

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, 2023

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.



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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, 2023

Report Number:
512-0101-24

Released:
March 2024

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 January 31, 2024.

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

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Doug A. Ringler, CPA, CIA
Auditor General

March 19, 2024

David Henry, Chair
Michigan Veterans' Facility Authority
and
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

Chair Henry, Executive Director 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, 2023.

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,

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

David Henry, Chair
Michigan Veterans' Facility Authority
and
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, 2023 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 31, 2024.

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 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.



Doug Ringler
Auditor General
January 31, 2024

FISCAL YEAR 2023
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

Internal control improvements needed to ensure the completeness and accuracy of accounting information.

The Michigan Veterans' Facility Authority (MVFA) should continue to improve its 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 comprehensive 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 overstatement of fiduciary fund additions and deductions by \$876,473. DTMB corrected the misstatements prior to the issuance of MVFA's financial statements.

DTMB informed us its methodology erroneously included petty cash account activity that had already been accounted for.

RECOMMENDATION

We recommend MVFA continue to improve its 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.

Related to part a., DTMB Financial Services, in conjunction with the Michigan Veteran Homes, will assess the feasibility and materiality of implementing a process for tracking Medicare claims and will comply by December 31, 2024. DTMB Financial Services, in conjunction with the Michigan Veteran Homes, and support from Office of Internal Audit Services, are continuing

* See glossary at end of report for definition.

efforts to analyze current processes and identify opportunities for improvement. DTMB Financial Services will continue to collaborate with the Michigan Veteran Homes to enhance processes and procedures related to billings.

FISCAL YEARS 2022 AND 2021
REPORT ON INTERNAL CONTROL,
COMPLIANCE, AND OTHER MATTERS
FOLLOW-UP

Below is the status of the reported findings from the fiscal years 2022 and 2021 Michigan Veterans' Facility Authority report on internal control, compliance, and other matters (511-0101-23 and 511-0101-22, respectively):

Prior Audit Project Number	Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
511-0101-23	1a	Medicare claim tracking.	Repeated*	1a
511-0101-23	1b	Cash management.	Repeated	1b
511-0101-22	1a	Completing cash reconciliations.	Complied	Not applicable

* See glossary at end of report for definition.

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."
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.
Medicare	A federal health insurance program providing health insurance primarily for the aged and disabled.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MVFA	Michigan Veterans' Facility Authority.

repeated

The wording of the current recommendation remains essentially the same as the prior audit recommendation.

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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