

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

Michigan Veterans' Facility Authority
(A Discretely Presented Component Unit of the State of Michigan)

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



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Report Summary

Report on Internal Control, Compliance, and Other Matters

Michigan Veterans' Facility Authority

(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2021

Report Number:
511-0101-22

Released:
December 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 Michigan Veterans' Facility Authority's financial statements dated December 2, 2022.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
The Michigan Veterans' Facility Authority should improve internal control to help ensure the completeness and accuracy of accounting information (<u>Finding 1</u>).		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

December 29, 2022

Mr. David Henry, Chair
Michigan Veterans' Facility Authority
and
Ms. Anne Zerbe, Executive Director
Michigan Veteran Homes
and
Major General Paul D. Rogers, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear Mr. Henry, Ms. Zerbe, and General Rogers:

This is our report on internal control, compliance, and other matters of the Michigan Veterans' Facility Authority for the fiscal year ended September 30, 2021.

Your agency provided the preliminary response to the recommendation 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,

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

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



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Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. David Henry, Chair
Michigan Veterans' Facility Authority
and
Ms. Anne Zerbe, Executive Director
Michigan Veteran Homes
and
Major General Paul D. Rogers, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear Mr. Henry, Ms. Zerbe, and General Rogers:

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, each major fund, and the aggregate remaining fund information of the Michigan Veterans' Facility Authority, Department of Military and Veterans Affairs, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2021 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 2, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during

our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described in Finding 1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's 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*.

Authority's Response to Finding

The Authority's preliminary response to the finding identified in our audit is included in the body of our report. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
December 2, 2022

FISCAL YEAR 2021
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

Improvements needed to completeness and accuracy of accounting information.

The Michigan Veterans' Facility Authority (MVFA) should improve internal control* to help ensure the completeness and accuracy of accounting information.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to establish and maintain an internal accounting and administrative control system using generally accepted accounting principles*. Controls should include a system of practices to be followed in the performance of duties; be effective, efficient, and documented; and function as intended. We noted:

- a. MVFA did not have sufficient internal control over cash. Although we did not identify any specific errors associated with cash, timely cash reconciliations of MVFA's depository accounts help ensure the identification of potential financial statement misstatements and/or needed adjustments.

We noted:

- (1) The Michigan Veteran Homes at Grand Rapids did not perform monthly cash reconciliations of depository bank accounts during fiscal year 2021. It anticipates completing all reconciliations during fiscal year 2023.
- (2) The Michigan Veteran Homes at Chesterfield Township did not perform monthly cash reconciliations of depository bank accounts timely during fiscal year 2021. Two judgmentally selected reconciliations were completed 7 and 10 months late.

The Department of Technology, Management, and Budget (DTMB) Financial Services informed us operational changes, competing priorities, and limited staff prevented the timely completion of monthly cash reconciliations.

- b. MVFA had not fully developed written procedures related to billings, cash reconciliations, and cash receipting, which could cause inconsistent or inappropriate guidance to employees at the three veterans' homes, leading to inaccurately recorded accounting information. Although we did not identify any specific instances, an increased risk exists without written procedures.

DTMB Financial Services informed us operational changes, competing priorities, and limited staff contributed to the lack of written procedures.

- c. MVFA did not properly classify compensated absences in its financial statements.

* See glossary at end of report for definition.

We noted MVFA reported all accrued annual leave as a short-term compensated absences liability on its statement of net position, resulting in an overstatement of short-term compensated absences and an understatement of long-term compensated absences of \$612,261.

DTMB Financial Services corrected this misstatement after receiving a waiver from the Office of Financial Management to report its financial statements differently than as presented in the *State of Michigan Annual Comprehensive Financial Report*.

- d. MVFA did not timely review high-risk activity reports to ensure that users performed only authorized bypass and override actions in the Statewide Integrated Governmental Management Applications* (SIGMA). Although we did not identify any specific instances of inappropriate entries, an increased risk exists that MVFA may not identify inappropriate or high-risk activity associated with SIGMA transactions.

SIGMA Operations and Support issued Temporary Operating Policy and Procedure No. 0006 on September 14, 2018, requiring agencies to complete weekly reviews of high-risk activity reports. Also, State of Michigan Technical Standard 1340.00.020.01 requires agencies to monitor privileged system functions to help mitigate the risk from insider threats and detect misuse.

We reviewed three randomly selected fiscal year 2021 weekly high-risk activity reports and determined that MVFA conducted its review an average of 261 days after completion, ranging from 105 days to 305 days late.

DTMB Financial Services informed us that a lack of oversight prevented the timely review of high-risk activity reports, and it has since reassigned staff responsibilities accordingly.

RECOMMENDATION

We recommend that MVFA improve internal control to help ensure the completeness and accuracy of accounting information.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB Financial Services provided us with the following response:

DTMB Financial Services agrees with this recommendation and has already substantially complied. DTMB Financial

* See glossary at end of report for definition.

Services has hired additional staff to help perform tasks, create written procedures, and overall improve internal controls not limited to those mentioned within this finding.

Related to part a., DTMB Financial Services implemented and developed all new processes and controls with the implementation of Point Click Care, beginning in March 2020. After implementation and along with the accounting changes that were brought about with the construction of the Michigan Veteran Homes at Chesterfield Township and Michigan Veteran Homes at Grand Rapids and the establishment of the MVFA, DTMB Financial Services had to prioritize higher risk items. During fiscal year 2021, DTMB Financial Services was responsible for a total of 15 cash reconciliations each month. The Grand Rapids and Chesterfield cash reconciliations mentioned above represent 2 of the 15 cash reconciliations that are addressed monthly. Absent of these completed cash reconciliations, other reconciliations were in place to migrate risks as transactions flowed to these accounts.

Related to part b., DTMB Financial Services is continually working to assess current internal controls and implement and enhance procedures to ensure consistent and accurate accounting and reporting. Absent of any written procedures, DTMB Financial Services leveraged subject matter experts to complete tasks and conduct reviews on the tasks performed.

Related to part d., DTMB Financial Services immediately reinstated processes to review transactions that have been bypassed and overridden in SIGMA and perform tasks according to the requirements. Furthermore, DTMB Financial Services will continue to review their self-imposed limit for the number of users that have access to perform authorized bypass and override actions in SIGMA for MVFA.

GLOSSARY OF ABBREVIATIONS AND TERMS

deficiency in internal control over financial reporting	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.
DTMB	Department of Technology, Management, and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	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."
Governmental Accounting Standards Board (GASB)	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.
internal control	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.
material misstatement	A misstatement in the 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.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MVFA	Michigan Veterans' Facility Authority.

significant deficiency in internal control over financial reporting

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.

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.

unmodified opinion

The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.



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