

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

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

Fiscal Year Ended September 30, 2022

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State of Michigan Auditor General  
Doug A. Ringler, CPA, CIA

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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*

### *Michigan Veterans' Facility Authority*

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

### *Fiscal Year Ended September 30, 2022*

**Report Number:**  
**511-0101-23**

**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 Michigan Veterans' Facility Authority's financial statements dated April 19, 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 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

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Deputy Auditor General





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

May 19, 2023

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, 2022.

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 an 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

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 major fund, and the aggregate remaining fund information of the Michigan Veterans' Facility Authority (Authority), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2022 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 19, 2023.

### **Report on 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 were not 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.

### **Report on 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*.

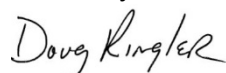
### **Authority's Response to Finding**

*Government Auditing Standards* require the auditor to perform limited procedures on the Authority's preliminary response to the finding identified in our audit. The response is included after the finding. The Authority's 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  
April 19, 2023



FISCAL YEAR 2022  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## FINDING 1

**The Michigan Veterans' Facility Authority should improve internal control to help ensure the 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 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 does not have a process in place for tracking Medicare\* claim collections against Medicare claims billed. This limits MVFA's ability to match Medicare revenue against total claims paid to ensure that the appropriate amount of revenue is received.

The Department of Technology, Management, and Budget (DTMB), which performs accounting services for MVFA, informed us that system limitations prevent the tracking of Medicare collections against claims billed.

- b. MVFA did not properly account for the movement of cash between Michigan Veteran Homes' fiduciary fund bank accounts, resulting in the understatement of fiduciary fund additions and deductions by \$6.5 million. In addition, revenue and expenses/expenditures of MVFA's governmental activities and major fund were overstated by \$8.4 million. DTMB corrected the misstatements prior to the issuance of MVFA's financial statements and the *State of Michigan Annual Comprehensive Financial Report*.

DTMB informed us that the methodology used to account for movement of funds between Michigan Veteran Homes' bank accounts did not change when MVFA became a discretely presented component unit of the State of Michigan.

## 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 the recommendation and will comply by December 31, 2023.*

\* 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 finding from the 2021 Michigan Veterans' Facility Authority report on internal control, compliance, and other matters (511-0101-22):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1a	Completing cash reconciliations.	Pending: Reconciliations to start in fiscal year 2023	Not applicable
1b	Written procedures related to billings, cash reconciliations, and cash receipting were not complete.	Complied	Not applicable
1c	Classification of compensated absences.	Complied	Not applicable
1d	Timely review of high-risk activity reports and bypass and override actions.	Complied	Not applicable



## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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<b>deficiency in internal control over financial reporting</b>	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
<b>DTMB</b>	Department of Technology, Management, and Budget.
<b>financial audit</b>	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.
<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>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>material misstatement</b>	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.
<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 financial statements will not be prevented, or detected and corrected, on a timely basis.
<b>Medicare</b>	A federal health insurance program providing health insurance primarily for the aged and disabled.
<b>modified opinion</b>	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
<b>MVFA</b>	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.

**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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