



STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

GRETCHEN WHITMER
GOVERNOR

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DIRECTOR

January 25, 2021

MEMORANDUM

TO: Rick Lowe, Internal Auditor
Office of Internal Audit Services
State Budget Office

FROM: Heather Boyd, Director ^{HB}
Office of Financial Management

SUBJECT: Corrective Action Plan for the FY 2019 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, 2018 through September 30, 2019. 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 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, 2018 through September 30, 2019
REPORT DATED: May 12, 2020

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
 - Finding 2, part a. (MDOC & Treasury)
 - Finding 3, part a. (Treasury & OFM)
 - Finding 3, parts b., f., h. (Treasury)
 - Finding 4, part b. (DNR, MDARD, MDOT)
 - Finding 5 (MDOT & MSP)
 - Finding 6, part a. (OFM)
 - Finding 6, part b. (DTMB)
 - Finding 6, part c. (MDE)
 - Finding 6, part f. (MDOC)
 - Finding 6, part g. (MSP)
 - Finding 7, part a. (DTMB, LEO, MDHHS)
 - Finding 7, part b. (DOC, DTMB, DOS, MDHHS, MSP, OFM)
 - Finding 9, part c. (MDHHS)

2. Recommendations - agree with and will comply:
 - Finding 1 (OIAS)
 - Finding 2, part b. (MDHHS)
 - Finding 3, parts c., d., g. (Treasury)
 - Finding 3, part e. (Treasury & OFM)
 - Finding 4, part a. (MSP)
 - Finding 4, part b. (EGLE, MDHHS, MSP)
 - Finding 6, part d. (Treasury)
 - Finding 6, part e. (MDHHS)
 - Finding 6, part h.* (MDOT)
 - Finding 7, part a. (DNR)
 - Finding 8 (MDOT)
 - Finding 9, parts a., b., d. (MDHHS)

*Agency disagrees or partially agrees with the finding but agrees to comply with the recommendation.

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, 2018 through September 30, 2019

Finding 1

Third party service organization monitoring

Recommendation

We recommend that the State enhance its oversight of third party service organizations.

Management Views

State agencies, as well as the Office of Internal Audit Services (OIAS) and the Office of Financial Management (OFM), within the State Budget Office (SBO), agree that oversight of third-party service organizations should continue to be enhanced.

Planned Corrective Action

OIAS will review all 2019 System and Organization Controls (SOC) report review templates for correct scope and reporting periods and collaborate with the departments to address these areas prior to the fiscal year 2020 State of Michigan Comprehensive Annual Financial Report audit cycle. In addition, OIAS will review these templates on an annual basis prior to submission to the Office of the Auditor General.

Regarding part b., database administration controls have been added to the scope of the SOC review for fiscal year 2020 and will remain in scope going forward. SBO agrees with the need to continually assess the level of coverage obtained in the Annual Security Review service level requirement but does not agree with the assertion that the level of coverage obtained was not sufficiently assessed. Processing integrity, confidentiality and privacy principles do not need to be covered in the SOC 2 review because we have enough assurances as a result of compensating controls and the additional controls provided by the Annual Third Party Vulnerability Exam and Federal Risk and Authorization Management Program Certification processes.

Anticipated Completion Date

December 31, 2020

Finding 2

Access limitations for confidential information in SIGMA

Recommendation

We recommend that State agencies limit access to confidential information to appropriate users of the information.

Management Views

The Michigan Department of Corrections (MDOC), Michigan Department of Treasury (Treasury), Michigan Department of Health and Human Services (MDHHS), and OFM agree

that State agencies should limit access to confidential information to appropriate users of the information.

Planned Corrective Action

For part a., MDOC and Treasury will redact confidential information from future Statewide Integrated Governmental Management Applications (SIGMA) system transaction support and all existing confidential information was removed.

For part b., MDHHS's Financial Support Division has continued to work collaboratively with subsystem leads, MDHHS Compliance, Department of Technology, Management, and Budget (DTMB) DataStage, and SIGMA to discuss the best approach to mitigate personally identifiable information (PII) in SIGMA. MDHHS has determined the most efficient and cost-effective way to mitigate PII information within SIGMA is with modifications to the data by DataStage and not the individual subsystems. In addition, modifications will be made to SIGMA to accommodate the electronic funds transfer (EFT) remittance advice. The Statement of Work, Business Requirements, and other required documents have been completed. MDHHS is currently working with all parties to establish a timeline for coordinating the necessary efforts to mitigate displaying of any PII information within SIGMA Financial.

Anticipated Completion Date

- a. Completed
- b. March 31, 2021

Finding 3

Establishment and monitoring of tax receivables and payables

Recommendation

We recommend 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.

Management Views

Treasury and OFM agree that internal controls related to tax accruals should continue to be improved.

Planned Corrective Action

- a. Treasury procedures were updated to document the correct receivables report and related values to be used for the Governmental Accounting Standards Board (GASB) Statement No. 34 calculation. OFM created a new tax accrual workbook with detailed instructions on how to populate the workbook and locked all formulas to avoid accidental edits.
- b. Treasury procedures were updated to document methodology changes and to report significant changes to the GASB Statement No. 34 process in a timely manner.
- c. Treasury is currently completing the second year of reviewing individual income tax (IIT) payable backlogs used for tax accruals to actual refunds issued in the following fiscal year. After the evaluation is complete, Treasury will consider if an adjustment to the current methodology is warranted. In addition, Treasury developed a process to compare business tax accruals to actual activity and has completed comparing accruals to actual activity for two years of data. Once three years of data is compiled Treasury will consider if a change in methodology is warranted.

- d. The Treasury IIT legacy system does not have the capability to capture the coupon period for IIT payments received in October and November necessary to determine if part of the receipt population should be excluded from the tax accruals without manually pulling supporting documentation by individual transaction. Treasury is currently working towards replacing the legacy system and the ability to capture the coupon date is included in the new system specifications. Until the system is replaced Treasury will continue to a sample estimated IIT payments collected during October and November to identify payments for tax periods after September 30 and to adjust the month-end IIT accrued receivable accordingly. Treasury will also evaluate whether it is appropriate to project their sample results into the population and record an estimated reduction.
- e. Treasury will update procedures to compare the November tax accruals estimates to actual and will work with OFM to determine if an adjustment entry is needed.
- f. Desk procedures were updated, and additional supervisory review is being completed to help ensure there are not transposition errors on the collected data which can cause a misstatement the State Education Tax receivable.
- g. Treasury continues to review the reporting capabilities and related costs to create the reporting mechanisms versus related benefit to accurately determine how much sales tax revenue should be accrued to the Comprehensive Transportation Fund at the end of the fiscal year.
- h. Treasury has corrected the report to separately display the two distinct data fields.

Anticipated Completion Date

- a. Completed
- b. Completed
- c. The anticipated completion date for the IIT accrual is October 30, 2020, and the anticipated completion date for business tax accruals is November 30, 2021.
- d. September 30, 2023
- e. December 15, 2020
- f. Completed
- g. September 30, 2021
- h. Completed

Finding 4 **MiCARS Internal Control**

Recommendation

We recommend that State agencies improve MiCARS internal control to help ensure the completeness and accuracy of the *SOMCAFR*.

Management Views

State agencies and OFM agree that internal controls related to the Michigan Cashiering and Receivable System (MiCARS) transactions should be improved.

Planned Corrective Action

For part a., Michigan State Police (MSP) will write additional procedures to ensure that there are compensating controls for segregation of duties for reconciliation of interface transactions between MiCARS and SIGMA and invoice adjustments. In addition, MSP is also requesting an enhancement to MiCARS to update field names for “write-off” and “adjustment” to appropriately identify invoice changes.

For part b., State agencies utilizing MiCARS (Michigan Department of Transportation (MDOT); MSP; MDHHS; Michigan Department of Agriculture and Rural Development (MDARD); Department of Environment, Great Lakes, and Energy (EGLE); and Department of Natural Resources (DNR)) are working on putting procedures in place to require documentation of approvals outside of MiCARS for applicable invoices and also exploring an enhancement for approvals in MiCARS.

Anticipated Completion Date

a. September 30, 2020

b. DNR: Completed

EGLE: October 31, 2020

MDARD: Completed

MDHHS: September 1, 2020

MDOT: Completed

MSP: September 30, 2020

Finding 5

Interface control improvements

Recommendation

We recommend that MDOT and MSP establish and implement complete interface controls over SIGMA.

Management Views

MDOT, MSP and OFM agree that complete interface controls over SIGMA should be established and implemented.

Planned Corrective Action

For part a., MDOT implemented a daily reconciliation process on January 1, 2020 that reconciles expenditures transactions in the American Association of State Highway and Transportation Officials software (AASHTOWare) to expenditure transactions in SIGMA. This new process reconciles both dollar amounts and record counts.

For part b., MSP updated the reconciliation process that reconciles MiCARS transactions to SIGMA in February of 2020. The process reconciles both dollar amounts and record counts.

Anticipated Completion Date

Completed

Finding 6
Various departments financial accounting practices

Recommendation

We recommend that State agencies establish sufficient internal control to help ensure the accuracy of the accounting information recorded in the *SOMCAFR*.

Management Views

State agencies and OFM agree that internal controls should be enhanced.

Planned Corrective Action

- a. OFM updated procedures and the report being used to ensure only the current fiscal year data is being captured and updated the formula used to calculate sick leave reductions.
- b. DTMB revised its year-end process to include review of all capital assets and prepaid expenditures to ensure proper classification.
- c. The Michigan Department of Education (MDE) has updated its year-end procedures to ensure a specialist and manager meet to review accounts payable/accounts receivable supporting documentation from applicable sub systems prior to entry into SIGMA.
- d. (1) Treasury created new reporting capabilities from the legacy system along with desk procedures to reconcile the offset fund from October 1, 2019 forward and will be writing off the unreconciled amount.
- d. (2) Treasury will compare the actual taxes received numbers reported in SAP for residential utilities to the historical estimate provided by Treasury's Office of Revenue and Tax Analysis.
- d. (3) Treasury will increase communication with major Treasury business areas related to contingencies and ensure that supporting documentation for the entries is thoroughly reviewed.
- e. (1) MDHHS will review the payable methodology to identify potential revisions that could be made to improve the accuracy of the payable.
- e. (2) MDHHS will continue to work with DTMB to ensure that the query is providing appropriate child support data.
- e. (3) MDHHS developed a standardized Home Help Agency Invoice that requires information needed to support the payment; this will provide adequate documentation to support payments made to agency providers. Individual home help provider verifications are currently in the format of an Electronic Service Verification or Paper Service Verification. This will eventually be replaced with Electronic Visit Verification. Once this is done, the Home Help payment system will be updated or replaced so that service verification will be automated to verify that services were provided before payment is made. Currently, because of the information technology (IT) shortfall, there is no available funding to implement these system changes.
- f. MDOC has established an annual internal meeting with its Legal Affairs Administrator, Budget Officer, Budget and Administration Deputy Director, and Chief Accountant to review pending lawsuits to determine if payables need to be established for the prior fiscal year.

- g. MSP updated year-end procedures related to accounts payable.
- h. (1) MDOT will record a receivable from the local transit authorities.
- h. (2) MDOT will implement controls to ensure that user access in Field Manager is reviewed on a bi-annual basis and that individuals without a valid business need are removed.
- h. (3) MDOT is developing specific controls in the new software, AASHTOWare Construction and Materials, that will prevent an individual from approving their own inspector daily reports. This software is being piloted and statewide rollout is targeted for fiscal year 2022.

Anticipated Completion Date

- a. Completed
- b. Completed
- c. Completed
- d. (1) December 15, 2020
- d. (2) November 30, 2020
- d. (3) December 15, 2020
- e. (1) November 30, 2020
- e. (2) November 30, 2020
- e. (3) Completed for agency providers. The anticipated completion date for corrective action related to individual providers is unknown at this time as it is subject to available IT funds.
- f. Completed
- g. Completed
- h. (1) December 15, 2020
- h. (2) November 1, 2020
- h. (3) September 30, 2022

Finding 7

Financial accounting practices related to capital assets

Recommendation

We recommend that State agencies and OFM establish sufficient internal control to ensure the existence and accuracy of the State's capital assets recorded in the *SOMCAFR*.

Management Views

State agencies and OFM agree that internal controls should be enhanced.

Planned Corrective Action

- a. State agencies have updated procedures and assignment responsibilities to ensure that equipment is removed from SIGMA upon disposal.
- b. The SIGMA MI-FA-0011 Lease Report has been updated and now identifies when an asset exists and is linked to an inactive lease. Agencies will review this report and ensure that all assets that are linked to inactive leases are addressed. OFM will also monitor to ensure all identified assets are resolved.

Anticipated Completion Date

- a. DTMB: Completed
DNR: September 30, 2021
Labor and Economic Opportunity (LEO): Completed

MDHHS: Completed
b. Completed

Finding 8
MDOT accounts payable

Recommendation

We recommend that MDOT improve internal control to help ensure the evaluation of dates of service when processing payments and liquidating prior year accounts payable estimates.

Management Views

MDOT and OFM agree that the process used to establish these payables should be refined.

Planned Corrective Action

For construction contract payables, MDOT will be incorporating a report into the payable establishment process that identifies work that the contractor has performed, but MDOT has either not yet accepted or paid for. For consultant contract payables, MDOT has reached out to the consultant community stakeholders and will be providing additional guidance and direction to them to ensure that they are estimating payables in accordance with established accounting standards.

Anticipated Completion Date

October 31, 2020

Finding 9
Medicaid payables and receivables

Recommendation

We recommend that MDHHS enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of Medicaid accruals.

Management Views

MDHHS and OFM agree that internal controls related to Medicaid accruals should be enhanced.

Planned Corrective Action

For parts a. and b., MDHHS will ensure comparisons between estimates and actuals are completed and documented and will record adjustments when appropriate.

For part c., MDHHS has updated the Health Plan review procedures to ensure the correct formula is being used for year-end accrual review.

For part d., MDHHS will evaluate their review process and make applicable changes to their procedures.

Anticipated Completion Date

- a. October 31, 2020
- b. January 31, 2021
- c. Completed
- d. December 31, 2020