

Office of the Auditor General  
Report on Internal Control, Compliance, and Other Matters

---

**State of Michigan Annual Comprehensive  
Financial Report**  
State Budget Office

Fiscal Year Ended September 30, 2021

---

---

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*

---



# OAG

Office of the Auditor General

## Report Summary

### *Report on Internal Control, Compliance, and Other Matters*

### *State of Michigan Annual Comprehensive Financial Report (SOMACFR)*

### *State Budget Office*

### *Fiscal Year Ended September 30, 2021*

**Report Number:**  
**071-0010-22**

**Released:**  
**May 2022**

Generally accepted government auditing standards require an auditor to report on internal control over financial reporting; compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements; and other matters coming to the attention of the auditor during the completion of a financial audit. We are issuing this report in conjunction with our independent auditor's report on the SOMACFR dated March 18, 2022.

<b>Findings Related to Internal Control, Compliance, and Other Matters</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
Statewide Integrated Governmental Management Applications (SIGMA) Operations and Support, within the State Budget Office, should continue to improve internal control over the State's vendor file to help reduce the risk of fraudulent or improper payments ( <a href="#">Finding 1</a> ).	X		Agree
Various State agencies did not sufficiently limit access to confidential information in SIGMA to only appropriate users ( <a href="#">Finding 2</a> ).		X	Agree
The Department of Treasury (Treasury) should improve user access controls over two of its information systems to help prevent and detect inappropriate access and protect confidential information from unauthorized use, disclosure, modification, or destruction ( <a href="#">Finding 3</a> ).		X	Agree
Various State agencies and the Office of Financial Management did not have sufficient internal control in place to monitor the existence and accuracy of the State's capital assets recorded in the SOMACFR ( <a href="#">Finding 4</a> ).		X	Agree
Treasury should continue to enhance internal control to help prevent, or detect and correct, misstatements and help ensure the accuracy of tax accruals ( <a href="#">Finding 5</a> ).		X	Agree

<b>Findings Related to Internal Control, Compliance, and Other Matters (Continued)</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
Various State agencies should improve the Michigan Cashiering and Receivable System (MiCARS) internal control to help ensure the completeness and accuracy of the <i>SOMACFR</i> . State agencies interfaced \$1.3 billion in transactions between MiCARS and SIGMA in fiscal year 2021 ( <u>Finding 6</u> ).		X	Agree
The Department of Labor and Economic Opportunity should improve interface controls over SIGMA to help ensure all data exchanged between SIGMA and other State information systems is processed completely, accurately, and timely ( <u>Finding 7</u> ).		X	Agree
The Michigan Department of Health and Human Services should enhance internal control to help prevent, or detect and correct, misstatements and help ensure the accuracy of Medicaid accruals and transactions ( <u>Finding 8</u> ).		X	Agree
Various State agencies did not have sufficient internal control to help ensure the accuracy of all accounting information recorded in the <i>SOMACFR</i> ( <u>Finding 9</u> ).		X	Agree
Various State agencies should continue to enhance their oversight of third party service organizations to help ensure the accuracy and integrity of all accounting information recorded in the <i>SOMACFR</i> ( <u>Finding 10</u> ).		X	Agree

**Obtain Audit Reports**

Online: [audgen.michigan.gov](http://audgen.michigan.gov)

Phone: (517) 334-8050

Office of the Auditor General  
201 N. Washington Square, Sixth Floor  
Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • [audgen.michigan.gov](http://audgen.michigan.gov)

**Doug A. Ringler, CPA, CIA**  
Auditor General

May 27, 2022

Mr. Christopher M. Harkins, State Budget Director  
State Budget Office  
George W. Romney Building  
Lansing, Michigan

Dear Mr. Harkins:

This report on internal control, compliance, and other matters is being issued in conjunction with our financial audit of the *State of Michigan Annual Comprehensive Financial Report* for the fiscal year ended September 30, 2021.

Certain findings included in this report specifically relate to other State agencies. Although the Office of Financial Management, State Budget Office, may not be directly responsible for these functions, we have addressed these findings to you for corrective action, consistent with your responsibility for financial accounting and reporting under Sections 18.1141 and 18.1421 of the *Michigan Compiled Laws*.

The Office of Financial Management 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 the 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,

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### STATE OF MICHIGAN ANNUAL COMPREHENSIVE FINANCIAL REPORT

	<u>Page</u>
Report Summary	1
Report Letter	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	8
Fiscal Year 2021 Findings, Recommendations, and Agency Preliminary Responses	
1. Vendor file fraud controls.	12
2. Access limitations for confidential information in SIGMA.	14
3. Treasury system user access controls.	16
4. Financial accounting practices related to capital assets.	17
5. Establishment and monitoring of tax receivables and payables.	19
6. MiCARS internal control improvements.	25
7. Interface control improvements.	27
8. Accuracy of Medicaid receivables and payables.	29
9. Various departments' financial accounting practices.	31
10. Third party service organization monitoring.	35
Fiscal Year 2020 Report on Internal Control, Compliance, and Other Matters Follow-Up	38
Glossary of Abbreviations and Terms	39





# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

**Doug A. Ringler, CPA, CIA**  
Auditor General

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Christopher M. Harkins, State Budget Director  
State Budget Office  
George W. Romney Building  
Lansing, Michigan

Dear Mr. Harkins:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan principally as of and for the fiscal year ended September 30, 2021 and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 18, 2022. Our report includes a reference to other auditors who audited the financial statements of the:

- State Lottery Fund (a major fund)
- Michigan Unemployment Compensation Funds (a major fund)
- Michigan Employment Security Act - Administration Fund
- Unemployment Obligation Trust Fund
- State Building Authority - Debt Service Fund
- State Building Authority - Capital Projects Fund
- Attorney Discipline System
- Michigan Education Savings Program
- Michigan Achieving a Better Life Experience Program
- Michigan Finance Authority
- Michigan State Housing Development Authority
- Farm Produce Insurance Authority
- Mackinac Bridge Authority
- Mackinac Island State Park Commission
- Michigan Early Childhood Investment Corporation
- Michigan Education Trust
- State Bar of Michigan
- Venture Michigan Fund
- Western Michigan University
- Central Michigan University
- Eastern Michigan University
- Ferris State University
- Grand Valley State University
- Lake Superior State University
- Michigan Technological University
- Northern Michigan University
- Oakland University
- Saginaw Valley State University

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the body of our report, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in Finding 1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Findings 2 through 10 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Office of Financial Management's Response to Findings**

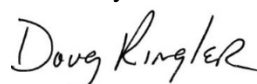
Certain findings included in this report specifically relate to other State agencies. Although the Office of Financial Management, State Budget Office, may not be directly responsible for these functions, we have addressed these findings to you for corrective action, consistent with your responsibility for financial accounting and reporting under Sections 18.1141 and 18.1421 of the *Michigan Compiled Laws*.

The Office of Financial Management's preliminary responses to the findings identified in our audit are included in the body of our report. The responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Doug Ringler  
Auditor General  
March 18, 2022



FISCAL YEAR 2021  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## **FINDING 1**

---

### **Improvements needed over vendor file fraud controls.**

---

The Statewide Integrated Governmental Management Applications\* (SIGMA) Operations and Support (SOS), within the State Budget Office (SBO), should continue to improve internal control\* over the State's vendor file to help reduce the risk of fraudulent or improper payments.

The U.S. Government Accountability Office's (GAO's) Federal Information System Controls Audit Manual\* (FISCAM) states that because master data serves as the basis for transaction processing, it is critical controls exist over the integrity and quality of the data. An erroneous master data record will compromise the integrity of whatever transactions use the field values. Characteristics of erroneous master data elements include, but are not limited to: duplicate names, invalid records, duplicate addresses, improper address formats, incomplete or inaccurate address information, unpopulated data fields, and other data formatting inconsistencies. Master data should be carefully controlled through reviews and approval, including a combination of automated, preventive controls and manual, detective controls. Organizations should have an effective auditing and monitoring capability which allows changes to master data records to be recorded and reviewed where necessary.

The State of Michigan Financial Management Guide (FMG) (Part VII, Chapter 1, Section 900) states that to realize the full value of IT and ensure effective governance, the Department of Technology, Management, and Budget (DTMB) and other State departments must understand their roles and responsibilities for IT common and application controls. Departments, as IT application systems and data owners, have primary responsibility for establishing, maintaining, and monitoring internal control over their critical IT applications and the environment in which they operate. Well-designed and functioning internal control is necessary to protect the reputation of the State and to allow the State to satisfy its legal and ethical responsibility to protect the confidentiality, integrity, and availability of the State's information.

Our review identified instances of potential risks within vendor file master data elements. When we shared this information, SOS informed us it agreed that potential risks did exist because of a lack of preventive controls for select vendor changes. When instances of known fraud were discovered by SOS and impacted departments, SOS worked with SBO's Office of Internal Audit Services (OIAS) to complete a review of documentation provided by vendors from May to September 2021 and implemented enhanced vendor controls and daily monitoring of select vendor changes.

Because of the inherent fraud risk associated with cash payments, the lack of sufficient controls in place, and the existence of known fraudulent payments as identified by SBO during fiscal year 2021, we consider this to be a material internal control weakness.

\* See glossary at end of report for definition.

**RECOMMENDATION**

We recommend that SOS continue to improve internal control over the State's vendor file.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Office of Financial Management (OFM) provided us with the following response:

*SOS and OFM agree and will continue to review and enhance controls related to the State's vendor file.*

## FINDING 2

### Improvements needed to limit access to confidential information in SIGMA.

Various State agencies did not sufficiently limit access to confidential information in SIGMA to only appropriate users.

State of Michigan Administrative Guide to State Government policy 1340 states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure the confidentiality, integrity, and availability of State of Michigan information.

SIGMA management communicated to State agencies the restrictions on the inclusion of legally protected data in SIGMA "...unless the agency has demonstrated a compelling need and has a written agreement in place with SIGMA." However, agencies included confidential information in SIGMA without a written agreement.

We noted:

- a. State agencies did not provide sufficient guidance to staff to ensure the omission of confidential information in SIGMA:

- (1) The Michigan Department of Corrections (MDOC) included certain confidential information within SIGMA.

We identified 1,408 Statewide SIGMA users with access to view MDOC transactions in SIGMA. We commented on this item during the fiscal year 2019 and fiscal year 2020 *State of Michigan Annual Comprehensive Financial Report (SOMACFR)* audits. MDOC agreed with the previous recommendations and informed us it would ensure the proper redaction of confidential information in the future. However, we noted MDOC did not redact all confidential information in fiscal year 2021. MDOC informed us a personnel change contributed to the lack of redactions and it will not include confidential information with the transactions in the future, instead storing the documentation at a limited access location.

- (2) The Department of Treasury (Treasury) included certain confidential information in SIGMA.

We identified 806 Statewide SIGMA users with access to view Treasury transactions in SIGMA. Treasury informed us a lack of training contributed to the inclusion of confidential information and it will ensure the proper redaction of all confidential information in the future.



- b. The ability to view confidential information interfaced from a State agency system to SIGMA was not limited to users with a business need to view the information.

Treasury interfaced transactions from a department system to SIGMA that included confidential information. We identified 396 Statewide SIGMA users with access to view this information in SIGMA. Treasury stated that access to this information is limited to specific roles using appropriate role-based security.

Because of the confidential nature of system access, the user classifications with access to the confidential information identified in this finding were provided to SBO.

**RECOMMENDATION**

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

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

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

### **FINDING 3**

---

#### **Improvements needed over Treasury system access controls.**

---

Treasury should improve user access controls over two of its information systems related to banking and unclaimed property to help prevent and detect inappropriate access and protect confidential information from unauthorized use, disclosure, modification, or destruction.

State of Michigan Technical Standard 1340.00.020.01 requires the agency information system owner to ensure several baseline controls are established for an information system. These controls include the review of accounts to verify they are required and compliant with the account settings and access permissions semiannually for privileged accounts and annually for other accounts.

We noted system access to the banking system, accessible to 317 users throughout 14 Treasury divisions and 6 other State departments, had not been reviewed since 2017. Subsequent to our January 2022 request, Treasury performed a user access review and removed access for 30 users for various reasons.

Treasury informed us the banking system prevented the identification of user entitlements, which caused a delay in performing the user access review. Treasury also informed us the unclaimed property system's user access review was not completed because of an oversight.

### **RECOMMENDATION**

We recommend that Treasury improve user access controls over two of its systems.

### **AGENCY PRELIMINARY RESPONSE**

OFM provided us with the following response:

*Treasury and OFM agree that user access controls over the two information systems should be improved.*

## FINDING 4

---

### Improvement needed for financial accounting practices related to capital assets.

---

Various State agencies and OFM did not have sufficient internal control in place to monitor the existence and accuracy of the State's capital assets recorded in the *SOMACFR*.

The FMG (Part II, Chapter 21, Section 120) requires departments to perform an annual physical inventory of equipment for all locations to ensure the accuracy of capital asset listings. Also, OFM's year-end capital asset reporting memorandum instructs State agencies to confirm the accuracy of capital assets and update SIGMA for any changes and/or corrections noted during the review of capital assets. In addition, State agencies must sign and submit the Asset Certification Statement to OFM certifying they completed all necessary changes required to accurately reflect asset ending balances and classifications.

We noted:

- a. DTMB did not ensure equipment was properly removed from SIGMA upon disposal. We noted 1 (3%) of 38 randomly sampled SIGMA equipment assets were no longer State assets as of September 30, 2021. Based on these sample results, we estimated that overall the buildings, equipment, and other depreciable assets and related accumulated depreciation were overstated by \$105.0 million and \$69.4 million, respectively.

- b. For capital asset additions by various State agencies:

- (1) DTMB and OFM did not ensure construction in progress was accurately recorded, resulting in an overstatement of capital assets of \$1.0 million.

DTMB and OFM did not reclassify the Michigan Veterans Homes in Grand Rapids and Chesterfield Township from construction in progress to buildings in fiscal year 2021. This resulted in an overstatement of construction in progress and an understatement of buildings by \$123.4 million and an understatement of accumulated depreciation by \$1.0 million.

- (2) The Michigan Department of Transportation (MDOT) did not include 71 capitalizable programs in their construction in progress year-end accrual calculation, resulting in an understatement of capital assets of \$4.2 million.
- (3) DTMB inappropriately capitalized maintenance costs when developing software, resulting in an overstatement in land and other depreciable assets of \$2.5 million.
- (4) DTMB, the Department of Natural Resources (DNR), and the Michigan Department of Health and Human Services (MDHHS) did not ensure

buildings and equipment were accurately recorded when acquired, resulting in a net overstatement of \$1.9 million.

Specifically, DTMB capitalized a prepaid asset as equipment (\$3.6 million overstatement), DNR did not capitalize the construction of a harbor (\$2.7 million understatement), and MDHHS recorded equipment not meeting the definition of a capital asset (\$1.0 million overstatement).

The various State agencies did not sufficiently monitor the recording and removal of capital assets to ensure the accuracy of the *SOMACFR*. The impacted agencies and/or OFM corrected these items prior to the *SOMACFR*'s issuance.

**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 *SOMACFR*.

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

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

## FINDING 5

---

### Improvements needed for establishing and monitoring tax receivables and payables.

---

Treasury should continue to enhance internal control to help prevent, or detect and correct, misstatements and help ensure the accuracy of tax accruals.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using generally accepted accounting principles\* (GAAP). These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures. Also, Sections 2250.109 and 2250.110 of the *Codification of Governmental Accounting and Financial Reporting Standards\** (Codification), published by the Governmental Accounting Standards Board\* (GASB), require that all information becoming available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any material changes in estimates resulting from actual results.

Our review of tax accruals for fiscal year 2021 disclosed:

- a. Treasury did not ensure estimated receivables were properly calculated for various taxes. As a result, adjustments were necessary to accurately record the estimated receivable for sales, use, and withholding (SUW) taxes and corporate income taxes (CITs).

Treasury calculates the estimated percentages of taxpayer liability expected to be collected by the State in future fiscal years based on historical tax return data. Treasury applies these estimated percentages to current fiscal year tax collections to estimate future tax collections. Treasury then provides OFM this information to reverse prior year receivables and record current year receivables.

We noted:

- (1) Treasury improperly included SUW and CIT refunds, penalties, and interest in the calculation of the estimated receivables, resulting in an understatement of assets and deferred inflows of resources of \$93.9 million in the General Fund and \$19.2 million in the School Aid Fund. Also, assets, revenues, and net position were understated by \$113.1 million in the governmental activities of the government-wide financial statements.
- (2) Treasury improperly included \$107.4 million of CIT revenue in the calculation of the estimated receivable, resulting in an overstatement of General Fund assets and deferred inflows of resources and an overstatement of assets,

\* See glossary at end of report for definition.

revenues, and net position in the governmental activities of the government-wide financial statements of \$49.0 million.

- (3) Treasury did not ensure adjustments to the motor fuel taxes were properly included in the calculation of the estimated receivables, resulting in an understatement of assets and deferred inflows of resources of \$2.3 million in the Michigan Transportation Fund. Also, assets, revenues, and net position were understated by \$2.3 million in the governmental activities of the government-wide financial statements.

Treasury informed us these items were the result of transitioning the responsibility for completing the estimated receivables to new staff and represented a training opportunity going forward.

- b. Treasury had not developed a process to reconcile the IIT legacy system and SIGMA. As a result, processes utilizing data from the IIT legacy system to determine the year-end accruals may not be fully accurate and the General Fund and School Aid Fund balances in the *SOMACFR* may be misstated.

Treasury utilizes data from the IIT legacy system to determine the estimated receivable. Based on our review of the differences between the IIT revenue in the IIT legacy system and SIGMA for fiscal years 2020 and 2021, we determined assets and deferred inflows of resources may be understated by \$17.2 million in the General Fund and \$5.4 million in the School Aid Fund. Also, assets, revenues, and net position in the governmental activities of the government-wide financial statements may be understated by \$22.6 million. Treasury informed us it does not complete a reconciliation because the IIT legacy system does not contain the necessary general ledger information.

- c. Treasury did not ensure monthly reconciliations of the business tax system and SIGMA were performed timely. As a result, interface errors may not be resolved timely and SIGMA may not reflect accurate information for business taxes. Treasury indicated that limited staffing prevented timely reconciliations.
- d. Treasury did not ensure receivables relating to the State Education Tax (SET) were properly recorded. As a result, receivables, revenues, fund balance, and net position were understated in the School Aid Fund and governmental activities of the government-wide financial statements by \$7.3 million.

For fiscal year 2021, Treasury developed a new methodology for estimating the amount of SET revenue collected by local treasurers that is unremitted to the State as of November 30th. The new methodology utilizes SET revenue collection patterns from the prior seven years to estimate the amount of SET revenue unremitted as of November 30th by estimating the amount of SET revenue to be collected during December. However, subsequent to Treasury's estimate and prior to the *SOMACFR*'s issuance, we noted actual SET revenue collected during December 2021 was \$7.3 million lower than Treasury's estimate. Treasury's new methodology does not require reevaluating the recorded receivable after the December SET actual revenue collections are known. Treasury corrected this item prior to the *SOMACFR*'s issuance.

- e. Treasury did not ensure liabilities relating to SUW, CIT, and Michigan business tax (MBT) were properly recorded. As a result, payables were understated and revenues, fund balance, and net position were overstated in the General Fund, the School Aid Fund, and governmental activities of the government-wide financial statements.

Treasury performs an evaluation of unprocessed returns that are requesting a refund and determines which refunds to accrue. However, subsequent to this evaluation, we determined Treasury did not accrue one SUW and two CIT unprocessed returns requesting \$3.5 million in refunds. Treasury ultimately determined the appropriate refund amount and accrued an additional \$1.1 million. Treasury's established methodology does not require reevaluating the recorded liability if the refund amount changes prior to the *SOMACFR*'s issuance. Treasury corrected this item prior to the *SOMACFR*'s issuance.

Further, Treasury's methodology does not accrue a payable for returns claiming a refundable credit unless taxpayers also request a refund. As a result, Treasury did not accrue an MBT return that claimed a refundable credit for \$0.5 million. However, prior to the *SOMACFR*'s issuance, Treasury determined the appropriate refund amount was \$0.9 million. Treasury corrected this item prior to the *SOMACFR*'s issuance.

- f. Treasury had not developed a process to identify how much sales tax revenue should be accrued to the Comprehensive Transportation Fund (CTF) at the end of the fiscal year. As a result, revenues, receivables, and fund balance were misstated in the General Fund, School Aid Fund, and CTF by an undetermined amount.

The General Sales Tax Act (Public Act 167 of 1933, as amended) requires a portion of the sales tax money collected shall be deposited into the CTF. Not less than 27.9% of 25% of the collections of the general sales tax imposed at a rate of 4% directly or indirectly on fuels sold to propel motor vehicles upon highways, on the sale of motor vehicles, and on the sale of parts and accessories of motor vehicles by new car businesses, used car businesses, accessory dealer businesses, and gasoline station businesses shall be deposited each year into the CTF.

As part of the tax accrual process, Treasury accrued sales tax revenue amounts attributable to CTF in the General Fund. We initially identified this item during the fiscal year 2011 *SOMACFR* audit. Prior to fiscal year 2018, Treasury did not have the necessary purchase date information needed to accrue a CTF receivable by fiscal year-end closing; however, Treasury informed us this information was available beginning in fiscal year 2018 and it would work with its Office of Revenue and Tax Analysis to determine if an accrual amount could be reasonably estimated. During fiscal year 2021, Treasury informed us limitations with the Department of State's sales tax data prevented it from determining the amount of the CTF accrual and will require further analysis. Based on our review of this data, we determined revenues, receivables, and fund balance may be overstated in the General Fund by \$0.4 million and in the School Aid Fund by \$1.0 million and understated in MTF by \$1.4 million.

- g. Treasury had not fully implemented a process to compare and evaluate all significant accounting estimates with subsequent activity for tax accrual receivables. As a result, Treasury may not be able to determine if significant differences exist between the estimates and actual amounts requiring adjustments to the tax accrual methodology.

In its approval of accrual methodologies, OFM advises State departments that it is important to evaluate the reliability of the estimated accruals in the subsequent year and adjust the estimation methodology accordingly. Also, the FMG (Part II, Chapter 1, Section 300) requires departments to validate accrual methodologies by comparing the estimated accrual with current year actual expenditures and determine if a change to the methodology is needed.

We first commented on this item during fiscal year 2013. Treasury agreed with our prior recommendations. In fiscal year 2021, Treasury compared the IIT payable backlog with actual refunds



which resulted in adjustments to the IIT backlog estimate methodology. Treasury also compared the business taxes payable backlogs with actual refunds and determined no changes to the estimate methodology were necessary.

Treasury began comparing the estimate for the assessed tax receivables (ATR) and receivables to be assessed (RTBA) with subsequent activity in fiscal year 2017. In fiscal year 2019, Treasury indicated it needed at least three years of analysis to determine if adjustments to the methodology were necessary. However, Treasury informed us it did not perform this comparison during fiscal years 2020 and 2021 due to a lack of trained staff available to perform the analysis.

- h. Treasury did not ensure balances used to estimate the ATR and RTBA receivables were properly classified. As a result, revenues, assets, and fund balance for various funds may be misstated.

Treasury uses a series of reports from the State Treasury Accounts Receivables (STAR) system to estimate the amount of delinquent taxes the State may collect in the future. STAR assessment balances are classified as ATR or RTBA based on the delinquent assessment issue dates. ATR and RTBA balances are applied different collectability percentages when estimating the amount of revenue to be accrued. In fiscal year 2021, Treasury misclassified \$4.2 million of assessment balances as ATR instead of RTBA. Treasury indicated that limitations in the STAR reports prevented it from properly classifying these balances.

- i. Treasury did not ensure all SET revenue collected by counties, cities, and townships was timely received by the State. As a result, SET revenues already collected by counties, cities, and townships may not be available for the State to fund activities in the current fiscal year.

The State Education Tax Act requires non-exempt property to be assessed a 6 mills tax as part of the summer property taxes. SETs are collected by county, city, or township treasurers and remitted to the State monthly. However, in fiscal year 2021, we noted one county had not remitted any SET revenue to the State during calendar year 2021. Treasury did not sufficiently monitor the receipt of SET to ensure the accuracy of the *SOMACFR*. After we brought it to Treasury's attention, it contacted the county who then remitted \$9.7 million of SET collections made through December 2021.

**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.

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

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

## FINDING 6

### Improvements needed to MiCARS internal control.

Various State agencies should improve the Michigan Cashiering and Receivable System (MiCARS) internal control to help ensure the completeness and accuracy of the *SOMACFR*. State agencies interfaced \$1.3 billion in transactions between MiCARS and SIGMA in fiscal year 2021.

Our review of MiCARS internal control disclosed:

- a. MDOT did not maintain sufficient segregation of duties\* over the activities involving MiCARS and SIGMA.

Section 18.1485(2)(a) of the *Michigan Compiled Laws* requires each internal accounting and administrative control system to include a plan of organization that provides segregation of duties and responsibilities among employees. Also, the GAO's FISCAM Section 3.4 states that work responsibilities should be segregated so one individual does not control all critical stages of a process.

MDOT uses MiCARS to establish invoices and record cash receipts, refunds, write-offs, and other adjustments against those invoices. Administrative rights access allows individuals to assign roles in MiCARS to other agency staff while also having the ability to perform any transaction in MiCARS, including the ability to create, adjust, and perform write-offs of receivables and invoices.

We noted:

- (1) MDOT did not review the activity of employees with administrative rights access to ensure transactions were appropriate. One employee can perform write-offs in MiCARS while also approving the write-off in SIGMA. MDOT informed us it plans to implement a review of administrative rights access activities in fiscal year 2022.
- (2) One MDOT employee performed daily reconciliations while also having MiCARS administrative rights access. MiCARS information interfaces daily into SIGMA, and MDOT performs a daily reconciliation of the interfaced data. Separate staff should perform daily reconciliations to maintain appropriate segregation of duties, unless MDOT implements compensating controls.

MDOT informed us it lacks the staff necessary to establish proper segregation of duties.

- b. State agencies utilizing MiCARS (MDOT, Michigan Department of State Police [MSP], Michigan Department of Agriculture and Rural Development, Department of Environment, Great Lakes, and Energy [EGLE], and DNR)

\* See glossary at end of report for definition.

did not implement sufficient internal control, such as management approval, for all MiCARS transactions to mitigate the risk of error or misclassification.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal control system using GAAP. These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures and a system of practices to be followed in the performance of duties and internal control techniques that are effective and efficient. Also, GAO's FISCAM Section 4.2 recommends that organizations implement controls to ensure the transactions are complete, accurate, and valid; an automated workflow exists to initiate the approval process; and policies and procedures are implemented to ensure all source documents are complete and accurate. Management approval would help ensure all transactions and underlying support are authorized, complete, and accurate.

The departments informed us they thought appropriate controls were in place over most MiCARS transactions but also indicated a comprehensive review is needed to validate controls and identify necessary enhancements.

We commented on the various departments' lack of management approval for MiCARS transactions during the fiscal year 2019 and 2020 *SOMACFR* audits. MSP implemented corrective action to address a lack of management approval for all transactions except deposits in fiscal year 2021.

**RECOMMENDATION**

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

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*State agencies and OFM agree MiCARS internal control should be improved.*

## **FINDING 7**

---

### **Improvements needed for interface controls.**

---

The Department of Labor and Economic Opportunity (LEO) should improve interface controls over SIGMA to help ensure all data exchanged between SIGMA and other State information systems is processed completely, accurately, and timely.

The GAO's FISCAM states that interface controls should be established and implemented to reasonably ensure data transferred from a source system to a receiving system is processed completely, accurately, and timely. Effective interface reconciliation procedures should include the use of control totals, record counts, and other logging techniques. Interfaced data should be reconciled, and reports used in the reconciliation should provide adequate information to reconcile each transaction processed.

SOS issued Temporary Operating Policy and Procedure No. 0007 on November 9, 2018 requiring agencies to reconcile data transmitted to and from SIGMA and recommending the reconciliations be performed at the same frequency that the interfaces run in production. However, this procedure does not specify the level of detail agencies should use when performing reconciliations, for example, record counts, dollar amounts, or fund and appropriation coding. State agencies, as the data owners, are responsible for the implementation of interface reconciliation controls.

We noted:

- a. LEO performed quarterly reconciliations of the total dollar amount interfaced from the Management of Awards to Recipients System (MARS) with SIGMA. However, a reconciliation between MARS and SIGMA was not completed after daily interface. Also, record counts were not included in the quarterly reconciliation. MARS interfaced \$186.6 million in expenditures into SIGMA during fiscal year 2021.
- b. LEO performed daily reconciliations of the data interfaced from the Vocational Rehabilitation Case Management Software (MRS Aware) with SIGMA. However, LEO reconciled only record counts and did not include dollar amounts. MRS Aware interfaced \$34.6 million in expenditures into SIGMA during fiscal year 2021.

LEO believed its existing interface reconciliation timing and detail were sufficient. LEO informed us it will implement a more effective reconciliation process.

## **RECOMMENDATION**

We recommend that LEO improve interface controls over SIGMA.

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*LEO and OFM agree that interface controls over SIGMA should be improved.*

## FINDING 8

---

### Improvements needed to processes for establishing and monitoring Medicaid receivables and payables.

---

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

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using GAAP. These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures.

We noted MDHHS did not:

- a. Implement effective controls to help ensure the accuracy of the Medicaid accrual calculations. Specifically, MDHHS did not:
  - (1) Apply correct pay code percentages in 2 categories for the pharmacy rebate accrual, resulting in a \$12.4 million receivable overstatement.
  - (2) Exclude the federal share already returned for uncollected provider claim recoveries, resulting in a \$1.6 million receivable overstatement.
  - (3) Use correct prior year amounts when calculating the inpatient hospital accrual workbook, resulting in a \$778,000 overstatement.

MDHHS informed us the errors resulted from Excel and Access software issues.

- b. Implement a process to apply retroactive fee-for-service rate changes, resulting in an estimated \$1.4 million accounts payable understatement. The Centers for Medicare and Medicaid Services (CMS) publish updated fee-for-service rates in December, and MDHHS updates the rates in the Community Health Automated Medicaid Processing System (CHAMPS) before they become effective on January 1<sup>st</sup>. However, CMS did not publish the updated rates until after January 1, 2021 and they were not updated in CHAMPS until March 21, 2021. Because this is an automated process including hundreds of rates and is not usually retroactive, MDHHS did not initially reprocess the affected claims. As of February 7, 2022, MDHHS reprocessed 115,003 affected claims.

MDHHS corrected these items prior to the *SOMACFR*'s issuance.

## RECOMMENDATION

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

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*MDHHS and OFM agree internal control to ensure the accuracy of Medicaid accruals and transactions should continue to be improved.*



## FINDING 9

---

### Improvements needed to various departments' financial accounting practices.

---

Various State agencies did not have sufficient internal control to help ensure the accuracy of all accounting information recorded in the *SOMACFR*.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using GAAP. These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; a system of practices to be followed in the performance of duties; qualified personnel that maintain a level of competence; and internal control techniques that are effective and efficient. Each principal department head shall document the system and ensure the system functions as intended.

We noted:

a. MDHHS did not:

- (1) Properly record a payable for Child Support contracts for services performed in fiscal year 2021, resulting in a \$1.8 million overstatement of liabilities and expenditures. MDHHS added a 10% buffer for potential COVID-19 impacts without approval from OFM. The FMG (Part II, Chapter 1, Section 300 (3)) requires OFM approval of methodologies for estimating accruals or significant changes to methodologies. MDHHS corrected this item prior to the *SOMACFR*'s issuance.
- (2) Estimate a receivable for reimbursable COVID-19 testing costs relating to fiscal year 2021. MDHHS recorded a receivable for the \$3.0 million reimbursements received early in fiscal year 2022; however, it did not evaluate all available data to estimate the remaining reimbursement amount to be received in fiscal year 2022. As a result, we estimate that assets could be understated and expenditures could be overstated by up to \$840,000. The FMG (Part II, Chapter 1, Section 300(5)) requires the establishment of an accounts receivable in the old fiscal year for recoveries of expenditures that will occur in the new fiscal year. If the actual amount cannot be determined and the amount is significant, MDHHS should record an estimated receivable if it can be reasonably measured. MDHHS informed us that some of the tests would not qualify for reimbursement and information was not readily available to accurately estimate the remaining receivable.

b. The Michigan Department of Education (MDE) did not properly record a payable for the National School Lunch Program, resulting in a \$4.8 million overstatement of

liabilities and expenditures. Beginning in fiscal year 2020, MDE calculated this payable using actual expenditures through November and added 5% for estimated December expenditures. However, for fiscal year 2021, MDE summarized actual expenditures through December, so the initial estimate was overstated by 5%.

The FMG (Part II, Chapter 1, Section 300(3)(f)(i)) requires departments to validate accrual methodologies by comparing the estimated accrual with current year actual expenditures, evaluating the results of the comparison, and determining if an adjustment to the estimate is necessary. MDE corrected this item prior to the *SOMACFR*'s issuance.

- c. MDOC recorded \$1.9 million in vendor refunds as revenue instead of a reduction of expenditures in prisoners' accounts. MDOC informed us it would not be possible to research and determine whether the refund should be deposited as revenue or an expenditure credit; therefore, all vendor refunds are treated the same throughout the fiscal year. MDOC corrected this item prior to the *SOMACFR*'s issuance.
- d. MDOT did not have a process in place to adjust consultants' estimated accounts payable based on actual new fiscal year payments processed prior to the issuance of the financial statements. MDOT records liabilities based on the consultants' estimate for goods and services provided and not paid by September 30. We randomly sampled and tested 19 and judgmentally sampled and tested 6 fiscal year 2021 estimated consultant payables and the related fiscal year 2022 payments. We noted accounts payable and expenditures were overstated by a combined known and likely \$4.2 million and accounts receivable and revenue were overstated by \$2.2 million. MDOT informed us it did not receive accurate estimates from consultants when it performed its year-end payables process with its vendors.

GASB Codification Section 2250.110 states, "All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which estimates were based." Therefore, as more information related to the accrual becomes available during year-end close, up until the time the *SOMACFR* is issued, the agency should compare the estimated accrual with the actual activity to verify whether the methodology resulted in an accurate estimate or an adjustment to the estimate and/or methodology is necessary. MDOT corrected the known error prior to the *SOMACFR*'s issuance.

e. DTMB did not:

- (1) Write-off a prior year's accounts receivable balance totaling \$980,000. The original expenditures related to a federal grant from the National Guard Bureau Construction Projects Program which DTMB determined was uncollectible because the expenditures were unallowable for reimbursement. DTMB corrected this item prior to the *SOMACFR's* issuance.
- (2) Ensure \$1.2 million in expenditures were accounted for in the correct fiscal year, resulting in an understatement of expenditures and accounts payable. DTMB informed us it conducted a review of outstanding invoices before September 30 and recorded associated accounts payable. However, DTMB did not have an invoice for equipment received prior to September 30 because the order had not been received in full. DTMB corrected this item prior to the *SOMACFR's* issuance.

We commented on this item during the fiscal year 2020 *SOMACFR* audit. DTMB agreed with the recommendation and planned to improve year-end accounting processes to properly account for expenditures in the correct fiscal year. Also, our financial and performance audit of the Information Technology Fund and IT billings, issued in May 2020 and located at <https://audgen.michigan.gov/wp-content/uploads/2020/05/r071013719-0077.pdf>, identified similar concerns in Finding 1. DTMB agreed with the recommendation and indicated it would review and improve the year-end closing payable estimation process for information technology vendors.

- f. EGLE did not record \$6.0 million of certificates of deposit (CDs) in the financial statements. EGLE requires permittees to provide collateral to ensure environmental project restoration is completed. Upon successful restoration, EGLE is responsible for remitting all or a part of the principal amount to permittees. EGLE and the MDOT Accounting Service Center originally determined the funds were not an asset of the State because they do not belong to EGLE until a further event occurs as defined within legislation.

GASB Statement No. 84 Implementation Guide No. 2019-2, *Fiduciary Activities*, Question and Answer 4.11 requires the CDs and related liabilities to be reported in the financial statements. EGLE corrected this item prior to the *SOMACFR's* issuance.

- g. OFM did not ensure the Department of Attorney General provided accurate liability estimates for all court cases pending against the State. The Department misinterpreted OFM's request and reported the minimum threshold as the estimated case liability instead of the actual estimate for some cases, resulting in a \$6.0 million understatement of liabilities and expenditures in the entity-wide governmental activities. OFM corrected this item prior to the *SOMACFR*'s issuance.

**RECOMMENDATION**

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

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*State agencies and OFM agree that internal controls should be improved to help ensure the accuracy of the accounting information recorded in the SOMACFR.*

## **FINDING 10**

### **Improved oversight needed for third party service organization monitoring.**

Various State agencies should continue to enhance their oversight of third party service organizations (TPSOs) to help ensure the accuracy and integrity of all accounting information recorded in the *SOMACFR*.

SBO, through OIAS, issued guidance to the State departments to assess and manage risks associated with the departments' service organizations, including when and how to accomplish this. However, some departments have not effectively applied this guidance.

The FMG (Part VII, Chapter 1, Section 1000) requires each department to establish and maintain a sound internal control system over activities and transactions, including those managed by service organizations. Departments can utilize the results of reports issued in accordance with the American Institute of Certified Public Accountants' (AICPA's) System and Organization Controls\* (SOC) reporting framework or customized AICPA examination reports to gain assurances that service organization controls are present and functioning as intended. The FMG also provides templates State departments can use to help in their determination of whether SOC or other third party review reports are necessary and assist with the review of any reports obtained. Further, OIAS provides specific guidance to departments on request.

We reviewed monitoring controls for judgmentally selected TPSOs and noted:

- a. The Department of State and Treasury did not obtain 6 (17%) of 35 SOC reports within 60 days after the report date. The departments obtained the 6 reports between 67 and 127 days after the date of issuance.

Timely review is essential to ensure the SOC report does not identify weaknesses that require immediate attention.

- b. The Department of State, Treasury, and MDHHS did not consider and document whether a SOC report was needed for 34 (76%) of 45 vendor subservice providers identified in the SOC reports reviewed.
- c. Treasury and MDHHS did not document their understanding and review of complementary user-entity controls for 4 (15%) of the 27 SOC reports that included these controls. SOC reports usually state the user can rely on the controls tested in the SOC report only if the user entity (State) has implemented the complementary user-entity controls.
- d. MDHHS did not:
  - (1) Obtain a SOC report for one service provider for over 14 months due to a change in vendor.

\* See glossary at end of report for definition.

- (2) Complete a review for 2 (33%) of 6 SOC reports.
- (3) Complete a review for 2 (33%) of 6 SOC reports within 30 days of receipt as the FMG requires. MDHHS completed the reviews 42 and 63 days after receipt.

Timely review is essential to ensure the SOC report does not identify weaknesses requiring immediate attention.

- (4) Address the control weaknesses noted by the service auditor for 2 (33%) of 6 SOC reports containing an auditor's qualified opinion.
- (5) Provide support for the implementation of complementary user-entity controls related to 1 (17%) of 6 SOC reports reviewed. SOC reports usually state the user can rely on the controls tested in the SOC report only if the agency has implemented the complementary user-entity controls.

State agencies continue to misunderstand their oversight responsibilities associated with the controls each service organization designs, implements, and operates and how the service organization's internal control system impacts the State departments' internal control systems.

**RECOMMENDATION**

We recommend that State agencies continue to enhance their oversight of TPSOs.

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*State departments and OFM agree that oversight of TPSOs should continue to be enhanced.*

FISCAL YEAR 2020  
REPORT ON INTERNAL CONTROL,  
COMPLIANCE, AND OTHER MATTERS  
FOLLOW-UP

Below is the status of the reported findings from the 2020 *State of Michigan Comprehensive Annual Financial Report's (Annual Report's)* report on internal control, compliance, and other matters (071-0010-21):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	OFM - Fund Balance and Net Position	Complied	Not applicable
2a	Capital Asset Disposals	Repeated*	4a
2b	Capital Asset Recordkeeping	Repeated	4b(3), 4b(4)
3	Confidential Information in SIGMA	Repeated	2
4a	Treasury - Corporate, Sales, and Use Tax Revenue	Complied	Not applicable
4b	Treasury - IIT / SIGMA Reconciliation	Repeated	5b
4c	Treasury - Withholding Taxes	No longer applicable	
4d	Treasury - CIT Unprocessed Returns	Repeated	5e
4e	Treasury - Evaluation of Accounting Estimates	Repeated	5g
4f	Treasury - Estimate Comparisons	Complied	Not applicable
4g	Treasury - Sales Tax Revenue	Repeated	5f
4h	Treasury - State Education Tax Estimated Receivables	Complied	Not applicable
5a - 5b	MSP - MiCARS Interface Reconciliations / Segregation of Duties	Complied	Not applicable
5c	Various Agencies - MiCARS Management Approvals	Repeated	6b
6a	MDHHS - Financial Accounting Practices	Complied	Not applicable
6b	MDOT - Financial Accounting Practices	Complied	Not applicable
6c(1)	DTMB - Contract Fee Revenue	Complied	Not applicable
6c(2)	DTMB - Complete Fiscal Year Expenditures	Repeated	9f(2)
7	Third Party Service Organization Oversight	Repeated	10b, 10c, 10d(2), 10d(3)

\* See glossary at end of report for definition.



## **GLOSSARY OF ABBREVIATIONS AND TERMS**

---

<b>AICPA</b>	American Institute of Certified Public Accountants.
<b>ATR</b>	assessed tax receivables.
<b>CD</b>	certificate of deposit.
<b>CHAMPS</b>	Community Health Automated Medicaid Processing System.
<b>CIT</b>	corporate income tax.
<b>CMS</b>	Centers for Medicare and Medicaid Services.
<b><i>Codification of Governmental Accounting and Financial Reporting Standards (Codification)</i></b>	An integration of currently effective accounting and reporting standards for state and local governments.
<b>CTF</b>	Comprehensive Transportation Fund.
<b>deficiency in internal control over financial reporting</b>	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
<b>DNR</b>	Department of Natural Resources.
<b>DTMB</b>	Department of Technology, Management, and Budget.
<b>EGLE</b>	Department of Environment, Great Lakes, and Energy.
<b>Federal Information System Controls Audit Manual (FISCAM)</b>	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> .
<b>FMG</b>	State of Michigan Financial Management Guide.
<b>GAO</b>	U.S. Government Accountability Office.

<b>generally accepted accounting principles (GAAP)</b>	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."
<b>Governmental Accounting Standards Board (GASB)</b>	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
<b>IIT</b>	individual income tax.
<b>internal control</b>	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
<b>IT</b>	information technology.
<b>LEO</b>	Department of Labor and Economic Opportunity.
<b>MARS</b>	Management of Awards to Recipients System.
<b>material misstatement</b>	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
<b>material weakness in internal control over financial reporting</b>	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.
<b>MBT</b>	Michigan business tax.
<b>MDE</b>	Michigan Department of Education.
<b>MDHHS</b>	Michigan Department of Health and Human Services.

<b>MDOC</b>	Michigan Department of Corrections.
<b>MDOT</b>	Michigan Department of Transportation.
<b>MiCARS</b>	Michigan Cashiering and Receivable System.
<b>MRS Aware</b>	Vocational Rehabilitation Case Management Software.
<b>MSP</b>	Michigan Department of State Police.
<b>OFM</b>	Office of Financial Management.
<b>OIAS</b>	Office of Internal Audit Services.
<b>repeated</b>	The wording of the current recommendation remains essentially the same as the prior audit recommendation.
<b>RTBA</b>	receivables to be assessed.
<b>SBO</b>	State Budget Office.
<b>segregation of duties</b>	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.
<b>SET</b>	State Education Tax.
<b>significant deficiency in internal control over financial reporting</b>	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
<b>SOMACFR</b>	<i>State of Michigan Annual Comprehensive Financial Report.</i>
<b>SOS</b>	SIGMA Operations and Support.
<b>STAR</b>	State Treasury Accounts Receivables.

**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.

**System and Organization  
Controls (SOC) report**

Designed to help organizations that provide services to user entities build trust and confidence in their delivery processes and controls through a report by an independent certified public accountant (CPA). Each type of SOC report is designed to meet specific user needs:

- SOC 1 (Report on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting) - Intended for user entities and the CPAs auditing their financial statements in evaluating the effect of the service organization's controls on the user entities' financial statements.
- SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) - Intended for a broad range of users that need information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.

There are two types of SOC 1 and SOC 2 reports:

- Type 1 - Reports on the fairness of management's description of a service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description, as of a specified date.
- Type 2 - Includes the information in a type 1 report and also addresses the operating effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.
- SOC 3 (Trust Services Report for a Service Organization) - Intended for those needing assurance about a service organization's controls that affect the security, availability, or processing integrity of the systems a service organization employs to process user entities' information, or the confidentiality or privacy of that information, but do not have the need for or the knowledge necessary to make effective use of a SOC 2 report.
- SOC for Cybersecurity - Intended to communicate relevant information about the effectiveness of an organization's cybersecurity risk management programs.

<b>SUW</b>	sales, use, and withholding.
<b>TPSO</b>	third party service organization.
<b>Treasury</b>	Department of Treasury.
<b>unmodified opinion</b>	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.





**Report Fraud/Waste/Abuse**

Online: [audgen.michigan.gov/report-fraud](http://audgen.michigan.gov/report-fraud)

Hotline: (517) 334-8070