



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

DAVID P. MASSARON
DIRECTOR

August 24, 2021

MEMORANDUM

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

FROM: Heather Boyd, Director *HB*
Office of Financial Management
State Budget Office

SUBJECT: Corrective Action Plan for the FY 2020 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, 2019 through September 30, 2020. The Office of Internal Audit Services, State Budget Office, approved the distribution of the plan.

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, 2019 through September 30, 2020
REPORT DATED: March 19, 2021

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
 - Finding 1, part a.2. (OFM)
 - Finding 1, part d. (MDHHS)
 - Finding 2, part a.2. (DTMB)
 - Finding 2, part b.1. (MDOT, OFM)
 - Finding 2, part b.2. (DNR, DTMB)
 - Finding 3, part a.2. (MDOS)
 - Finding 4, part a. (Treasury)
 - Finding 6, parts b. (MDOT)
 - Finding 6, part c.1. (DTMB)
 - Finding 7, part a. (Treasury, MDOS)

2. Recommendations - agree with and will comply:
 - Finding 1, part a.1. (OFM)
 - Finding 1, part a.3. (OFM)
 - Finding 1, part b. (OFM)
 - Finding 1, part c. (OFM)
 - Finding 2, part a.1. (DNR, DTMB)
 - Finding 3, part a.1. (MDOC)
 - Finding 3, part b. (MDHHS)
 - Finding 4, parts b., c., d., e., f., g., h. (Treasury)
 - Finding 5, (MSP, MDARD, MDOT, DNR, EGLE)
 - Finding 6, parts a (MDHHS)
 - Finding 6, part c.2. (DTMB)
 - Finding 7, parts a., b., c. (MDHHS)

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, 2019 through September 30, 2020

Finding 1
Calculating fund balance and net position

Recommendation

We recommend that Office of Financial Management (OFM) and Michigan Department of Health and Human Services (MDHHS) update their year-end closing procedures to ensure that guidance used during the year-end closing process is current and reflective of GAAP and State policy.

Management Views

OFM and MDHHS agree that year-end closing procedures should be updated to ensure that guidance used during the year-end closing process is current and reflective of GAAP and State policy.

Planned Corrective Action

Part a.1. OFM will improve its written procedures for preparation and review of the net investment in capital assets entry. OFM corrected the calculations for the State Building Authority bond splits during year-end and will use this methodology moving forward.

Part a.2. OFM changed its approach for determining unspent proceeds for outstanding bonds for fiscal year 2020, and the calculation that resulted in the error is no longer used.

Part a.3. OFM will update written procedures to ensure the calculation includes the latest information.

Part b. OFM will update their written procedure to ensure that long-term receivables are correctly classified in the appropriate fund balance classification.

Part c. OFM will update their internal procedure to ensure that combined funds are correctly entered into the appropriate fund balance classification column of the GASB 54 analysis spreadsheets.

Part d. MDHHS has updated their year-end procedures to include work project and maintenance operating project encumbrances in their year-end review and encumbrance roll process.

Anticipated Completion Date

Part a.1. OFM: August 1, 2021.

Part a.2. OFM: Completed

Part a.3. OFM: August 1, 2021.

Part b. OFM: June 30, 2021

Part c. OFM: June 30, 2021

Part d. MDHHS: Completed

Finding 2
Financial accounting practices related to capital assets

Recommendation

We recommend that State agencies and OFM establish sufficient internal control to monitor the existence and accuracy of the State's capital assets recorded in the Annual Report.

Management Views

State agencies and OFM agree that internal controls related to the existence and accuracy of the State's capital assets should be improved.

Planned Corrective Action

Part a.1. DNR updated their equipment policy and procedures on November 5, 2020 which provides specific instructions on how to handle equipment disposals. Two departmentwide trainings were conducted February 23rd and 25th on the inventory piece of the policy which involved approximately 180 department staff. Additional training is being planned for the summer of 2021 to cover the remaining portions of the policy. DNR has also worked with the MDOT Accounting Service Center to implement additional reviews of equipment assets in SIGMA during the year-end closing process to verify additions and disposals are completed timely and accurately. DTMB will conduct more thorough reviews to validate the existence of IT equipment assets and ensure assets are properly removed from SIGMA upon disposal.

Part a.2. DTMB will conduct more thorough reviews to ensure capital assets are properly recorded.

Part b.1. The applicable amortization schedule was updated in fiscal year 2020. In addition, MDOT has implemented reporting solutions that will decrease the amount of manual involvement in the compilation of data.

Part b.2. DNR has implemented an additional control to review each land purchase included in the summary land entry at year-end to ensure any associated buildings are recorded properly and that we do not duplicate any assets as both land and buildings. DNR has also worked with the MDOT Accounting Service Center to implement additional reviews of capital assets recorded in SIGMA to verify entries are recorded timely and accurately. DTMB will conduct more thorough reviews of costs related to software development projects to ensure that only development costs are appropriately capitalized.

Anticipated Completion Date

Part a.1. DNR: September 30, 2021

DTMB: December 2021

Part a.2. DTMB: Complete

Part b.1. MDOT, OFM: Complete

Part b.2. DNR: Complete

DTMB: Complete

Finding 3
Access limitations for confidential information in SIGMA

Recommendation

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

Management Views

State agencies and OFM agree and will implement procedures to limit access to confidential information to appropriate users of the information.

Planned Corrective Action

Part a.1. MDOC will use appropriate redaction software to ensure confidential information cannot be seen when magnified or will eliminate the documentation in SIGMA. MDOC is also in the process of working with SIGMA to have the applicable attachments already in SIGMA removed.

Part a.2. MDOS reviewed all document attachments in SIGMA that would potentially have confidential data uploaded for fiscal year 2020 to ensure the data did not include confidential information. Documents were removed if they were not correctly redacted, and redacted documents were uploaded. Going forward, MDOS will redact confidential information on documents prior to uploading them into SIGMA. Training was provided to staff and documented to ensure that staff have the necessary knowledge to identify and redact confidential information on all documents prior to uploading into SIGMA.

Part b. The various MDHHS subsystems that interface to SIGMA, including the Michigan Statewide Automated Child Welfare Information System (MiSACWIS) and Bridges Integrated Automated Eligibility Determination System (Bridges), have been modified by DataStage to prevent PII data from being interfaced into SIGMA Financial. In addition, modifications were made to SIGMA to accommodate the EFT remittance advice. Currently, SIGMA and DTMB are in the process of redacting PII information that was previously interfaced to SIGMA Financial. The redaction of all PII data in SIGMA Financial is on track to be completed by August 31, 2021.

Anticipated Completion Date

Part a.1. MDOC: September 30, 2021

Part a.2. MDOS: Complete

Part b. MDHHS: August 31, 2021

Finding 4

Establishment and monitoring of tax receivables and payables

Recommendation

We recommend that Treasury 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 control related to tax accruals should continue to be improved.

Planned Corrective Action

Part a.1. Treasury has made corrections to the GASB 34 workbook excel formulas to eliminate the risk of understating assets and deferred inflows in the General Fund and School Aid Fund moving forward.

Part a.2. Treasury has updated procedures to mitigate understating current year CIT revenue used in the calculation of the estimated future CIT receivable which is used to book the General

Fund assets and deferred inflows of resources in the governmental activities of the government-wide financial statements.

Part a.3. Treasury has updated its procedures to mitigate the overstatement of use tax revenues used in the estimate of the use tax receivables including the risk of double counting use tax revenues distributed to the Local Community Stabilization Authority (LCSA).

Part b. The Treasury IIT legacy system does not have the capability to be reconciled to SIGMA as the legacy system does not have a general ledger module. Compensating controls include reconciling all IIT revenue recorded in SIGMA to the State's banking records and bank statements. Treasury is currently working towards replacing the legacy system and the ability to reconcile to SIGMA is included in the new system specifications. Until the system is replaced Treasury will continue to rely on the compensating controls. The amounts noted by the OAG are estimated misstatements and not known misstatements as a true method to determine a known misstatement, if any, is not possible in the legacy system.

Part c. The design of the SAP report used for recording withholding payments for tax accruals relies on taxpayers to accurately file the correct filing period the payments apply to. If a taxpayer does not file a payment to the correct filing period it could be problematic for tax accrual reporting. Treasury agrees that further dialogue with State Agencies may benefit the future accuracy of their filings.

Part d. Treasury will update procedures to reevaluate recorded CIT liabilities if the refund amount changes prior to the Annual Report's audit opinion date.

Part e. Treasury has developed additional procedures to enhance internal controls to ensure accuracy of tax accruals. Additional staff will be trained on these procedures.

Part f. Treasury beginning in fiscal year 2020 closing began creating scripts in SIGMA Business Intelligence to compare to the estimates used to book estimated November tax accruals calculated in the tax accrual database and subsequently booked in SIGMA. This process was close to being completed prior to book closing completion but not fully refined to a comprehensive process by the audit opinion date. This process will be fully functional for the fiscal year 2021 closing.

Part g. Treasury is working with DTMB to determine the actual availability and accuracy of a report in SAP that may allow for review and determination if a sales tax accrual should be booked to the Comprehensive Transportation Fund (CTF).

Part h. Desk procedures will be updated and additional supervisory review will be completed to help ensure that there are not transposition errors on the collected data which could lead to a misstatement in the State Education Tax receivable.

Anticipated Completion Date

Part a.1. Complete

Part a.2. Complete

Part a.3. Complete

Part b. September 30, 2023

Part c. September 30, 2021

Part d. September 30, 2021

Part e. December 31, 2021

Part f. December 31, 2021
Part g. November 30, 2021
Part h. September 30, 2021

Finding 5
MiCARS internal control improvements

Recommendation

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

Management Views

State agencies and OFM agree that internal controls related to MiCARS transactions should continue to be enhanced to help ensure the completeness and accuracy of the Annual Report.

Planned Corrective Action

Part a. MSP will update the Interface Feedback Reconciliation procedure to ensure all transaction types are reconciled and to have the results of the reconciliation reviewed by a separate individual to ensure completeness and accuracy.

Part b. MSP will update the Interface Feedback Reconciliation procedure to have the reconciliation conducted by a person that is separate from the person performing adjustments in MiCARS. Additional procedures will be written for monitoring the Interface Feedback Reconciliation process and reviewing all adjustments which will be done by separate individuals from those that perform the reconciliation and enter adjustments.

Part c. MSP implemented a new procedure October 1, 2020 to require prior approval of manual invoices greater than \$25,000. A system enhancement of MiCARS to require approval of the entry of all manual invoices is in the testing phase and is expected to be implemented prior to year-end 2021. MSP will write a procedure for approval and monitoring of invoice adjustments. The procedures will ensure that approval, entering and reviewing adjustments will be done by separate individuals. MDARD will be working with the Accounting Service Center regarding implementation of a new process where we select a sample of approved invoices sent to SIGMA. The testing of the sample will determine whether the amount entered into SIGMA matches the approved amount and whether the account coding is correct. MDOT will implement a monthly process where we select a sample approved invoices sent to SIGMA to ensure that the amount entered matches the approved amount. DNR will be implementing a new invoice approval enhancement within the MiCARS application. EGLE will be reviewing procedures for all Drinking Water Lab invoices, refunds, deposits and reclassifications as well as manual entries. Procedures will be updated as applicable to enhance internal controls.

Anticipated Completion Date

Part a. MSP: June 30 2021
Part b. MSP: June 30, 2021
Part c. MSP, MDARD, MDOT: June 30, 2021
Part c. DNR: September 30, 2021
Part c. EGLE: December 31, 2021

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 Annual Report.

Management Views

State agencies and OFM agree that internal controls should be improved to help ensure the accuracy of the accounting information recorded in the Annual Report. However, for part a.(1)(c), MDHHS was aware of the WIC rebate receivable prior to any involvement from the OAG and planned to correct the amount prior to closing.

Planned Corrective Action

Part a.1. MDHHS plans to record actual amounts for the Special Needs Access Fund liability and the WIC rebate receivable in mid-December of each year instead of recording estimates of these amounts early in the closing process and then adjusting them when actual payments are processed. MDHHS will evaluate the feasibility of developing a report that compares estimated MPHI EGrams liabilities to actual payments and then adjusting to actual amounts when differences are material prior to future book closings. In addition, MDHHS is developing a training that will incorporate more information related to recording these liabilities at year-end.

Part a.2. MDHHS will work with applicable program offices to ensure the maintenance of sufficient documentation to support accounts payable recorded for the Foster Care program.

Part b.1. MDOT has updated its year-end processes to ensure the GHIB accounting entries are included in an applicable checklist.

Part b.2. MDOT will expand its outreach efforts and will provide additional training to staff on understanding payables. MDOT will also individually meet with program areas to provide guidance during year-end.

Part b.3. MDOT implemented an internal semi-annual review starting December 2020. The review will address any clean-up needed for user lists across the state.

Part c.1. DTMB has established a process to record administrative contract fee revenue in the year in which it is earned.

Part c.2. DTMB will continue to review and improve year-end accounting processes for information technology vendors to properly account for expenditures in the correct fiscal year when processing payments and establishing accounts payable.

Anticipated Completion Date

Part a.1. MDHHS: September 30, 2021

Part a.2. MDHHS: September 30, 2021

Part b.1. MDOT: Complete

Part b.2. MDOT: Complete

Part b.3. MDOT: Complete

Part c.1. DTMB: Complete

Part c.2. DTMB: December 2021

Finding 7
Third party service organization monitoring

Recommendation

We recommend that the State continue to enhance its oversight of TPSOs.

Management Views

State agencies and OFM agree that internal controls related to the oversight of third-party service organizations should continue to be enhanced.

Planned Corrective Action

Part a. Agency procedures will be updated as needed as to help ensure appropriate and timely oversight of third party service organizations.

Part b. For one identified subservice provider, MDHHS will work with the identified vendor to obtain the required SOC report. The remaining identified subservice providers are subcontractors to a subcontractor. For these subservice providers, MDHHS will evaluate the significance of the services these subservice providers may be providing and determine if MDHHS needs to obtain and review the SOC reports.

Part c. MDHHS will evaluate the Complementary User Entity Controls (CUEC) from the identified SOC reports on an annual basis and document the results on the required OIAS template in the proper format. For one SOC report identified the CUECs were evaluated, reviewed, and copied to the required template during the audit period, but documentation of this review on the required template will be improved for future reviews.

Anticipated Completion Date

Part a. Treasury, MDOS: Complete

Part a. MDHHS: June 30, 2021

Part b. MDHHS: September 30, 2021

Part c. MDHHS: March 31, 2022