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GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

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DIRECTOR

July 20, 2022

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 2021 Report on Internal Control,
Compliance, and other Matters for the State of Michigan Annual
Comprehensive Financial Report

In accordance with the State of Michigan's Financial Management Guide, Part VII, Chapter 3, 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, 2020 through September 30, 2021. 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, 2020 through September 30, 2021
REPORT DATED: March 18, 2022

Summary of Agency Responses to Recommendations

1. Recommendations - complied with:
 - Finding 2, parts a(1) and a(2)
 - Finding 4, part b(4) (DNR)
 - Finding 5, parts a(1), a(2), a(3), d, e, and i
 - Finding 7, part b
 - Finding 8, parts a(1), a(3), and b
 - Finding 9, parts a(2), c, e(1), and f
 - Finding 10, parts a (MDOS), b (MDOS), d(1), d(3), and d(5)

2. Recommendations - agree with and will comply:
 - Finding 1
 - Finding 2, part b
 - Finding 3
 - Finding 4, parts a, b(1), b(2), b(3), and b(4) (MDHHS and DTMB)
 - Finding 5, parts b, c, f, g, and h
 - Finding 6 parts a(1), a(2), and b
 - Finding 7, part a
 - Finding 8, part a(2)
 - Finding 9, parts a(1), b, d, e(2), and g
 - Finding 10, parts a (Treasury), b (MDHHS and Treasury), c, d(2), and d(4)

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, 2020 through September 30, 2021

Finding 1
Vendor file fraud controls

Recommendation

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

Management Views

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

Planned Corrective Action

SOS has put in place multiple preventive controls related to select vendor activity. Additional monitoring has been put in place based on known patterns of fraud. SOS will continue to review fraud risks and modify controls and monitoring efforts as required.

Anticipated Completion Date

Ongoing

Finding 2
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 in SIGMA to appropriate users of the information.

Planned Corrective Action

- a. (1) MDOC removed attachments from SIGMA documents containing confidential information on February 1, 2022.

MDOC updated internal processes for the applicable payments on February 1, 2022 to ensure confidential information would be removed from the invoice prior to submitting for payment. This new internal process was added to the training procedure and desk manuals for program and accounts payable staff to ensure future new hires receive proper training in the new process.

On April 20, 2022, MDOC again reminded staff entering and approving SIGMA documents that all confidential information must be removed or redacted from attachments in SIGMA.

(2) Treasury updated its procedures to ensure the confidential information is not included in SIGMA. On March 31, 2022, Treasury worked with SIGMA to remove the confidential information that was identified.

- b. Treasury, in consultation with SIGMA security, will further review the access for the 396 central control agency users who have access to the information. In that review, Treasury and SIGMA security will determine if a new user role should be created to further limit the access to the information.

Anticipated Completion Date

- a. (1) Completed
(2) Completed
- b. August 31, 2022

Finding 3

Treasury system user access controls

Recommendation

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

Management Views

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

Planned Corrective Action

For the first system, Treasury completed a user access review in January 2022. Treasury will perform annual reviews of user access controls and semiannual reviews of privileged user access controls in the system in FY 2022 and going forward.

For the second system, Treasury is reviewing user access controls and updating the user access framework in the system. Treasury will perform annual reviews of user access controls and semiannual reviews of privileged user access controls in the system in FY 2022 and going forward.

Anticipated Completion Date

August 30, 2022

Finding 4

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 *SOMACFR*.

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

- a. DTMB will improve reports and processes used to pull asset status and disposal data from repositories. DTMB uses online repositories to track the status of networked assets

such as servers and switches. These improvements will help DTMB ensure equipment is removed from SIGMA timely.

- b. (1) DTMB will conduct more thorough reviews to ensure assets are properly recorded. DTMB will update processes to closely evaluate projects that are deemed substantially complete.

OFM will evaluate FMG Part II Chapter 21 Section 250 and year end capital asset reporting requirements to determine where clarification is warranted and update as applicable.

(2) MDOT will include a checklist item to ensure that there are no filters on the spreadsheets used to calculate the year-end capital asset entries.

(3) DTMB will update its software capitalization procedures to address Agile software development and situations in which a vendor bills for multiple types of services on the same invoice (new development, training, and maintenance on already deployed phases). This will result in a more thorough review of the nature of costs billed on vendor invoices and ensure that only development costs are properly capitalized.

(4) DTMB will update capitalization procedures to address combined purchases that include purchased services that need to be recorded as prepaid expenses.

DNR implemented a new process for construction in progress that ensures program codes used to track costs related to construction in progress are established in SIGMA prior to the project being started. DNR conducted training on this new process with employees involved in the recording of capital assets in September of 2021.

For MDHHS, the asset and its technology were developed in response to the pandemic. Due to a sharp learning curve with the pandemic, the technology used by this asset was obsolete within several months after initial use. However, the asset was valued at its initial estimated value rather than the value on September 30, 2021. MDHHS believes this circumstance is a once in a lifetime occurrence. However, MDHHS will add notes to the capital asset procedures indicating that new assets must have a reasonable use on September 30 of a fiscal year in order to have an estimated value.

Anticipated Completion Date

- a. September 30 2022
- b. (1) September 30, 2022
- (2) September 30, 2022
- (3) September 30, 2022
- (4) DTMB: September 30, 2022
- DNR: Completed.
- MDHHS: June 30, 2022

Finding 5
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

- a. Treasury provided additional training to the staff on the issues identified in part a. In addition, for part a:
 - (1) Treasury made corrections to the GASB 34 workbook and report used to calculate the estimated receivables to eliminate the SUW and CIT refunds, penalty, and interest so that it is not included in the estimated receivable in future years.
 - (2) Treasury corrected the reports utilized in the calculation to ensure they do not include out of period revenue activity.
 - (3) Treasury made corrections to the GASB 34 report needed as a result of the adjustments to November's estimated 60-day accruals. Treasury updated its procedures to include adjusting the GASB 34 report in the future whenever adjustments are made to the 60-day accruals/estimates, as they impact the GASB 34 calculation.
- 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.
- c. Treasury cross-trained two existing staff to work on this reconciliation as time resources allow while Treasury completes the process to fill the staffing vacancy responsible for this function. This will ensure monthly reconciliations of the business tax system and SIGMA are performed timely.
- d. Treasury established an approved methodology for SET estimated accruals for the 2021 closing. Treasury will update the methodology to compare estimates to actuals if actuals are known prior to the *Annual Report's* opinion date. The estimate was adjusted to actual for FY 2021, and Treasury will continue to adjust to actual where required in future fiscal years.
- e. Treasury updated its procedures to reevaluate CIT, MBT, and SUW liabilities if the refund amount changes prior to the *Annual Report's* audit opinion date including refundable credits issued prior to the audit opinion.
- f. Treasury will continue to work with Secretary of State (SOS) and the Office of Revenue and Tax Analysis on sales tax data limitations to determine the actual availability and accuracy of the information required to determine if a sales tax accrual should be booked to the Comprehensive Transportation Fund (CTF).

- g. A tax accrual specialist was hired in January 2022 to assist on these duties. The tax accrual specialist will be trained and work on this process during FY 2022.
- h. The logic in the legacy STAR system reports cannot be remediated without programmatic changes. The STAR legacy system is currently being replaced and no changes are being made to STAR logic until STAR is retired. The issue will be remediated in the new collections system.
- i. Treasury adjusted the monthly procedures for SET monitoring to include individual county monitoring, which previously had been an annual evaluation.

Anticipated Completion Date

- a. (1) Completed
(2) Completed
(3) Completed
- b. January 2025
- c. September 30, 2022
- d. Completed
- e. Completed
- f. November 30, 2022
- g. September 30, 2022
- h. May 31, 2023
- i. Completed

Finding 6

MiCARS internal control improvements

Recommendation

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

Management Views

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

Planned Corrective Action

- a. (1) MDOT worked with the vendor to create a report that will be reviewed quarterly by the division administrator to ensure employee activity within MiCARS is appropriate. The review will be documented through quarterly sign-off by the division administrator.
- a. (2) MDOT will remove the administrator access rights from the employee who performs the daily reconciliations. The job duties that require the administrator access rights for the employee will be reassigned.
- b. MDOT, MDARD, EGLE, and DNR will further document and review the internal control framework for each of the transaction flows used in MiCARS. MSP will further review the internal control framework for the deposits. The departments will use this framework to evaluate whether additional controls and procedures are needed for each transaction flow to sufficiently mitigate the risk of error or misclassification. The departments will seek out cost effective remedies that are commensurate with the level of risk and

materiality where needed using controls such as sampling, management approval, and reconciliation.

Anticipated Completion Date

- a. (1) June 30, 2022
(2) September 30, 2022
- b. September 30, 2022

Finding 7
Interface control improvements

Recommendation

We recommend that LEO improve interface controls over SIGMA.

Management Views

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

Planned Corrective Action

- a. LEO is in the process of implementing a more effective process for reconciling the daily data interfaced from MARS to SIGMA to include both record counts and dollar amounts.
- b. LEO implemented a more effective process for reconciling the daily data interfaced from Aware to SIGMA to include both record counts and dollar amounts.

Anticipated Completion Date

- a. September 30, 2022
- b. Completed

Finding 8
Accuracy of Medicaid receivables and payables

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.

Management Views

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

Planned Corrective Action

- a. (1) MDHHS has updated its procedures to add additional checks and balances and also included a formula cell lock on pay code percentages in the file that calculates the accrual amount.

(2) The database used to calculate this accrual contained a calculation error and the calculation had to be done manually in fiscal year 2021. The database will be updated to fix the calculation error and automate the process for fiscal year 2022.

(3) An additional check has been added to the review manual for completing this process to ensure all amounts copied and pasted as values from the previous year summary did paste correctly.

- b. Rate changes typically occur on a prospective basis. In the event of a retroactive rate change, MDHHS' Reference Section will notify MDHHS' Policy Implementation section via email. The Policy Implementation Section will use the information provided to identify and adjust the impacted claims.

Anticipated Completion Date

- a. (1) Completed
(2) June 30, 2022
(3) Completed
- b. Completed

Finding 9

Various departments' financial accounting practices

Recommendation

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

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 *SOMACFR*.

Planned Corrective Action

- a. (1) MDHHS will add notes to both the year-end calendar and year-end procedures requiring OFM approval of changes to methodologies that estimate payables and receivables.

(2) MDHHS ensured appropriate staff are aware of the requirement to record an estimated receivable when the receivable is significant and measurable.
- b. Future estimated accounts payable amounts will be reviewed more closely with the program area in charge of the federal program to determine if there are unusual issues with payment processing that would affect the estimates. The methodology will be adjusted as needed, in consultation with OFM, to ensure that accurate amounts are recorded. In addition, MDE will ensure procedures are documented to ensure that actual payments occurring in December for this accrual are compared to the estimate by January 15 annually and appropriate adjustments are made prior to *SOMACFR* issuance.
- c. MDOC completed an analysis of vendor refunds to determine which refunds should be considered a reduction of expenditures and summary level correction was completed on December 4, 2021 for FY 2021. MDOC updated internal processes to ensure vendor refunds were correctly recorded going forward.

- d. MDOT will improve, implement, and document a process for adjusting consultant EAP's based on actual payments made in the new fiscal year up until the cut-off deadline. After the stated deadline, MDOT will assess the materiality of any variations between the EAP amounts and the new fiscal year payments and will work with OFM to assess whether further adjustments are necessary.
- e. (1) DTMB will conduct more thorough reviews to ensure account receivables are valid.

(2) DTMB will compile and review receivers for items received but not yet invoiced by vendors at year-end. DTMB will record accounts payables for any equipment received prior to September 30. DTMB has set-up department object coding to be used when services provided may overlap fiscal years; this will assist in the identification of services provided prior to September 30.
- f. EGLE recorded the value of the investments as determined by GASB Statement No. 84 for fiscal year 2021 and will update any changes to the account balances in the general ledger going forward.
- g. OFM will add clarification to the letter used to request liability estimates for court cases from the Office of the Attorney General. In addition, OFM will strengthen internal review procedures to ensure adequate follow up occurs with the Office of the Attorney General for any cases where the estimate appears to only represent the minimum threshold.

Anticipated Completion Date

- a. (1) September 30, 2022
(2) Completed
- b. January 15, 2023
- c. Completed.
- d. July 31, 2022
- e. (1) Completed
(2) October 31, 2022
- f. Completed
- g. December 30, 2022

Finding 10

Third party service organization monitoring

Recommendation

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

Management Views

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

Planned Corrective Action

- a. MDOS revised SOC report review procedures to include best practices of receiving SOC reports within 60 days of report issuance..

Treasury will work with its contractors to determine the reason for the delay in providing the SOC reports and will establish timelines with the contractors for receipt of the reports in the future.

- b. MDHHS will evaluate the need to obtain and review the identified subservice provider's SOC report.

MDOS revised the SOC report review template guidance to better document the rationale for not receiving a SOC report for a vendor's sub-subservice provider when it is concluded that it is not necessary to obtain it.

Treasury will develop a risk matrix to determine and document which subservice reports are required. Treasury will ensure the appropriate actions are taken for the subservice provider reports based on the results of the matrix.

- 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 Office of Internal Audit Services' template in the proper format.

Treasury will attend training on SOC report review and SOC review template completion. Treasury will use that training to ensure the review of complementary user-entity controls is appropriately completed and documented in the future.

- d. (1) MDHHS will annually obtain and review the SOC report for the identified provider. MDHHS has received, reviewed, and submitted the completed review for the service provider identified.

(2) MDHHS will review the SOC reports for the identified providers.

(3) MDHHS will ensure that SOC reports reviews are completed timely after receipt of the SOC report.

(4) MDHHS will improve the review of the control weaknesses in SOC reports with qualified opinions. In FY 2021, MDHHS evaluated exceptions identified in the SOC reports that resulted in the qualified opinions and documented the evaluation of those exceptions in the required Office of Internal Audit Services' review template. However, in FY 2022, MDHHS will improve the documentation and consideration of the qualified opinions through additional procedures such as evaluating and documenting MDHHS' compensating controls in place during the audit period and validating corrective action submitted by the provider.

(5) MDHHS will ensure the documentation of the complimentary user-entity controls are readily available and provided for the identified vendor's SOC report. The documentation of the complementary user entity controls for FY 2021 existed but was not provided until after audit fieldwork was complete.

Anticipated Completion Date

- a. MDOS: Completed
Treasury: September 30, 2022
- b. MDHHS: June 30, 2022

MDOS: Completed

Treasury: August 31, 2022

- c. MDHHS: September 30, 2022

Treasury: September 30, 2022

- d. (1) Completed
- (2) September 30, 2022
- (3) Completed
- (4) September 30, 2022
- (5) Completed