

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

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

Fiscal Year Ended September 30, 2022

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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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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, 2022*

**Report Number:**  
**071-0010-23**

**Released:**  
**May 2023**

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 29, 2023.

<b>Findings Related to Internal Control, Compliance, and Other Matters</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
The Department of Treasury (Treasury) should complete a comprehensive analysis and evaluation of business tax overpayments carried forward by taxpayers to ensure proper recording of tax revenues, year-end liabilities, and/or deferred inflows of resources. Total credit forward balances exceeded \$1.0 billion at September 30, 2022 ( <a href="#">Finding 1</a> ).	X		Agree
The Statewide Integrated Governmental Management Applications (SIGMA) Operations and Support, 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 payments ( <a href="#">Finding 2</a> ).		X	Agree
Treasury should continue to enhance internal control to help prevent, or detect and correct, misstatements and help ensure the reasonableness and accuracy of tax accruals ( <a href="#">Finding 3</a> ).		X	Agree
Various State agencies did not have sufficient internal control to help ensure the accuracy of all accounting information recorded in the SOMACFR ( <a href="#">Finding 4</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>
Treasury did not sufficiently limit access to confidential information in SIGMA to only appropriate users ( <u>Finding 5</u> ).		X	Agree
Treasury should improve user access controls over four of its information systems to help prevent and detect inappropriate access and protect confidential information from unauthorized use, disclosure, modification, or destruction ( <u>Finding 6</u> ).		X	Agree
Various State agencies should continue to 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 2022 ( <u>Finding 7</u> ).		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 <i>SOMACFR</i> ( <u>Finding 8</u> ).		X	Agree
Various State agencies should continue to enhance their oversight of third party service organizations and SBO should continue to improve its guidance of reviews performed by agencies to help ensure the accuracy and integrity of all accounting information recorded in the <i>SOMACFR</i> ( <u>Finding 9</u> ).		X	Agree

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

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

May 26, 2023

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, 2022.

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,

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

Doug Ringler  
Auditor General



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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



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Office of the Auditor General

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

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, 2022 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 29, 2023. 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 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.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 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 were not 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 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 9 to be significant deficiencies.

### **Report on Compliance and Other Matters**

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

### **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*.

*Government Auditing Standards* require the auditor to perform limited procedures on the Office of Financial Management's preliminary response to the findings identified in our audit. The response is included after the respective finding. The response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 29, 2023



FISCAL YEAR 2022  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## FINDING 1

### Comprehensive review needed of tax credit forwards.

The Department of Treasury (Treasury) should complete a comprehensive analysis and evaluation of business tax overpayments carried forward by taxpayers to ensure proper recording of tax revenues, year-end liabilities, and/or deferred inflows of resources. Total credit forward balances exceeded \$1.0 billion at September 30, 2022.

Treasury records estimated business tax payments as revenue in the appropriate State fund during the fiscal year in which payments are received. When businesses file their tax return, they can choose to obtain a refund if an overpayment of taxes exists or have the State hold the amount as a credit forward against potential liabilities of the following tax year. Section 205.30(2) of the *Michigan Compiled Laws* states if a tax return reflects an overpayment or credit in excess of the tax, the declaration of that fact on the return constitutes a claim for refund. The State records a liability for refunds requested on tax returns processed within 60 days of fiscal year-end. However, estimated liabilities or deferred inflows of resources are not recognized for credit forwards as of fiscal year-end. Conversely, for individual income taxes (IITs), the State reduces revenues and records liabilities for all estimated tax overpayments (refunds).

Section N50.113 of the *Codification of Governmental Accounting and Financial Reporting Standards\** (Codification), published by the Governmental Accounting Standards Board\* (GASB), requires governments to recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. Also, resources received in advance should be reported as liabilities until the period of the exchange. In addition, GASB Codification Section N50.127 requires governments to recognize revenue in the period when the underlying exchange transaction occurs and the resources are available. Treasury acknowledges businesses overpay taxes to avoid penalties and interest should their estimated payments not be sufficient. In its policy authored in 2013, Treasury indicated the proper accounting would be to defer current year revenue received and credit it forward; no accounting entries have been made to defer revenue based on Treasury's position that amounts are not measurable.

Credit forward balances identified from the most recently processed tax returns as of November 30, 2022, along with the applicable State fund, were as follows:

<u>Tax Type</u>	<u>General Fund</u>	<u>School Aid Fund</u>
Corporate income tax (CIT)	\$752,414,402	
Michigan business tax	103,106,063	
Sales tax	22,750,476	\$62,553,147
Withholding tax	53,591,164	16,747,678
Use tax	17,280,382	8,638,895
Total	<u>\$949,142,487</u>	<u>\$87,939,720</u>

\* See glossary at end of report for definition.

The aggregate CIT credit forward balance has significantly grown from \$365 million in December 2013, to \$625 million in December 2017, to the \$752 million cited in the table as of November 30, 2022. Specifically for CIT, the State now has 10 years of information to assess taxpayer payment trends since CIT's inception in 2012. However, Treasury has not formally assessed whether an estimation methodology can be developed since establishing its current accounting practices into policy in 2013.

We included this issue as an emphasis-of-matter paragraph within our independent auditor's report on the financial statements of the fiscal year 2022 *State of Michigan Annual Comprehensive Financial Report (SOMACFR)*, and we consider this finding to be a material weakness\* because the assessment of an estimation methodology involves significant dollar amounts and the potential impact on future State budgets if an estimation methodology is warranted.

**RECOMMENDATION**

We recommend that Treasury complete a comprehensive evaluation of business tax credit forwards (including historical analyses of the usage of credit forwards) to assess whether estimated liabilities and/or deferred inflows of resources are reasonably measurable related to these tax overpayments.

**AGENCY  
PRELIMINARY  
RESPONSE**

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

*Treasury and OFM agree that a more comprehensive evaluation of business tax credit forwards should occur to determine if the related estimated liabilities and deferred inflows of resources are reasonably measurable.*

\* See glossary at end of report for definition.

## FINDING 2

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### Improvements needed over vendor file fraud controls.

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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 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 of the data. 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. 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 responsibilities to protect the confidentiality, integrity, and availability of the State's information.

During fiscal year 2022, a vendor contacted the State regarding a missing payment. Upon review, the State determined unauthorized access and changes were made to the vendor's account information resulting in the payment being improperly redirected.

We first commented on potential risks related to the vendor file during the fiscal year 2021 *SOMACFR* audit. In response to that and previous instances of known fraud discovered by SOS and impacted departments, SOS implemented enhanced vendor controls and daily monitoring of select vendor file changes. However, these enhanced controls did not prevent or promptly detect the identified instance of unauthorized access and subsequent vendor data changes noted during fiscal year 2022.

## RECOMMENDATION

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

## AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

*SOS and OFM agree that internal control over the State's vendor file should continue to be reviewed for opportunities to further enhance vendor monitoring to reduce the risk of fraudulent payments. This instance of fraud occurred when there was a delay in execution of the internal control previously implemented. Corrective action was immediately implemented by SOS during the fiscal year to ensure timely execution of the controls. The enhanced controls established in recent years have successfully prevented multiple occurrences of attempted fraudulent access to vendor profiles.*

\* See glossary at end of report for definition.



## FINDING 3

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

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

Section 18.1485 of the *Michigan Compiled Laws* states 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, GASB Codification Sections 2250.109 and 2250.110 state 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 2022 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, CIT, Insurance Provider Assessment Act (IPAA) taxes, and City of Detroit individual and business income (City) taxes.

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 with this information to reverse prior year receivables and record current year receivables.

We noted:

- (1) Treasury did not reduce tax revenues by amounts refunded to taxpayers when calculating the estimated receivables for SUW, CIT, and City taxes, resulting in an overstatement of assets and deferred inflows of resources of \$181.8 million in the General Fund and \$36.4 million in the School Aid Fund and a \$218.2 million overstatement of assets, revenues, and net position in the governmental activities of the government-wide financial statements. Also, assets and liabilities were overstated by \$49.2 million in the City Income Tax Trust Fund.
- (2) Treasury did not properly estimate the IPAA tax receivable, resulting in an overstatement of assets

\* See glossary at end of report for definition.

and deferred inflows of resources in the General Fund and an overstatement of assets, revenues, and net position in the governmental activities of the government-wide financial statements of \$160.5 million.

- (3) Treasury did not ensure delinquent tax data used in calculating the estimated receivable for City taxes was reasonable, resulting in a \$100.9 million overstatement of assets and liabilities in the City Income Tax Trust Fund.
- (4) Treasury improperly excluded \$22.7 million of CIT revenue and \$20.4 million of City tax revenue in the calculation of the estimated receivable, resulting in an understatement of General Fund assets and deferred inflows of resources and an understatement of assets, revenues, and net position in the governmental activities of the government-wide financial statements of \$11.0 million. Also, assets and liabilities were understated by \$11.2 million in the City Income Tax Trust Fund.

Treasury attributes many of the errors in the estimated receivable to human error or the complexity of the calculation. Without sufficiently detailed and replicable procedures, Treasury cannot ensure the complex calculation is performed consistently each year when delegated to other staff. As indicated above, Treasury corrected these items prior to the *SOMACFR's* issuance.

- b. Treasury did not ensure the estimated liability for the flow-through entity (FTE) tax and related IIT was accurately recorded. As a result, revenues were understated and liabilities were overstated in the General Fund and net position was understated in the governmental activities of the government-wide financial statements by \$140.8 million. Treasury corrected these items prior to the *SOMACFR's* issuance.

The FTE tax was enacted in December 2021 and applied retroactively to tax years beginning in January 2021. FTEs, including limited liability companies, partnerships, and S corporations, can elect to participate in this tax which allows FTE members to claim a refundable credit on their IIT return equal to the allocable share of the tax paid by the entity. FTEs overpaying their tax liability can also claim a refund on their annual FTE tax return.

For fiscal year 2022, Treasury developed a methodology during the year-end closing process to

calculate the estimated liability related to FTE tax collections. The methodology utilizes FTE tax return and payment information to estimate the amount of refunds owed to entities due to overpayment of their FTE tax liability. Treasury also utilizes information from processed IIT returns to estimate the amount of refunds resulting from unprocessed or unclaimed FTE tax credits as of November 30<sup>th</sup>. The timing of when Treasury established its methodology, along with the manual efforts involved in comparing FTE return information with IIT returns, contributed to the identified errors.

- c. 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 2021 and 2022, we determined assets and deferred inflows of resources may be understated by \$14.4 million in the General Fund and \$4.5 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 \$18.9 million. Treasury informed us it does not complete a reconciliation because the IIT legacy system does not contain the necessary general ledger information.

- d. Treasury did not ensure collections related to IPAA, SUW, motor fuel, and tobacco taxes were accurately recorded. At year-end, Treasury records a receivable for actual tax collections received in October and November related to prior fiscal year liabilities. Also, Treasury uses data from its delinquent tax collection systems to estimate and record a receivable for delinquent tax amounts expected to be collected within one year as of the end of the fiscal year.

Our review noted:

- (1) Treasury inappropriately recorded \$0.8 million in IPAA delinquent tax payments as part of the receivable. Treasury corrected this item prior to the *SOMACFR*'s issuance.
- (2) Treasury did not ensure all SUW tax payments made by State agencies related to prior year liabilities were recorded as part of the receivable. Treasury indicated these payments

had been recorded in the business tax system subsequent to obtaining the report used to record this accrual.

- (3) Treasury did not ensure delinquent tax assessment balances used to estimate the receivable for motor fuel and tobacco taxes included only tax assessments which Treasury considered active.

- e. Treasury did not have a process to reevaluate the liability recorded for business taxes when the estimated refund amount changed prior to the *SOMACFR*'s issuance. Treasury also did not ensure all unprocessed returns requesting a refund were evaluated when estimating this liability. As a result, revenues, liabilities, and fund balance for various funds may be misstated.

Treasury performs an evaluation of unprocessed returns requesting a refund to determine which refunds to accrue. However, Treasury does not adjust the recorded liability for changes resulting from further processing of these returns. Also, the business tax report Treasury uses to identify unprocessed returns requesting a refund excludes amendments of returns previously processed with a refund. These amended returns can result in additional refunds and should be considered when estimating the liability.

- f. 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 it is important to evaluate the reliability of the estimated accruals in the subsequent year and adjust the estimation methodology accordingly. Also, the State of Michigan Financial Management Guide (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 2022, Treasury compared the IIT and business taxes payable backlogs with actual refunds and determined no changes to the accrual methodologies 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, 2021, and 2022 because it lacked trained staff available to perform the analysis. Without performing this analysis, Treasury cannot determine if its estimation methodology for ATR and RTBA is appropriate.

**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 4

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

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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 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 who 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. OFM, within SBO, did not have sufficient controls over the calculation of the net investment in capital assets (NICA). OFM did not properly include two State capital projects during its review of State Building Authority bonds when calculating NICA. We also identified a formula error impacting the NICA calculation. These errors resulted in a \$71.1 million overstatement in NICA, a \$67.8 million understatement in unrestricted net position, and a \$3.3 million understatement of restricted net position. OFM corrected these items prior to the *SOMACFR*'s issuance.
- b. Treasury did not ensure tax refunds were properly classified. The FMG (Part II, Chapter 1, Section 200) requires out-of-period refunds over \$5 million to be recorded as an expenditure instead of a reduction of current year revenue. In fiscal year 2022, Treasury reclassified a \$27.2 million withholding tax refund related to tax year 2021 as an expenditure; however, tax year 2021 is not considered an out-of-period refund for this fiscal year. Therefore, the refund should have been recorded as a revenue reduction. Treasury corrected this item prior to the *SOMACFR*'s issuance.
- c. The Michigan Department of Health and Human Services (MDHHS) did not:
  - (1) Properly record Quality Assurance Assessment Program revenue related to long-term care providers, resulting in a \$16.3 million understatement of revenue and taxes receivable. MDHHS used the prior year receivable amount in its calculation of the current year receivable. MDHHS corrected this item prior to the *SOMACFR*'s issuance.
  - (2) Properly record a payable for a Supplemental Nutrition Assistance Program electronic benefits

transfer, resulting in an \$11.9 million overstatement of expenditures and liabilities. MDHHS mistakenly recorded the payable twice and informed us this was a result of lack of oversight. MDHHS corrected this item prior to the *SOMACFR*'s issuance.

- (3) Establish proper internal control when calculating the receivable for reimbursable COVID-19\* testing costs. MDHHS attempted to calculate a receivable; however, it was not able to closely match the vendor's estimation and ultimately relied on the vendor's calculation without additional validation. 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. MDHHS informed us the level of validation procedures applied to the vendor's estimate was the most efficient use of available resources, based on the unique nature of the receivable and the limited history of COVID-19 related programs.
- d. The Department of Natural Resources (DNR) did not follow its established accrual methodology for estimating revenues from oil and gas royalties. DNR used the wrong production rates for its fiscal year 2022 calculation and double-counted August royalty revenue which impacted September's royalty estimate. As a result of these errors, receivables and revenue were overstated by \$3.2 million. DNR corrected this item prior to the *SOMACFR*'s issuance.
  - e. The Michigan Department of Education (MDE) did not:
    - (1) Properly record a payable for the National School Lunch Program, resulting in a \$2.8 million understatement of liabilities and expenditures. MDE calculated this payable using actual expenditures through November and added 5% for estimated December expenditures. However, for fiscal year 2022, MDE did not ensure all applicable expenditures for November were included in its calculation.
    - (2) Properly record a payable related to the Brownfield Redevelopment Financing Act, resulting in a \$1.1 million overstatement of liabilities and expenditures. MDE attributed this error to a delay in obtaining the actual amounts from Treasury.

The FMG (Part II, Chapter 1, Section 300(3)(f)(i)) requires departments to evaluate all new information related to accruals and estimates becoming available prior to the

\* See glossary at end of report for definition.

issuance of the financial statements to determine if an adjustment to the estimate is necessary. MDE corrected these items prior to the *SOMACFR*'s issuance.

- f. The Michigan Department of Transportation (MDOT) did not record federally funded expenditures to the correct funding source, resulting in a \$4.6 million understatement of receivables and federal revenue. MDOT informed us the report it typically uses to identify this type of error was not generated prior to when MDOT recorded fiscal year 2022 year-end closing entries. MDOT 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 5**

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

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Treasury 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 security controls must be implemented to protect State information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure the confidentiality, integrity, and availability of State information. Also, 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. . . ."

We noted Treasury interfaced transactions from a State agency system to SIGMA that included certain confidential information. We identified 411 Statewide SIGMA users with access to view this information in SIGMA.

We first commented on this issue during the fiscal year 2021 *SOMACFR* audit. Treasury informed us updates to the SIGMA security framework were in progress but not yet implemented as of September 30, 2022.

## **RECOMMENDATION**

We recommend that Treasury limit access to confidential information in SIGMA to only appropriate users of the information.

## **AGENCY PRELIMINARY RESPONSE**

OFM provided us with the following response:

*Treasury and OFM agree that access to confidential information in SIGMA should be limited to appropriate users and implemented corrective action in February 2023.*

## FINDING 6

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

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Treasury should improve user access controls over four 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 rights semiannually for privileged accounts and annually for other accounts. Also, the Standard requires an information system to automatically disable inactive user accounts after 60 days and system accounts after 365 days.

We noted:

- a. Treasury did not complete all semiannual and annual user access reviews. Specifically, Treasury did not:
  - (1) Perform 1 of the 2 semiannual reviews of the unclaimed property system's privileged accounts.
  - (2) Assess assigned rights (permissions) as part of the annual user access review for 2 of the banking system accounts and for 1 of the 2 semiannual user access reviews for another banking system account. User access rights should be periodically reviewed to ensure privileges granted to each user are still appropriate for the user's job responsibilities.

The report Treasury used for the annual user access reviews did not include user access rights. Treasury also informed us it had technical issues pulling the necessary data to complete the semiannual rights review. We first commented on the semiannual user access reviews during the fiscal year 2021 *SOMACFR* audit.

- b. Treasury did not ensure user accounts were disabled after 60 days of inactivity for one of the banking systems. As of July 2022, 50 (19%) of 268 active user accounts had a last log-in date over 60 days, ranging from 64 to 186 days.

Failure to timely disable inactive user accounts could expose systems to the risk of unauthorized access, increasing the potential of inappropriate use, disclosure, modification, and destruction of system data.

Treasury stated it was not aware of the State of Michigan technical standard requirements related to inactive accounts and indicated it is working with one of the

banking systems' vendors to automatically disable accounts after 60 days of inactivity.

**RECOMMENDATION**

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

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*Treasury and OFM agree user access controls over Treasury's information systems should be improved.*

## FINDING 7

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### Improvements needed to MiCARS internal control.

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Various State agencies should continue to 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 2022.

Section 18.1485 of the *Michigan Compiled Laws* states 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 FISCAM Section 4.2 recommends 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.

State agencies use MiCARS to establish invoices and record cash receipts, refunds, write-offs, and other adjustments against those invoices. Our review disclosed State agencies utilizing MiCARS (Michigan Department of State Police [MSP], MDOT, Michigan Department of Agriculture and Rural Development [MDARD], Department of Environment, Great Lakes, and Energy [EGLE], and DNR) did not implement sufficient internal control, such as management approval, for all MiCARS transactions to mitigate the risk of error, misclassification, or fraud.

We have commented on the various departments' lack of management approval or compensating controls for MiCARS transactions each year beginning with the fiscal year 2019 *SOMACFR* audit. MSP informed us it implemented additional controls in October 2022 that it believes will sufficiently reduce the risk of misclassification. MDOT, MDARD, EGLE, and DNR informed us they lack the necessary resources, based on the volume of MiCARS activity, to approve every transaction; however, they are working with the Office of Internal Audit Services (OIAS), within SBO, to develop additional controls to address the issue.

## RECOMMENDATION

We recommend that State agencies continue to 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 continue to be improved. MSP implemented significant compensating controls for MiCARS transactions prior to fiscal year 2022 and will fully implement the final step in its corrective*

*action plan related to deposits in fiscal year 2023. DNR, EGLE, MDARD, and MDOT are continuing to work with OIAS to design and implement cost effective controls where needed.*

## FINDING 8

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

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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.

We noted:

- a. The Department of Technology, Management, and Budget (DTMB), MDOT, and EGLE did not ensure equipment was properly removed from SIGMA upon disposal. We noted 4 (11%) of 38 randomly sampled SIGMA equipment assets were no longer State assets as of September 30, 2022. Based on these sample results, we estimated buildings, equipment, and other depreciable assets and related accumulated depreciation were overstated by \$190.7 million and \$119.9 million, respectively.
- b. For capital asset additions and adjustments:
  - (1) DTMB, DNR, and MDOT did not have a process in place to ensure construction in progress (CIP) amounts were timely reclassified to depreciable assets. We noted 8 projects in fiscal year 2022 for which the departments should have reclassified the capital asset balances, resulting in a \$140.3 million overstatement of CIP; a \$71.2 million understatement of buildings, equipment, and other depreciable assets; a \$10.1 million understatement of land and other non-depreciable assets; a \$59.1 million understatement of infrastructure assets; and a \$635,989 understatement of accumulated depreciation.
  - (2) DTMB did not ensure an asset transferred to the Department of Military and Veterans Affairs was recorded in SIGMA, resulting in an understatement of buildings, equipment, and other depreciable assets and related accumulated depreciation of \$36.1 million and \$6.1 million, respectively.
  - (3) MDOT did not ensure project costs for road projects were accurately recorded, resulting in a \$48.9 million understatement of infrastructure assets and overstatement of fiscal year 2022 expenses.
  - (4) DTMB, MDE, Department of State (DOS), EGLE, and MDHHS did not properly implement aspects of

GASB Statement No. 87, *Leases*, during fiscal year 2022. Specifically, for 12 (28%) of 43 sampled leases, the departments did not properly account for non-lease component costs resulting in an estimated \$6.7 million overstatement in buildings, equipment, and other depreciable assets and related lease liabilities.

GASB Codification Section L20.164 requires the lessee to separately account for lease and non-lease components when the contract contains both a lease component (such as the right to use a building) and a non-lease component (such as cleaning and maintenance services).

- c. DTMB did not reclassify 8 software in progress assets upon project completion or when individual system modules were put into use, resulting in a \$136.3 million overstatement of land and other non-depreciable assets and understatement in buildings, equipment, and other depreciable assets and a \$24.2 million understatement of accumulated depreciation.

GASB Codification Section 1400.136 requires capitalization of intangible assets, including computer software, to occur when the computer software is substantially complete and operational.

- d. OFM did not ensure leases were properly recorded for the Anderson House Office Building, Connie B. Binsfeld Building, and Cadillac Place, resulting in a \$27.5 million overstatement of buildings, equipment, and other depreciable assets and related lease liabilities.

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 9

### Improved oversight needed of third party service organizations.

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

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

The FMG (Part VII, Chapter 1, Section 1000) requires each agency to establish and maintain a sound internal control system over activities and transactions, including those managed by service organizations. Agencies 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 service organization controls are present and functioning as intended. The FMG also provides templates which State agencies 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. In addition, the FMG requires agencies to submit their completed reviews to OIAS within 30 days of receiving a SOC report. Further, OIAS provides specific guidance to agencies on request.

We reviewed monitoring controls for 57 judgmentally selected TPSOs and noted:

- a. State agencies did not:
  - (1) Fully understand the expectations related to their review of SOC reports. Specifically:
    - (a) DOS, Treasury, and MDHHS did not obtain or document whether SOC reports were needed for 41 (80%) of the 51 vendor subservice providers identified in the SOC reports we reviewed.
    - (b) MDHHS did not address the control weaknesses noted by the service auditor for 1 (13%) of 8 SOC reports containing an auditor's qualified opinion.
    - (c) Treasury and MDHHS did not complete a review of complementary user-entity controls for 9 (36%) of the 25 SOC reports that included these controls. Also, DTMB and MDHHS did not properly implement complementary user-entity controls and/or maintain documentation supporting their

\* See glossary at end of report for definition.



implementation and operating effectiveness related to 3 (12%) of the 25 SOC reports.

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.

- (2) Obtain and review SOC reports in a timely manner. Specifically:
  - (a) DTMB and Treasury did not obtain 3 (9%) of 32 SOC reports within 60 days after the report date. The agencies obtained the 3 reports between 85 and 120 days after the date of issuance.
  - (b) MDHHS did not complete a review for 4 (50%) of 8 SOC reports.
  - (c) Treasury did not complete a review for 3 (18%) of 17 SOC reports within 30 days of receipt. Treasury completed the reviews between 45 and 234 days after receipt.

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

- (3) Obtain bridge letters covering the entire State fiscal year. We noted:
  - (a) DOS did not obtain a bridge letter for 1 (25%) of 4 SOC reports to address the 9-month gap in coverage.
  - (b) MDHHS did not obtain bridge letters for 2 (25%) of 8 SOC reports to address 3-month gaps in coverage for each report.

A bridge letter is an assertion from the service organization that controls have not changed significantly between the reporting period and the State's fiscal year-end. The FMG requires agencies to address coverage gaps by obtaining a bridge letter or performing additional procedures during the period not addressed in the report. Also, the OIAS TPSO SOC report review template informs agencies if the bridge letter covers a period greater than 90 days,

agencies should document whether the letter is sufficient or if additional procedures are needed.

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 agencies' internal control systems.

- b. OIAS should continue to improve its guidance to help agencies understand and completely evaluate their applicable SOC reports to ensure the accuracy and integrity of accounting information. We noted:
  - (1) The OIAS TPSO SOC report review template does not require agencies to review noted control exceptions unless the service auditor expresses a qualified opinion. Although a review of noted deficiencies associated with a qualified opinion might take priority, an effective internal control process should include an evaluation of all noted control deficiencies, regardless of the SOC report opinion, to assess whether the TPSO's internal control deficiencies may have a critical impact specific to the State's financial statements.
  - (2) OIAS provided conflicting guidance to agencies indicating SOC reports and related documentation should be submitted annually instead of within 30 days as required by the FMG.
  - (3) OIAS should continue its efforts to educate agencies on the importance of their SOC report reviews.

Clarified guidance and additional agency training sponsored by OIAS related to evaluating service organizations and completing the review template may enhance agencies' adherence to FMG requirements.

## **RECOMMENDATION**

We recommend that State agencies continue to enhance their oversight of TPSOs and SBO continue to improve its guidance of the agencies' SOC report reviews to help ensure the accuracy and integrity of all accounting information recorded in the *SOMACFR*.

## **AGENCY PRELIMINARY RESPONSE**

OFM provided us with the following response:

*State agencies and OFM agree that agency oversight of TPSOs should continue to be enhanced, and OIAS and OFM*

*agree that TPSO related guidance to state agencies should continue to be improved. Regarding part a(2)(a), DTMB disagrees that it did not receive the SOC report timely. Since the vendor is an IT service organization (not a financial services organization), the contract only requires a SOC 2 report. Although the vendor is not contractually required to provide a SOC 1 report, the vendor provided a SOC 1 report upon request to DTMB within 50 State business days, keeping with the spirit of the SOC 2 delivery time frames contained in the vendor's contract.*

**AUDITOR'S  
COMMENTS TO  
AGENCY  
PRELIMINARY  
RESPONSE\***

Neither the DTMB contract nor the FMG include delivery time frames for SOC reports. In absence of a stated time frame, the OAG established a benchmark of 60 **calendar** days. DTMB obtained the SOC reports within 60 calendar days for fiscal year 2021 and in 85 calendar days for fiscal year 2022. The finding stands as written.

\* See glossary at end of report for definition.



FISCAL YEAR 2021  
REPORT ON INTERNAL CONTROL,  
COMPLIANCE, AND OTHER MATTERS  
FOLLOW-UP

Below is the status of the reported findings from the 2021 *State of Michigan Annual Comprehensive Financial Report's* report on internal control, compliance, and other matters (071-0010-22):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	SBO - Vendor Fraud Controls	Repeated*	2
2a	MDOC/Treasury - Confidential Information in SIGMA	Complied	Not applicable
2b	Treasury - Access Limitations for Confidential Information in SIGMA	Repeated	5
3	Treasury - Systems User Access Controls	Repeated	6a(2)
4a	DTMB - Capital Asset Disposals	Repeated	8a
4b(1)	DTMB/OFM - Construction in Progress	Repeated	8b(1)
4b(2) - 4b(4)	Various Agencies - Capital Asset Accounting	Complied	Not applicable
5a	Treasury - Receivable Estimation Methodology	Rewritten*	3a
5b	Treasury - IIT/SIGMA Reconciliation	Repeated	3c
5c - 5d	Treasury - Monthly Reconciliations and SET Receivables	Complied	Not applicable
5e	Treasury - Unprocessed Returns	Repeated	3e
5f	Treasury - Sales Tax Revenue	Complied	Not applicable
5g	Treasury - Evaluation of Accounting Estimates	Repeated	3f
5h - 5i	Treasury - ATR/RTBA Receivables and SET Revenue	Complied	Not applicable
6a	MDOT - MiCARS Segregation of Duties	Complied	Not applicable
6b	Various Agencies - MiCARS Internal Control	Repeated	7
7	LEO - Interface Controls	Complied	Not applicable
8	MDHHS - Medicaid Receivables and Payables	Complied	Not applicable

\* See glossary at end of report for definition.

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
9a(1)	MDHHS - Child Support Liability	Complied	Not applicable
9a(2)	MDHHS - Reimbursable Costs Receivables	Rewritten	4c(3)
9b	MDE - National School Lunch Program Payables	Rewritten	4e(1)
9c	MDOC - Revenue Recording	Complied	Not applicable
9d	MDOT - Consultant Payables	Complied	Not applicable
9e - 9g	DTMB/EGLE/OFM - Financial Accounting Practices	Complied	Not applicable
10	Various Agencies - Third Party Service Organization Oversight	Repeated	9

## GLOSSARY OF ABBREVIATIONS AND TERMS

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AICPA	American Institute of Certified Public Accountants.
ATR	assessed tax receivables.
auditor's comments to agency preliminary response	Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
CIP	construction in progress.
CIT	corporate income tax.
City	City of Detroit individual and business income.
<i>Codification of Governmental Accounting and Financial Reporting Standards (Codification)</i>	An integration of currently effective accounting and reporting standards for state and local governments.
COVID-19	The disease caused by a new coronavirus called SARS-CoV-2. It is a potentially severe illness often characterized by fever, coughing, and shortness of breath. The World Health Organization first learned of the virus in December 2019.
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.
DNR	Department of Natural Resources.
DOS	Department of State.
DTMB	Department of Technology, Management, and Budget.
EGLE	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>FTE</b>	flow-through entity.
<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>IPAA</b>	Insurance Provider Assessment Act.
<b>IT</b>	information technology.
<b>LEO</b>	Department of Labor and Economic Opportunity.
<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>MDARD</b>	Michigan Department of Agriculture and Rural Development.
<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>MSP</b>	Michigan Department of State Police.
<b>NICA</b>	net investment in capital assets.
<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>rewritten</b>	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.
<b>RTBA</b>	receivables to be assessed.
<b>SBO</b>	State Budget Office.
<b>SET</b>	State Education Tax.

**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.

**SOMACFR**

*State of Michigan Annual Comprehensive Financial Report.*

**SOS**

SIGMA Operations and Support.

**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.

**SUW**

sales, use, and withholding.

**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.

**TPSO**

third party service organization.

**Treasury**

Department of Treasury.

**unmodified opinion**

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.









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