

Office of the Auditor General
Performance Audit Report

Bureau of Finance and Administration
Michigan Department of Transportation

February 2020

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

Performance Audit

*Bureau of Finance and Administration
(BFA)*

*Michigan Department of Transportation
(MDOT)*

Report Number:
591-0130-19

Released:
February 2020

BFA provides the internal support necessary for MDOT operations including accounting services, fiscal reporting and planning, budgeting, cash management, bond financing, property leasing, and all related financial functions. BFA consists of three divisions: Accounting Services Division (ASD), Financial Operations Division (FOD), and Contract Services Division. ASD uses the Michigan Cashiering and Receivable System (MiCaRS) to perform invoicing and cashiering functions. In fiscal year 2018, BFA expended \$19.1 million on salaries, wages, and administrative expenses. As of June 30, 2019, BFA had 143 employees.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of BFA's access controls over selected IT systems.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Improvements are needed to MiCaRS security and access controls. Among the issues we noted was that 99% of read-only users we reviewed could edit dunning letters and invoices and 22% could edit banking information and payment addresses (<u>Finding #1</u>).	X		Partially agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of ASD's efforts to administer accounting services to its customer agencies.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
BFA did not review documentation of contractor estimated accounts payable for reasonableness and did not ensure that expenditures were recorded in the correct fiscal year. For fiscal years 2016 through 2018, BFA annually wrote off an average of \$9.2 million of these payables, indicating that they were overstated (<u>Finding #2</u>).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
ASD did not evaluate and prepare required annual reports of the accounting services provided to its customer agencies for fiscal years 2017 and 2018 (<u>Finding #3</u>).		X	Agrees
See <u>Finding #4, part b.</u>			

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of FOD's efforts to deliver financial and operational services throughout MDOT.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
BFA could improve its accounts receivable collection efforts. For 4 (80%) of 5 months sampled, FOD either did not review or did not maintain accounts receivable aging schedules. Also, FOD did not adequately document its follow-up of unpaid invoices from the aging schedules for 3 (60%) of the 5 months (<u>Finding #4</u>).		X	Agrees

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February 5, 2020

Mr. Todd Wyett, Chair
State Transportation Commission
and
Paul C. Ajegba, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Building
Lansing, Michigan

Dear Mr. Wyett and Mr. Ajegba:

This is our performance audit report on the Bureau of Finance and Administration, Michigan Department of Transportation.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

ACCESS CONTROLS OVER IT SYSTEMS

BACKGROUND

Access controls* limit or detect inappropriate access to computer resources, thereby protecting the resources from unauthorized modification, loss, and disclosure. For access controls to be effective, they should be properly authorized, implemented, and maintained.

The Department of Technology, Management, and Budget (DTMB) is the technical system owner of the Michigan Cashiering and Receivable System (MiCaRS). The Accounting Services Division (ASD), Michigan Department of Transportation (MDOT), is a business owner and user of MiCaRS along with six other State agencies. DTMB contracts with the MiCaRS vendor for system maintenance and support.

AUDIT OBJECTIVE

To assess the effectiveness* of the Bureau of Finance and Administration's (BFA's) access controls over selected IT systems.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- Our review of access rights to the cashiering role in the State's accounting system, the Statewide Integrated Governmental Management Applications* (SIGMA), disclosed no instances of inappropriate access.
- Material condition* related to fully implementing MiCaRS security and access controls (Finding #1).

* See glossary at end of report for definition.

FINDING #1

Improvements needed to MiCaRS security and access controls.

ASD did not ensure that security and access controls were fully implemented to protect MiCaRS data from unauthorized use, modification, or destruction and ensure the integrity of MiCaRS data.

State of Michigan Administrative Guide to State Government policy 1340.00 requires agencies to develop security controls to authorize access to and use of its information systems. Also, State of Michigan Technical Standard 1340.00.020.01 requires agencies to establish a process to implement and document the assignment of access rights based on current job responsibilities and the principle of least privilege*. The Standard also requires segregation of duties* and monitoring of privileged user activity. In addition, the Federal Information System Controls Audit Manual* (FISCAM) states that end users should be assigned sufficient, but not excessive, authorization to perform their job duties in the application, and system owners and security managers should periodically monitor user access.

Our review of 144 active MiCaRS users disclosed that ASD did not:

- a. Fully ensure that MiCaRS user roles functioned as described.

Read-only access rights should allow users to only view MiCaRS information. However, users in the All Lookup group and All Query group had an inappropriate ability to modify MiCaRS data:

- (1) 31 (22%) users could edit various high-risk data including bank identification information, payment address, and MiCaRS settings.
- (2) 143 (99%) users could edit dunning letter templates prior to sending the letters to delinquent accounts. Data that could be edited included payee name and payment address.
- (3) 143 (99%) users could edit invoices printed from MiCaRS to Adobe PDF prior to sending invoices to the payer. Data that could be edited included the amount due; payee name; and address that the payer should submit payment to.

143 (99%) users had inappropriate ability to edit payee name and address on dunning letters and invoices.

ASD informed us that the All Lookup group had previously been an inquiry-only group for users needing read-only access, but the group was no longer inquiry-only. Also, the All Query group allowed edits to the templates in order for users to send dunning letters to responsible parties; however, this ability was unnecessary because the templates were automatically populated with the customer invoice details when printed.

* See glossary at end of report for definition.

- b. Fully ensure that segregation of duties existed for all MiCaRS transactions:
 - (1) 4 (3%) users had the ability to both create and approve a refund. Although 3% is a relatively low number of users, the potential for fraud results in this issue being reportable.
 - (2) MiCaRS invoices did not require management approval to create a receivable. Doing so would help ensure that the invoice is authorized, complete, and accurate.

ASD informed us that MiCaRS did not have a control to require segregation of duties related to refunds. ASD also informed us that MiCaRS did not allow for invoice approval within MiCaRS and a compensating control had not been established to approve invoices outside of MiCaRS.

As an information system owner and user of MiCaRS, ASD should work with DTMB to request that the contractor make system enhancements to alleviate the security and access control risks identified in parts a. and b.

Process not established for assigning access rights based on principle of least privilege.

- c. Establish a process to ensure the assignment of access rights based on current job responsibilities and the principle of least privilege.

Our review of the 7 users with the ability to approve refunds and our random sample of 15 users disclosed:

- (1) 4 (57%) of the 7 users whose job responsibilities did not require them to approve refunds were inappropriately granted the ability to approve refunds.
- (2) 5 (33%) of the 15 users were granted the ability to write off invoices although they did not require that role to perform their job and did not request the access.

ASD informed us that only 2 ASD managers should approve refunds and that 1 ASD staff appropriately had access to approve refunds for testing purposes. The remaining 4 users were erroneously granted access to approve refunds because ASD had not customized user groups to limit users to applicable roles.

- d. Routinely monitor privileged accounts to ensure that inappropriate activity did not go undetected by management.

Three administrative users were granted privileged access that allowed them to access all MiCaRS roles and gave them the ability to modify access rights for groups or

individual users, change MiCaRS security and administrative settings, create invoices, edit payment addresses, and perform other high-risk tasks.

ASD informed us that it did not have a process in place to review activity conducted by privileged users.

- e. Ensure that MiCaRS security request forms were always completed and approved.

Our review of a random sample of 21 MiCaRS users noted:

- (1) 6 (29%) of the 21 users did not have a security form on file.

ASD informed us that, when MiCaRS was implemented in 2015, the access rights for the 6 users were merged from the legacy system into MiCaRS and a security form was not prepared.

- (2) 4 (27%) of the 15 forms that had been completed were not approved by the MiCaRS administrator.

We consider this finding to be a material condition because these weaknesses could enable, as an example, a MiCaRS user to send an invoice to a responsible party without the invoice being entered into MiCaRS and direct the payment to an unauthorized address outside of ASD's control.

RECOMMENDATION

We recommend that ASD ensure that security and access controls are fully implemented to protect MiCaRS data from unauthorized use, modification, or destruction and ensure the integrity of MiCaRS data.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with parts a.(1), b.(1), c.(1), d., e.(1) and e.(2) of the finding.

However, MDOT disagrees that parts a.(2), a.(3), b.(2) and c.(2) are MDOT's responsibility. These parts relate to application functionality which, being a commercial-off-the-shelf application used by many State of Michigan departments and having DTMB as the system owner, should not be attributed to MDOT. These parts, while important to overall system controls and access, should be addressed Statewide and fall under the responsibility of the system owner.

**AUDITOR'S
COMMENTS TO
AGENCY
PRELIMINARY
RESPONSE***

DTMB is the technical system owner and MDOT is a business owner of MiCaRS. DTMB confirmed that any business owner can request system changes, including new user roles and changes to existing user roles. As such, MDOT does share responsibility for all parts of the finding. Therefore, the finding stands as written.

** See glossary at end of report for definition.*

ASD ACCOUNTING SERVICES

BACKGROUND

The Accounting Services Center (ASC) within ASD provides accounting services to the Department of Environment, Great Lakes, and Energy (EGLE); Department of Natural Resources (DNR); Michigan Department of Agriculture and Rural Development (MDARD); and MDOT. MDOT entered into a service level agreement (SLA) with the State Budget Office (SBO) and each of the four customer agencies. These services include the processing of expenditure transactions, revenue transactions, and journal vouchers. ASC also prepares financial reconciliations, reports, and final disposition of accounts along with other accounting functions.

ASC uses MiCaRS to perform invoicing and cashiering functions for its customer agencies. During our audit period, ASC processed 232,423 invoices for the agencies.

ASC is funded in part through interdepartmental grants from EGLE, DNR, and MDARD. The following table summarizes ASC costs for each department for fiscal year 2018:

	<u>Fiscal Year 2018 ASC Costs</u>	<u>Percentage of Total</u>
EGLE	\$1,103,789	23%
DNR	1,061,885	23%
MDARD	976,972	21%
MDOT	<u>1,574,450</u>	<u>33%</u>
Total	<u>\$4,717,096</u>	<u>100%</u>

AUDIT OBJECTIVE

To assess the effectiveness of ASD's efforts to administer accounting services to its customer agencies.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- Our review of 31 MiCaRS invoices created for EGLE, DNR, and MDARD disclosed that all were properly documented and appeared reasonable.
- ASD's cashiering section had sufficient internal control*, including proper segregation of duties, based on our observation of cashiering activities.

* See glossary at end of report for definition.

- ASD maintained documentation to ensure proper procedures, including segregation of duties, for the 55 deposits that we reviewed.
- ASD properly documented and approved the 29 MiCaRS refunds that we reviewed.
- ASD accurately billed customer agencies for fiscal year 2018 ASC costs.
- Reportable conditions* related to improved process for recording contractor estimated accounts payables* (EAPs), improved evaluation of adherence with SLA objectives, and improved controls over accounts receivable invoice requests (Findings #2, #3, and #4, part b).

** See glossary at end of report for definition.*

FINDING #2

Improved process needed for estimating, liquidating, and evaluating contractor accounts payables.

BFA should improve its process for recording, estimating, and evaluating contractor EAPs to ensure that EAPs are accurate and recorded in the proper fiscal year.

The State of Michigan Financial Management Guide (Part II, Chapter 14, Section 100) requires agencies to record payables for goods or services received by September 30. Section 18.1485 of the *Michigan Compiled Laws* specifies that each principal department director shall establish and maintain an internal accounting and administration control system using generally accepted accounting principles*.

Effective internal control over accrued accounts payables includes a comparison of accounting estimates* with subsequent activity to assess the reliability of the process for developing the estimates.

We noted:

- a. BFA did not require or review supporting documentation of how the various MDOT project managers calculated the EAP amount for construction projects.

BFA processes an EAP transaction for the work performed on each construction project on or before September 30 (prior year work). The EAP amounts are provided to BFA by various MDOT project managers without supporting documentation. BFA did not attempt to verify the reasonableness of the estimates. We noted payables recorded during our *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* audits which, instead of being based on estimates, were recorded for the:

- (1) Full contract amount including payments already made and work not yet performed.
- (2) Remaining contract amount including work not yet performed.
- (3) Total contract expenditures to date that were already paid.
- (4) Amount of a previous payment received early in the new fiscal year that was already included in the year-end accounts payable balance.

BFA indicated that it did not require or review EAP supporting documentation because of the large number of EAPs recorded each year and the amount of time it would take to review the supporting documentation.

* See glossary at end of report for definition.

- b. BFA did not evaluate the dates of service when processing payments and liquidating prior year EAPs. Consequently, expenditures were recorded in the incorrect fiscal year.

BFA's practice is to apply payments made during the current fiscal year against the established EAP until the balance is reduced to zero. BFA did not take into consideration the actual date of service. If payments in the current fiscal year were less than the EAP, BFA wrote off the remaining accounts payable balance. This practice resulted in BFA incorrectly using current year expenditures to liquidate prior year accounts payables.

BFA informed us that dates of service are not readily available in the Field Manager System and would require system changes to efficiently review the dates when processing payments liquidating prior year EAPs.

We evaluated the dates of service for fiscal year 2018 expenditures that liquidated fiscal year 2017 EAPs as well as subsequent fiscal year 2018 expenditures for the project after the EAP balance was reduced to zero. We noted examples in which BFA improperly liquidated the entire fiscal year 2017 EAP without sufficient expenditures related to fiscal year 2017 dates of service. This caused expenditures to be recorded in the incorrect fiscal year.

- c. BFA should establish a process to assess the reliability of its contractor EAPs.

BFA annually wrote-off a significant amount of the contractor accounts payables, indicating that accounts payable were overstated. However, the write-off amounts were likely understated because of BFA's practice of applying payments made during the current fiscal year against the EAP, regardless of the date of service. Improper accounts payable write-offs cause expenditures to be overstated in the prior year and miscellaneous revenue to be overstated in the current year. For fiscal years 2015 through 2017, BFA wrote off an average of \$9.2 million of contractor EAPs, as follows:

Fiscal year	Construction Contractor Payable Write-Off	Total Payable Write-Off
2016	\$ 4,460,099	\$18,039,258
2017	\$ 8,505,562	\$25,827,634
2018	\$14,707,983	\$47,255,897
Average	\$ 9,224,548	\$30,374,263

Improving the reliability of contractor EAPs would help ensure the accuracy of the payable balance, ensure that expenditures are recorded in the proper year, and reduce payable write-offs.

We initially identified this issue during the fiscal year 2012 SOMCAFR audit (071-0010-13). MDOT agreed with our recommendation and stated that it would implement process changes to evaluate dates of service when processing contractor payments and liquidating prior year EAPs. In subsequent reports, MDOT agreed with our recommendation but indicated that including dates of service when liquidating EAPs would require a change to the Field Manager System and did not believe this would be a cost-effective change. MDOT had not modified its accounts payable estimation methodology since the initial issue was identified in fiscal year 2012.

RECOMMENDATION

We recommend that BFA improve its process for recording, estimating, and evaluating current year and liquidating prior year contractor EAPs to ensure that EAPs are accurately recorded and that expenditures are recorded in the proper fiscal year.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees that it can improve the process for recording current year contractor EAPs. MDOT will implement a process to ensure that reports are utilized in a manner to more accurately account for EAPs. Also, MDOT has incorporated and emphasized the proper evaluation of payables in our year end training.

MDOT agrees that consideration of the dates of service when processing contractor payments might lead to accounts payable transactions that are more accurate; however, service dates are not readily available. In order to obtain this information, it would require changes to MDOT's off-the-shelf current and proposed software systems. MDOT will review the methodology used to track contractor payables and determine if there are opportunities for improvements in future software upgrades, where the cost to implement the improvements will not significantly exceed the benefits derived.

FINDING #3

Improved evaluation and reporting of adherence with SLA objectives.

ASD did not evaluate and report on its adherence to SLA objectives for fiscal years 2017 and 2018. Doing so would help ensure that services are provided to the customer agencies in a timely and efficient manner.

Section VII of the SLAs between ASD and the customer agencies requires ASC to annually report to SBO and the customer agencies the agreed upon measures and metrics for services provided. Each SLA contains various established metrics specific to each customer agency and the accounting services provided by ASC. Examples of SLA metrics include:

- Percentage of payments processed within a certain number of days of receipt.
- Timely receipting of cashier deposits.
- Number of journal vouchers processed.
- ASC costs as a percentage of the agencies' operating budget.

ASD informed us that ASC did not prepare the required reports in fiscal year 2017 because of the State's transition to SIGMA or in fiscal year 2018 because of an oversight and staffing turnovers.

RECOMMENDATION

We recommend that ASD evaluate and report on its adherence to SLA objectives.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT concurs that measures and metrics required in the SLAs were not compiled and provided to SBO and the supported departments. However, all parties agreed that, with the focus on the transition to SIGMA, the measures and metrics would not be required for fiscal years 2017 and 2018. MDOT is currently working with the supported departments on updating the SLAs which include revising the measures and metrics where appropriate.

FOD SERVICES

BACKGROUND

The Financial Operations Division (FOD) delivers financial and operational services throughout MDOT. FOD is composed of three sections: Project Accounting and Financial Support Section, Budget Outreach and Program Support Section, and Office Services Section.

FOD's Project Accounting and Financial Support Section is responsible for obligating approximately \$1 billion in federal funds received annually from the Federal Highway Administration (FHWA) based on decisions made by MDOT's Bureau of Transportation Planning. This Section is also responsible for accounting for and finalizing MDOT projects.

FOD's Budget Outreach and Program Support Section records MDOT's budget within SIGMA, transmits legislatively required reports, and is responsible for invoice processing and receivable collections. FOD uses MiCaRS to create invoices for various MDOT program areas, most notably for property damage claims. FOD receives requests for invoice creation through e-mail, interdepartmental mail, and the Property Damage Reclamation Process System. The following table summarizes the number of damage claim and other invoices during the audit period:

Invoice Type	Number of Invoices by Fiscal Year		
	2017	2018	2019 (Through June 30)
Damage claims	3,472	4,297	3,523
Other	5,674	1,729	1,294
Total	<u>9,146</u>	<u>6,026</u>	<u>4,817</u>

AUDIT OBJECTIVE

To assess the effectiveness of FOD's efforts to deliver financial and operational services throughout MDOT.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- FOD followed its invoice creation and billing procedures for the 32 MiCaRS invoices that we reviewed.
- FOD closed 4,326 construction projects between October 1, 2016 and June 30, 2019 including many older projects from fiscal year 2017 that reduced the number of open projects required to be carried forward during the State's transition to SIGMA.

- FOD fully obligated all federal funds authorized by FHWA for fiscal years 2017 and 2018, totaling approximately \$1.1 billion each year.
- FOD appropriately maintained a minimal unexpended balance on open construction projects for which the work was completed more than three years ago.
- FOD improved its process for documenting its collection efforts on delinquent accounts and forwarding delinquent accounts to the Department of Attorney General in response to our recommendation in the performance audit* of the Maintenance Services Section, MDOT, released in December 2018.
- FOD timely and accurately submitted the three required legislative reports that we reviewed.
- Reportable condition related to improved controls over the accounts receivable invoice and collection processes (Finding #4).

* See glossary at end of report for definition.

FINDING #4

Continued improvements needed over collection efforts.

BFA should continue to improve controls over its accounts receivable invoice and collection processes to ensure the completeness and accuracy of invoices created and the timely collection of unpaid invoices.

We randomly sampled 5 months of MiCaRS aging schedules that FOD used to track unpaid invoices. Our review disclosed:

- a. Improvements needed to the monthly aging schedules and follow-up of unpaid invoices:
 - (1) For 1 (20%) of the 5 months, FOD did not review or maintain the aging schedule. For 3 (60%) of the 5 months, FOD informed us that it reviewed but did not maintain the aging schedules.
 - (2) FOD did not adequately document its follow-up of unpaid invoices from the monthly aging schedules in 3 (60%) of the 5 related tracking sheets. For 1 month, FOD did not complete the monthly tracking sheet. For 2 months, FOD did not include details for the invoices for each comment noted in the tracking sheet. Also, FOD appeared to have followed up 1 monthly tracking sheet; however, we were unable to verify the completeness because FOD did not maintain the monthly aging reports.

MDOT's records retention and disposal schedule requires FOD to retain records documenting the monitoring of aging accounts receivables for at least 7 years.

FOD indicated that it did not review the aging report for the 1 month because of a staffing turnover. FOD also indicated that it did not begin maintaining copies of the monthly aging reports until some time in fiscal year 2018. FOD believed that the tracking sheets served as documentation of its monitoring of aging receivables; however, as noted in part a.(2) above, the tracking sheets were incomplete.

- b. FOD and ASD did not implement controls to ensure that all requests for accounts receivable invoices were created in MiCaRS.

Section 18.1485 of the *Michigan Compiled Laws* requires that each internal control system shall include authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures.

FOD and ASD indicated that their monitoring of receivables begins with the MiCaRS invoice; however, they did not have a recordkeeping process to ensure that all invoice requests received were entered into MiCaRS.

RECOMMENDATION

We recommend that BFA continue to improve controls over its accounts receivable invoice and collection processes to ensure the completeness and accuracy of invoices created and the timely collection of unpaid invoices.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT agrees with the recommendation and has implemented a comprehensive process to ensure that aging schedules are complete, accurate, and reviewed in a timely manner.

AGENCY DESCRIPTION

MDOT's BFA is composed of three divisions: ASD, FOD, and Contract Services Division. BFA's mission* is to provide quality financial and administrative services to optimize the achievement of MDOT's mission. BFA provides the internal support necessary for MDOT operations, including accounting services, fiscal reporting, fiscal planning, budgeting, cash management, bond financing, property leasing, stores control (local warehouses and materials and equipment inventory), and all related financial functions. BFA manages the construction contractor prequalification, contract letting, and contract award processes; manages consultant prequalification, selection, and award; processes contractor and consultant payments; and manages the purchase of various commodities and services.

In fiscal year 2018, BFA expended \$19.1 million on salaries, wages, and administrative expenses. As of June 30, 2019, BFA had 143 employees.

* See glossary at end of report for definition.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the program and other records of BFA. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2016 through June 30, 2019.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of BFA's operations and activities in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed BFA management and staff regarding their job functions and responsibilities.
- Reviewed selected MDOT policies and procedures and State and federal laws.
- Reviewed and analyzed BFA expenditures between October 1, 2016 and September 30, 2018.
- Reviewed SLAs between ASD and its customer agencies.
- Observed cashiering functions provided by ASD.
- Met with three customer agencies to discuss their experiences and satisfaction with ASD.
- Reviewed a sample of construction and consultant contracts administered by the Contract Services Division for prequalification, advertisement, bid letting, award, payments, contract attributes, consulting selections, and close-out audits.

OBJECTIVE #1

To assess the effectiveness of BFA's access controls over selected IT systems.

To accomplish this objective, we:

- Obtained and reviewed a listing of the 144 active MiCaRS users from EGLE, DNR, MDARD, and MDOT as of June 30, 2019. We randomly selected 21 users and judgmentally selected 7 users to assess whether BFA followed the principle of least privilege when assigning roles and privileges to users. We also reviewed MiCaRS security request forms for approvals and compared requested user rights with the user's actual access rights for the randomly sampled users.
- Judgmentally sampled user groups to determine whether the users in those groups required all of the roles granted as part of the user group.
- Reviewed SIGMA access rights for ASD cashiers and managers. We also obtained a listing of all SIGMA users with cashiering rights for ASD's customer agencies to determine whether only authorized users had been granted cashiering rights.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective populations. For our judgmental samples, we could not project the results to the respective populations.

OBJECTIVE #2

To assess the effectiveness of ASD's efforts to administer accounting services to its customer agencies.

To accomplish this objective, we:

- Randomly sampled 25 of the 4,273 ASD cashier deposits completed between October 1, 2016 and June 30, 2019 to review supporting documentation.
- Randomly and judgmentally sampled 30 of the 919,910 other deposits completed between October 1, 2016 and June 30, 2019 to review supporting documentation. These deposits related to credit card or other payments for MiCaRS invoices not receipted by ASD cashiers.
- Randomly and judgmentally sampled 29 of 4,856 MiCaRS refunds processed between October 1, 2016 and June 30, 2019 to assess whether ASD properly documented and approved the refunds.
- Randomly and judgmentally sampled 31 of 232,423 MiCaRS invoices created in MiCaRS for EGLE, DNR, and MDARD between October 1, 2016 and June 30, 2019 to review supporting documentation for existence, accuracy, and completeness of input.

- Reviewed ASD's process for estimating, liquidating, and evaluating MDOT contractor payables.
- Reviewed ASD's fiscal year 2018 charges to the four customer agencies to assess their accuracy.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations. For our judgmental samples, we could not project the results to the respective populations.

OBJECTIVE #3

To assess the effectiveness of FOD's efforts to deliver financial and operational services throughout MDOT.

To accomplish this objective, we:

- Compared FHWA notices of federal funds available for Michigan in fiscal years 2017 and 2018 with FHWA obligation data for fiscal years 2017 and 2018 to determine whether FOD fully obligated all available federal funds.
- Randomly and judgmentally sampled 42 of 6,293 FHWA obligation transactions for fiscal years 2017 and 2018 to assess whether FOD appropriately obligated the federal funds.
- Obtained and analyzed data related to MDOT construction projects open as of June 30, 2019.
- Obtained and analyzed data related to MDOT construction projects closed between October 1, 2016 and June 30, 2019.
- Randomly and judgmentally sampled 32 of 19,989 MiCaRS invoices created between October 1, 2016 and June 30, 2019 to determine whether MDOT created accurate invoices based on the user request and supporting documentation.
- Randomly sampled 5 months between October 1, 2016 and June 30, 2019 to review FOD's monthly aged receivables reports and corresponding tracking sheets to assess whether FOD properly tracked and performed follow-up on past due receivables.
- Compiled a listing of at least 2,101 MiCaRS invoices delinquent between October 1, 2016 and June 30, 2019 and randomly sampled 25 invoices from the listing to determine whether MDOT sent periodic reminder letters to individuals with past due invoices and forwarded the unpaid invoices to the Department of Attorney General when applicable.

- Randomly sampled 3 of the 19 legislative reports that BFA was responsible for preparing during fiscal years 2017 and 2018 to evaluate their accuracy and timeliness of submission.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. For our judgmental samples, we could not project the results to the respective populations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 4 findings and 4 corresponding recommendations. MDOT's preliminary response indicates that it agrees with 3 of the recommendations and partially agrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from MDOT's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

**PRIOR AUDIT
FOLLOW-UP**

Following is the status of the applicable reported findings from our December 2018 performance audit of the Maintenance Services Section, Michigan Department of Transportation (591-0160-18):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Improvements needed over damage claim assignments.	Not in scope of this audit.	
2a and 2b	Improvements needed over maintaining documentation of collection efforts.	Substantially complied	Not applicable
2c and 2d	Improvements needed over recovery of damage claims.	Not in scope of this audit.	
3	Improved access controls needed over the Property Damage Reclamation Process.	Not in scope of this audit.	

GLOSSARY OF ABBREVIATIONS AND TERMS

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
accounting estimate	An approximation of a financial statement element, item, or account.
ASC	Accounting Services Center.
ASD	Accounting Services Division.
auditor's comments to agency preliminary response	Comments that the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
BFA	Bureau of Finance and Administration.
DNR	Department of Natural Resources.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
EGLE	Department of Environment, Great Lakes, and Energy.
estimated accounts payable (EAP)	An approximation of the amount owed to a contractor for work performed, but not yet paid, by the end of the fiscal year.
Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
FHWA	Federal Highway Administration.
FOD	Financial Operations Division.

generally accepted accounting principles	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
IT	information technology.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
MDARD	Michigan Department of Agriculture and Rural Development.
MDOT	Michigan Department of Transportation.
MiCaRS	Michigan Cashiering and Receivable System.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
principle of least privilege	The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access

rights that they can have and still do their jobs. The principle is also applied to things other than people, including programs and processes.

reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
SBO	State Budget Office.
segregation of duties	Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Proper segregation of duties requires separating the duties of reporting, review and approval of reconciliations, and approval and control of documents.
SLA	service level agreement.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.



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