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, 2024

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

512-0101-25

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

OAG
Office of the Auditor General

Report Summary

Report on Internal Control, Compliance, and Other Matters

Michigan Veterans' Facility Authority (MVFA)

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

Fiscal Year Ended September 30, 2024

Report Number:
512-0101-25

Released:
June 2025

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 MVFA's financial statements dated April 17, 2025.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
MVFA had not implemented a comprehensive process to track Medicare claim collections against Medicare claims billed (Finding 1).		X	Agrees
MVFA should improve internal control to help ensure the safeguarding of member funds (Finding 2).		X	Agrees

Obtain Audit Reports

Online: audgen.michigan.gov

Phone: (517) 334-8050

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General

This Page Left Intentionally Blank

OAG
Office of the Auditor General
Doug A. Ringler, CPA, CIA
Auditor General
201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

June 19, 2025

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, 2024.

Your agency 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,

Doug Ringler
Auditor General

This Page Left Intentionally Blank

TABLE OF CONTENTS

MICHIGAN VETERANS' FACILITY AUTHORITY

	Page
Report Summary	1
Report Letter	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	8
Fiscal Year 2024 Findings, Recommendations, and Agency Preliminary Responses	
1. Internal control improvements needed to ensure the completeness of Medicare revenue.	12
2. Improvements needed to ensure safeguarding of member funds.	13
Fiscal Year 2023 Report on Internal Control, Compliance, and Other Matters Follow-Up	16
Glossary of Abbreviations and Terms	17

This Page Left Intentionally Blank

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

OAG
Office of the Auditor General
Doug A. Ringler, CPA, CIA
Auditor General
201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

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, 2024 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 17, 2025.

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 certain deficiencies in internal control, as described in Findings 1 and 2, that we consider to be significant deficiencies.

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 Findings
Government Auditing Standards require the auditor to perform limited procedures on the Authority'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.

Doug Ringler
Doug Ringler
Auditor General
April 17, 2025

This Page Left Intentionally Blank

FISCAL YEAR 2024
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

Internal control improvements needed to ensure the completeness of Medicare revenue.

The Michigan Veterans' Facility Authority (MVFA) had not implemented a comprehensive process to track Medicare* claim collections against Medicare claims billed. This limits MVFA's ability to match Medicare revenue against total claims billed to ensure all revenue is appropriately received.

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 have commented on this item each year beginning with the fiscal year 2022 audit. The Department of Technology, Management, and Budget (DTMB), which performs accounting services for MVFA, agreed with our prior recommendations and implemented additional tracking of some Medicare claims. However, DTMB informed us existing system limitations continue to prevent the comprehensive tracking of Medicare collections against claims billed.

RECOMMENDATION

We recommend MVFA implement a comprehensive process to track Medicare claim collections against Medicare claims billed.

AGENCY PRELIMINARY RESPONSE

DTMB Financial Services provided us with the following response:

DTMB Financial Services agrees with the recommendation and, in conjunction with the Michigan Veteran Homes (MVH), will expand upon changes implemented in fiscal year 2024 to further assess the feasibility and materiality of implementing a more comprehensive process for tracking Medicare claims collected against Medicare claims billed. DTMB notes that Medicare revenue represented only 1.3% of MVH's $94 million in annual collections in fiscal year 2024.

* *See glossary at end of report for definition.*

FINDING 2

Improvements needed to ensure safeguarding of member funds.

MVFA should improve internal control* to help ensure the safeguarding of member funds.

MVH is responsible for the overall operations of the State's three veteran homes. MVH policy 3.2.001 states it is responsible for handling and safeguarding members' personal funds entrusted to it.

Our review of access* and security* controls over the Resident Fund Management Services (RFMS) system used by MVFA to individually account for member funds, along with examination of member fund withdrawals during fiscal year 2024, noted:

a. MVFA had not implemented sufficient IT controls over RFMS, such as periodic recertification of user accounts and monitoring of privileged user activity as required by State of Michigan Technical Standard 1340.00.020.01.

   Implementing these controls would help ensure appropriate access to member accounts, strengthening MVFA's ability to prevent and detect unauthorized activities, such as inappropriate withdrawals and payments.

   MVH informed us because of the small number of RFMS users, it had not implemented these controls.

b. For 6 (10%) of 63 member account withdrawals examined, MVFA did not document all required authorizations.

   MVH policy 3.2.001 requires withdrawals from member trust fund accounts to be authorized in writing by either the member or member's representative. If a member does not sign, two witnesses must sign verifying the withdrawal requested by the member. Further, the staff member dispersing the funds cannot be a witness.

   DTMB acknowledged noncompliance with the documentation requirements and asserted to us members or their representatives were aware of the withdrawals.

RECOMMENDATION

We recommend MVFA improve internal control to help ensure the safeguarding of member funds.

AGENCY PRELIMINARY RESPONSE

DTMB Financial Services and MVH provided us with the following response:

DTMB Financial Services and MVH agree with the recommendation.

** See glossary at end of report for definition.*

Related to part a., DTMB Financial Services, in conjunction with MVH, have implemented a process to review privileged user activity and to recertify user accounts.

Related to part b., DTMB Financial Services re-educated staff on the policy, proper authorization, and proper supporting documentation. As additional oversight, a process to review authorizations periodically was also implemented. DTMB Financial Services, in consultation with MVH, reviewed the 6 instances examined and, while the documentation was inadequate, determined there was no evidence found that any withdrawals or expenses were inappropriate.

FISCAL YEAR 2023
REPORT ON INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS FOLLOW-UP

Below is the status of the reported finding from the fiscal year 2023 Michigan Veterans' Facility Authority report on internal control, compliance, and other matters (512-0101-24):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1a	Medicare claim tracking.	Repeated*	1
1b	Cash management.	Complied	Not applicable

** See glossary at end of report for definition.*

GLOSSARY OF ABBREVIATIONS AND TERMS

access controls	Controls protecting data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
deficiency in internal control over financial reporting	The design or operation of a control not allowing 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 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 encompassing 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.
IT	information technology.
material misstatement	A misstatement in the financial statements causing 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 a reasonable possibility exists 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 primarily providing health insurance for the aged and disabled.

modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MVFA	Michigan Veterans' Facility Authority.
MVH	Michigan Veteran Homes.
repeated	The wording of the current recommendation remains essentially the same as the prior audit recommendation.
RFMS	Resident Fund Management Services.
security	Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control 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 the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

This Page Left Intentionally Blank

This Page Left Intentionally Blank

This Page Left Intentionally Blank

Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud

Hotline: (517) 334-8070