - Anticipated compliance – September 2019
- Finding 5 part b.4. (MSP)
  - Anticipated compliance – September 2019
- Finding 5 part b.5. (DNR)
  - Anticipated compliance – September 2019
- Finding 5 part c.1. (MDOT)
  - Anticipated compliance – September 2019
- Finding 5 part c.2. (MDHHS)
  - Anticipated compliance - September 2019
- Finding 6 parts a., b., c., e., f. (Treasury)
  - Anticipated compliance – November 2019
- Finding 6 part d. (Treasury)
  - Anticipated compliance – November 2020
- Finding 7 parts a. and c-g. (MDHHS)
  - Anticipated compliance – September 2019
- Finding 7 part h (MDHHS)
  - Anticipated compliance September 2020
- Finding 8 parts a.2. and a.3. (Treasury)
  - Anticipated compliance – October 2019
- Finding 8 part c.1. (MDE)
  - Anticipated compliance - November 2019
- Finding 8 part c.2. (MDE)
  - Anticipated compliance – September 2019
- Finding 9 (MDOT)
  - Anticipated compliance – consultant payable letters and training complete, contractor payables solution to be determined after Office of Commission Audit review of contractor payables in March of 2020.
- Finding 10 parts a. and b. (Treasury)
  - Anticipated compliance – September 2019
- Finding 11 (Treasury)
  - Anticipated compliance – December 2019

**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, 2017 through September 30, 2018**

Finding 1:

The OAG recommended that the State enhance its oversight of third party service organizations

Response/Planned Corrective Action

State agencies, the Office of Internal Audit Services (OIAS), and the Office of Financial Management (OFM) agree that oversight of third-party service organizations should be enhanced. OIAS will continue to enhance the Financial Management Guide (FMG) Part VII, Chapter 1, Section 1000, which addresses Service Organizations. Additional guidance, such as addressing bridge letters and service organization risk assessments will also be enhanced. In addition, the "SOC Report Review Template" will be improved to better enable the agency user to review the System and Organization Controls (SOC) report for relevant information, including reporting periods, user complementary controls, and relevant control objectives and testing. In addition, OIAS will facilitate discussions between key stakeholders including the Michigan Cyber Security, agency business process/procurement personnel, and Department of Technology, Management, and Budget (DTMB) Central Procurement personnel to identify opportunities for improved guidance and oversight that will improve practices to obtain proper assurances from third-party service organizations.

Finding 2:

The OAG recommended that Treasury establish detailed procedures for all State agencies regarding cash deposits.

Response/Planned Corrective Action

Treasury and OFM agree with the recommendation.

Treasury has submitted the draft FMG to OFM which includes more detailed instructions for agencies and is working with their vendor to add the deposit ticket number on interfaced deposits. A request to make the deposit ticket field a true required field (no auto population when blank) will be submitted to SIGMA once the vendor has made the change to add the deposit ticket number on interfaced deposits.

Finding 3:

The OAG recommended that Treasury and MDHHS limit access to confidential information to appropriate users of the information.

Response/Planned Corrective Action

The Michigan Department of Health and Human Services (MDHHS), Treasury, and OFM agree that access to confidential information should be limited to appropriate users of the information.

- a.1. The Department of Treasury has successfully implemented the remediation to the Garnishment and Levies (GAL) interface to exclude confidential information as of July 2019. Treasury and the SIGMA Center of Excellence have developed and are in the process of testing a solution for data remediation prior to July 2019.
- a.2. MDHHS has identified potential interface design changes to eliminate sending confidential information to fields in SIGMA that have widespread access. MDHHS is reviewing each applicable system and interface to determine the feasibility and cost of the proposed changes.
- b. MDHHS stopped disclosing transaction support with confidential information in fiscal year 2018.

Finding 4:

The OAG recommended that the State agencies and OFM establish sufficient internal control to help ensure the accuracy and completeness of the accounting for capital assets.

Response/Planned Corrective Action

OFM and the State agencies agree that internal controls related to the accuracy and completeness of the accounting for capital assets should be enhanced and will work to implement needed improvements.

- a. The Michigan Department of Transportation (MDOT) procedures have changed with the implementation of SIGMA and program expenditure data is now maintained in SIGMA.
- b. SIGMA and MDOT will utilize queries for fiscal year 2019 to evaluate accrued expenditures related to the CIP process and will post adjusting transactions. Longer term solution is currently being tested related to configuration updates.
- c.1. This was a conversion related item and was fixed during fiscal year 2018.
- c.2. Fixed asset shells will workflow to OFM when two fiscal years are open. This will ensure that the acquisition date and fiscal year are correct.
- d. In SIGMA the interest accrual reversal in the new year is done automatically with the same job that establishes the interest accrual in the closing year.

Finding 5:

The OAG recommended that State agencies and OFM improve internal control to help ensure the completeness and accuracy of the SOMCAFR.

Response/Planned Corrective Action

OFM and the State agencies agree that internal controls should be enhanced and will work to implement the needed improvements.

- a.1. OFM worked with the State agencies and determined that correcting entries are not necessary.
- a.2. Treasury will ensure that their year-end closing processes include a step to complete the necessary reclassification entries. MDHHS modified their query to ensure the accuracy of the reclassification entries.
- b.1. The Department of Licensing and Regulatory Affairs (LARA) implemented a reconciliation process for the Corporations Online Filing System for fiscal year 2019.
- b.2. MDOT has implemented a reconciliation process and log.
- b.3. DTMB has implemented more reconciliations and increased the supporting documentation to ensure accuracy and completeness.
- b.4. The Michigan Department of State Police (MSP) will update procedures to perform reconciliations between the Michigan Cashiering and Receivable System and MSP source systems to ensure accuracy and completeness.
- b.5. The Department of Natural Resources (DNR) will work with the MDOT Accounting Service Center to improve communications and understanding of the roles, processes, and responsibilities of revenue reconciliations to ensure appropriate documentation is completed and provided to auditors upon request.
- c.1. MDOT will add an accounting manager approval to the workflow when purchases are requested from their central warehouse.
- c.2. MDHHS will remind the non-manager roles approving in SIGMA the importance of ensuring the coding matches the hard-copy support that was approved by the manager.
- d. OFM has updated its year-end closing procedures.

Finding 6:

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

Response/Planned Corrective Action

Treasury and OFM agree that internal control related to tax accruals should be enhanced.

- a. The Treasury Office of Accounting Services (OAS) met with the Treasury Individual Income Tax section (IIT) to discuss the available legacy IIT reporting mechanisms for creating a viable methodology to compare estimated accruals to subsequent actual activity. OAS is reviewing the reporting suggestions provided by IIT and is drafting the suggested methodology and related procedures. The Department of Treasury is currently bidding out the legacy IIT system for modern replacement as part of the Treasury technology strategic plan and the reporting mechanisms necessary for this review are included in the needs requirement. We anticipate this too will result in additional refinement to the process.
- b. Treasury is working on revising its accrual methodology to not improperly include SUW payments that are not associated with the current fiscal year. Treasury has also revised its accrual methodology to identify transfers that should be excluded from tax accruals.
- c. Treasury is working on establishing a methodology for reevaluating the recorded liabilities if the refund amount changes prior to the SOMCAFR opinion date.
- d. Treasury is further evaluating its ability to use the legacy IIT system to estimate receivables. The reporting mechanisms available are limited and the Department of Treasury is currently bidding out the legacy IIT system for modern replacement as part of the Treasury technology strategic plan and the reporting mechanisms necessary for this review are included in the needs requirement.
- e. Treasury Office of Accounting Services continues to work with the Treasury Office of Revenue & Tax Analysis to determine the feasibility of accurately identify how much sales tax revenue should be accrued to the Comprehensive Transportation Fund at the end of the fiscal year.
- f. Treasury is working on revising its procedures to record reclassification entries for interest paid on taxes processed in the SAP system.

Finding 7:

The OAG recommended that MDHHS establish sufficient procedures and enhanced communications among department staff to help ensure the accuracy of accounts receivable and accounts payable transactions.

Response/Planned Corrective Action

MDHHS and OFM agree that there are areas where procedures and communications should be improved.

- a. MDHHS will continue to document new procedures needed due to the implementation of SIGMA.
- b. This related to conversion activity which had a one-year impact. No additional corrective action is necessary.
- c. MDHHS is in the process of updating the estimation methodology.

- d. MDHHS will work with DTMB to ensure an accurate query is developed that will provide the appropriate child support data.
- e. MDHHS will update their estimated accrual methodology to ensure changes in expenditures are reviewed to determine if they material and whether an adjusting entry should be recorded.
- f. MDHHS will continue to update procedures to reflect changes necessary due to SIGMA implementation.
- g. MDHHS will continue to document new procedures needed due to the implementation of SIGMA.
- h. MDHHS will include phase 2 in its IT proposals for fiscal year 2020, which includes enhanced time tracking for services performed.

Finding 8:

The OAG recommended that State agencies establish sufficient internal control to help ensure the accuracy of the accounting information recorded in the SOMCAFR.

Response/Planned Corrective Action

State agencies and OFM agree that internal controls should be enhanced and will work to implement the needed improvements.

- a.1. Treasury has updated its procedure for the Tobacco Settlement accrual methodology to include allocations to the Community District Education Fund and the General Fund.
- a.2. Treasury has submitted a request to create a system generated report in the GAL system to provide the information necessary to reconcile the balances in the Offset Fund in SIGMA. Collections staff will use this report to create a procedure, with the help of Accounting Services, to reconcile the fund balance.
- a.3. Treasury will work with major business areas in the department to further enhance the communication process as it relates to information required to be provided for contingent liabilities. Treasury will also update its procedures to include manual payments made after September 30 to be included in the liability calculation.
- b. MDOT modified existing processes to properly classify expenditures and revenues.
- c.1. Michigan Department of Education (MDE) will set up an allowance for doubtful accounts as needed and will update procedures accordingly.
- c.2. MDE is in the process of reconciling the revenue and expenditures for the Child Care and Development Fund (CCDF) programs to validate the receivable

amounts. If necessary, receivables not supported will be written off. In addition, MDE will update related procedures.

Finding 9:

The OAG recommended that MDOT improve internal control to help 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 contract 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.

MDOT has analyzed all consultant payables, modified the letter that goes out to contractors and has adjusted year end training for MDOT employees.

Regarding construction contract payables, MDOT is not able to change our methodology for evaluating service dates based on the system limitations of the American Association of State Highway and Transportation Officials software (AASHTOWare) MDOT uses. MDOT queried other states using the software to determine their methodology and received two responses that did not offer a solution. MDOT Office of Commission Audit plans to complete a review of MDOT's construction payable process by March 31, 2020 to identify and, as appropriate, recommend to MDOT management other viable methods to better estimate and liquidate construction payables. Until a more viable solution is developed, MDOT will continue to use the first in, first out approach of applying payments to contractor payment payables. MDOT does not have the resources to invest the time to research each payment to make decisions regarding the costs being applicable to the payable.

Finding 10:

The OAG recommended that Treasury and MDOT develop sufficient internal control to help ensure compliance with various sections of the *Michigan Compiled Laws* related to the allocation of revenues.

Response/Planned Corrective Action

Treasury, MDOT, and OFM agree with the finding.

- a./b. Treasury will update the procedure for Statutory Allocations for Sales and Use Tax to include the current distribution amount for local community stabilization authority, as well as ensure appropriate monitoring for the change in distribution per Michigan Compiled Laws Section 205.93. Treasury will also update the School Aid Fund Income Tax Transfers and Year End Earmarking procedures to include language to re-run revenue queries prior to final cutoff of all SIGMA activity by OFM to determine if any tax revenue adjusting entries are needed.
- c. MDOT has made applicable changes in its allocation calculation.

Finding 11:

The OAG recommended that Treasury further establish a process to help ensure the accuracy of sales tax revenue allocations.

Response/Planned Corrective Action

Treasury and OFM agree that Treasury should further establish a process to ensure the accuracy of the sales tax revenue allocations.

Treasury continues to review the estimation methodology for sales tax revenue allocations to determine if any changes are warranted. Once this review of activity is completed, Treasury will determine if any methodology changes are appropriate for implementation.