

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, 2025

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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 (SBO)*

### *Fiscal Year Ended September 30, 2025*

**Report Number:**  
171-0010-26

**Released:**  
May 2026

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 April 3, 2026.

<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), in conjunction with SBO, did not record a liability and adjust revenue for corporate income tax (CIT) credit forward amounts. We estimated the unrecorded liability balance at \$716.5 million and issued modified opinions as to whether the financial statements of the General Fund and governmental activities opinion units were fairly presented within the SOMACFR ( <a href="#">Finding 1</a> ).	X		Disagrees
Treasury should continue to enhance its internal control to help prevent, or detect and correct, misstatements and help ensure the reasonableness and accuracy of tax accruals ( <a href="#">Finding 2</a> ).		X	Agrees
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 3</a> ).		X	Agrees
The Michigan Department of Health and Human Services (MDHHS) did not sufficiently limit access to confidential information in Statewide Integrated Governmental Management Applications (SIGMA) to only appropriate users ( <a href="#">Finding 4</a> ).		X	Agrees
The Michigan Department of Transportation (MDOT) did not have sufficient internal control in place to monitor the accuracy of the State's capital assets recorded in the SOMACFR ( <a href="#">Finding 5</a> ).		X	Agrees

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

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

May 29, 2026

Jennifer L. Flood, State Budget Director  
State Budget Office  
George W. Romney Building  
Lansing, Michigan

Director Flood:

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, 2025.

Certain findings included in this report specifically relate to other State agencies. Although the Office of Financial Management, State Budget Office (SBO), may not be directly responsible for these functions, we have addressed these findings to you, as appropriate, 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 State provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* require an audited agency to develop a plan to comply with the recommendations and submit it to SBO upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will 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 dark ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler  
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

Jennifer L. Flood, 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, 2025 and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated April 3, 2026. Our report expressed qualified opinions on the governmental activities and the General Fund, a major fund, because the State did not report a liability related to corporate income tax credit forward amounts. Credit forward balances identified from the most recently finalized annual corporate income tax returns totaled approximately \$1.0 billion, of which we estimated \$716.5 million represents a liability the State did not record for the fiscal year ended September 30, 2025.

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
- Michigan Veterans' Facility Authority
- 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 5 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*.

### **State'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, as appropriate, 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 State'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  
Auditor General  
April 3, 2026



FISCAL YEAR 2025  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## FINDING 1

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### Liabilities for CIT overpayments not recorded.

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The Department of Treasury (Treasury), in conjunction with the State Budget Office (SBO), did not establish an estimation methodology to record a liability and adjust revenue for corporate income tax (CIT) credit forward amounts. We estimated the unrecorded liability balance at \$716.5 million for the fiscal year ended September 30, 2025 and issued modified opinions as to whether the financial statements of the General Fund and governmental activities opinion units were fairly presented within the *State of Michigan Annual Comprehensive Financial Report (SOMACFR)*. Treasury acknowledges a liability exists, yet contends the liability cannot be reasonably estimated.

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. GASB Codification Section N50.127 requires governments to recognize revenue in the period when the underlying exchange transaction occurs and the resources are available. When the taxpayer files their annual tax return, it ensures both criteria are met. GASB Codification Section N50.108 requires recognition of derived tax revenue transactions in the financial statements unless the transactions are not measurable (reasonably estimable). Treasury now has 13 years of CIT information to evaluate taxpayer trends since its inception in 2012.

Tax overpayments are the result of taxpayers' estimated payments exceeding their tax obligation for a given time period (tax year). The total amount of taxes owed is evidenced through the filing of an annual tax return. Treasury records estimated CIT payments as revenue during the fiscal year in which the State receives these payments. Although Treasury informs taxpayers their estimated payments should approximate their tax obligation, in the absence of an annual tax return, the actual tax owed by the taxpayers is unknown to Treasury because the amounts are not reported with submission of estimated payments. Taxpayers filing an annual return showing an overpayment of their tax obligation can choose to receive the overpayment as a refund or advance the amount as a credit forward against potential future tax obligations. Section 205.30(2) of the *Michigan Compiled Laws* states if a tax return reflects an overpayment or credits 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; however, it does not record a liability or reduce the revenue for credit forward amounts.

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\* See glossary at end of report for definition.

CIT credit forward balances over the past four years, identified from the most recent annual tax returns finalized by Treasury, were as follows (in millions):

Measurement Date	Balance	Increase From Prior Year
November 30, 2025	\$1,017.4	\$ 57.6
November 30, 2024	\$ 959.7	\$ 69.9
November 30, 2023	\$ 889.8	\$ 137.4
November 30, 2022	\$ 752.4	-

The balances presented above include credit forward amounts related to the retaliatory tax applicable to insurance companies. The Office of Financial Management (OFM) separated these amounts from CIT in the Note 24 disclosure for the first time in the fiscal year 2025 *SOMACFR*.

We first commented on this issue during the fiscal year 2022 *SOMACFR* audit. At the time, Treasury and OFM, within SBO, agreed a more comprehensive evaluation of the credit forwards should occur to determine if related estimated liabilities are reasonably measurable. We re-emphasized our concern during the fiscal year 2023 *SOMACFR* audit, recommending Treasury complete an extensive analysis of the 11 years of CIT data it possessed at the time to either support its assertion a liability is not measurable or establish a liability estimation methodology. In its response to the 2023 audit, Treasury disagreed with our conclusion for a variety of reasons and made no commitment to further assess taxpayer trends to assess whether a liability is reasonably estimable.

During fiscal year 2024, we calculated a preliminary estimated liability based on the credit forward use trends of all 26,000 taxpayers with a credit forward balance as of November 30, 2024. We concluded existing data provides Treasury the ability to establish a reasonable estimation methodology. We shared our analysis, along with estimation methodologies used by several other states, with Treasury in fiscal year 2024; however, it continued to assert a reasonable estimate was not possible, including:

- A taxpayer's past behavior is not a valid indicator of their future behavior.

However, this assertion conflicts with existing estimation methodologies used by Treasury to record various other tax receivables and tax liabilities at fiscal year-end. With 12 years of taxpayer data, it appeared a reasonable estimate of overpayments was within Treasury's reach.

- Even if a taxpayer has the same credit forward balance for two consecutive tax years, it does not mean none of it was earned by the State.

Treasury views estimated payments and credit forwards as a rolling balance across tax periods. However, over half the taxpayers with credit forward balances in our estimated liability had balances in all five years we evaluated. If after two, three, or more consecutive tax years the amount overpaid by a taxpayer, and essentially held on deposit by the State, remains the same or increases across tax periods, it provides further evidence the amount was not earned by the State and represents a liability.

For the fiscal year 2025 *SOMACFR* audit, we obtained updated data from Treasury and recalculated the estimated liability using the six most recent years of credit forward balances (when applicable) for the approximately 27,000 taxpayers comprising the \$1.0 billion CIT credit forward balance as of November 30, 2025. Using an averaging methodology and projecting no growth in the existing balances, we determined a point estimate of \$716.5 million of CIT receipts accumulated by the State, and recorded as revenue in the General Fund over the years, represents advanced payments by taxpayers the State has not earned. A portion of the balance is represented by 9,200 taxpayers with consecutive credit forward balances on their 6 most recently finalized annual returns and having last-known overpayment (credit forward) balances totaling \$517.9 million. Yet Treasury contends no predictable pattern exists and therefore the unearned revenue portion is inherently not measurable.

We also performed a one year look back (estimate to actual) comparison using the CIT credit forward data sets from November 30, 2024 and November 30, 2025. The comparison included analysis of whether a subsequent tax year annual return had been processed by Treasury during the past year. Approximately 15,000 taxpayers met this parameter and their associated credit forward balance changed by less than \$4 million, only dropping from \$682.0 million to \$678.4 million. Looking back to the preliminary liability we estimated for these taxpayers during the prior year, in comparison with the actual overpayment on the subsequent tax return, further confirmed to us a significant liability amount was reasonably measurable.

As part of the fiscal year 2025 year-end closing process, Treasury performed analysis on the approximately 1,000 taxpayers with the largest credit forward balances comprising 75% of the total CIT credit forward balance as of November 30, 2025. While Treasury concluded fluctuations in the balances, annual return filing lags, and various other factors cause any estimate of the liability related to the credit forward balance to be inherently not measurable, we disagreed and believe Treasury has still not sufficiently and comprehensively supported its position.

Over the past 12 years, total credit forwards have grown from its initial balance of \$365 million in 2013 to \$1.0 billion in 2025. These balances grew in proportion to CIT revenues, indicating the

credit forwards consistently exist from year to year and represent an unrecorded liability. This results in overstated revenues, but it also understates the State's liability to taxpayers, which could have a significant impact on future years' recorded revenue and the General Fund fund balance should taxpayers begin to use accumulated credit forwards rather than making estimated payments. Further, the State has already appropriated, assigned, or committed a significant portion of the unearned CIT overpayments, considering General Fund unassigned fund balance as of September 30, 2025 was under \$250 million.

We consider this finding to be a material weakness\* because of the significant dollar amounts involved, the continued increase in the aggregate CIT credit forward balance year-over-year, and the potential impact on our future opinions as to whether the State's financial statements are materially accurate.

**RECOMMENDATION**

We recommend Treasury, in conjunction with SBO, establish an estimation methodology and record a liability related to unearned CIT revenues.

**AGENCY  
PRELIMINARY  
RESPONSE**

The response OFM provided indicates Treasury, in conjunction with SBO, disagrees with the finding. The response and our auditor's comments to agency preliminary response\* are presented on page 22.

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\* See glossary at end of report for definition.

## FINDING 2

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

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Treasury should continue to enhance its 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.

Our review of tax accruals for fiscal year 2025 disclosed:

- a. Treasury did not accurately include various tax amounts in its estimated accrual basis receivable calculation resulting in a \$116.5 million understatement of receivables and deferred inflows of resources in the General Fund, an \$18.4 million overstatement of receivables and deferred inflows of resources in the School Aid Fund, a \$22.3 million overstatement of receivables and deferred inflows of resources in the aggregate remaining funds, and a \$75.7 million understatement of revenues, receivables, and net position in the governmental activities of the government-wide financial statements. Treasury informed us the underlying reports used to create the estimate were not appropriately updated in the current year to account for changes in various taxes. Treasury corrected this item prior to the *SOMACFR*'s issuance.
- b. Treasury did not record a Telephone Tax receivable, resulting in a \$5.0 million understatement of revenues, receivables, and fund balance in the General Fund. Treasury informed us its procedure did not properly account for assessments billed during the fiscal year but paid by a taxpayer in October or November. Treasury corrected this item prior to the *SOMACFR*'s issuance.
- c. Treasury had not implemented its methodology to estimate the City of Detroit income tax receivable (on the accrual basis), resulting in an unknown misstatement amount in the City Income Tax Trust Fund. Treasury policy generally requires five years of tax data to complete a reasonable estimation of the receivable. Treasury has collected City of Detroit income tax revenue for 10 years; however, it did not maintain sufficient data for the various types of payments collected in prior years which impairs its ability to develop an appropriate estimate.
- d. Treasury should continue to improve its process to compare and properly evaluate the flow-through entity (FTE) tax payable estimate with subsequent activity.

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\* See glossary at end of report for definition.

Doing so would allow Treasury to determine if significant differences exist between the estimates and actual amounts requiring adjustments to the accrual methodology.

The State of Michigan Financial Management Guide (Part II, Chapter 1, Section 300) requires departments to validate accrual methodologies by comparing the estimated accrual with current year actual amounts and determine if a change to the methodology is needed.

Treasury cited system limitations as contributing to the deficiencies noted in its evaluation of the FTE payable estimate.

- e. Treasury had not developed a process to reconcile the individual income tax (IIT) legacy system and the Statewide Integrated Governmental Management Applications (SIGMA). Processes utilizing data from the IIT legacy system to determine the year-end accruals, including the estimated accrual basis receivable, may not be fully accurate and the General Fund and School Aid Fund balances in the *SOMACFR* may be misstated. Treasury informed us it did not complete a reconciliation because the IIT legacy system used through fiscal year 2025 does not contain the necessary general ledger information.

**RECOMMENDATION**

We recommend Treasury continue to enhance its 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 3

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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. Also, the U.S. Government Accountability Office's Federal Information System Controls Audit Manual states interface controls should be established and implemented to reasonably ensure data transferred from a source system to a receiving system is processed completely and accurately. Interfaced data should be reconciled, and reports used in the reconciliation should provide adequate information to reconcile each transaction processed.

We noted:

a. Treasury:

- (1) Accrued a Michigan Economic Growth Authority (MEGA) credit which had already been claimed by the awardee during fiscal year 2025, resulting in a \$120.7 million overstatement of expenses and payables in the governmental activities of the government-wide financial statements. Treasury informed us it did not associate the MEGA credit with the awardee because the awardee had an updated federal employer identification number.
- (2) Did not properly record revenue received from a component unit, resulting in a \$32.4 million understatement of revenue in the General Fund and an overstatement of revenue in the Escheats Fund, a custodial fund. Section 125.2263 of the *Michigan Compiled Laws* required Treasury to deposit the revenue in the General Fund; however, Treasury mistakenly identified the revenue as escheated property and deposited it in the Escheats Fund.

Treasury corrected these items prior to the *SOMACFR*'s issuance.

- b. The Department of Labor and Economic Opportunity (LEO) did not:
- (1) Ensure all grant requirements were met before issuing a \$65 million grant payment. LEO issued the grant payment prior to receiving the final design and engineering report which was needed to support the expenditures had been incurred prior to issuing reimbursement to the grantee. The final report was received after the grant payment but prior to the end of the fiscal year.
  - (2) Properly record year-end transactions in the General Fund for the Homeowners Assistance Fund (HAF) and the Emergency Rental Assistance Program (ERA) resulting in a combined \$57.6 million understatement of expenditures and revenues, a \$4.5 million understatement of receivables, a \$0.3 million understatement of payables for HAF, and a \$5.8 million and \$1.7 million overstatement of advances and unearned revenues, respectively, for ERA. LEO stated it lacked adequate and consistent reconciliation processes to identify these types of issues.
  - (3) Ensure expenditures were incurred prior to federal revenue draws, resulting in a \$2.1 million overstatement of federal revenue and understatement of unearned revenue in the General Fund. LEO stated receivable transactions booked late in the closing process caused the issue.

LEO corrected these items prior to the *SOMACFR*'s issuance.

- c. The Michigan Department of Health and Human Services (MDHHS) did not:
- (1) Record an accrual for the disproportionate share of hospital payment settlements, resulting in a \$47.8 million understatement of expenditures and payables and a \$33.6 million understatement of revenues and receivables in the General Fund. MDHHS attributed the unrecorded payable to a lack of communication between its divisions.
  - (2) Properly calculate the Medicaid inpatient hospital accrual, resulting in a \$1.0 million understatement of expenditures and payables and a \$0.7 million understatement of revenue and receivables in the General Fund. MDHHS attributed the error to a keying mistake.

MDHHS corrected these items prior to the *SOMACFR*'s issuance.

- d. OFM did not properly adjust a structured settlement payable, resulting in a \$23.9 million overstatement of revenues, \$8.8 million overstatement of expenses, and an \$8.8 million and \$6.3 million understatement of current and non-current liabilities, respectively, in the governmental activities of the government-wide financial statements. OFM mistakenly reduced the payable by removing interest, which accrued prior to the federal disallowance and is to be treated as outstanding principal per an agreement with the federal government. OFM corrected this item prior to the *SOMACFR*'s issuance.
- e. The Department of Environment, Great Lakes, and Energy (EGLE) and the Michigan Department of Agriculture and Rural Development (MDARD) did not consistently reconcile the data exchanged between their information systems and the Michigan Cashiering and Receivable System (MiCARS), and ultimately SIGMA, to help ensure the data was processed completely and accurately. EGLE informed us it implemented its reconciliation process in August 2025. MDARD informed us it stopped its reconciliation process in April 2025 to develop a more efficient process; however, MDARD did not implement it before the end of the fiscal year. EGLE and MDARD interfaced \$21.6 million and \$7.0 million, respectively, in revenue from their systems into MiCARS in fiscal year 2025.
- f. The Michigan Department of Education (MDE) did not complete all reconciliations between their grant management system and SIGMA. Specifically:
  - (1) MDE did not perform a daily payment reconciliation for 4 (50%) of 8 randomly selected transactions. MDE informed us it experienced system limitations and technical issues with completing the reconciliations and failed to complete the reconciliations after the issues were resolved.
  - (2) MDE did not implement a reconciliation process for manual entries. MDE informed us it had planned to implement quarterly reconciliations for manual entries during the fourth quarter of 2025 but had not completed one at the time of our review.

MDE interfaced \$2.4 billion in payments from its grant management system to SIGMA in fiscal year 2025. The lack of reconciliation processes increases the risk that all transactions are not processed completely and accurately.

Although not all the deficiencies noted above resulted in significant misstatements to the financial statements, the potential for a material misstatement\* exists in subsequent years if the underlying internal control is not enhanced.

**RECOMMENDATION**

We recommend State agencies establish sufficient internal control to help ensure the accuracy of accounting information recorded in the *SOMACFR*.

**AGENCY  
PRELIMINARY  
RESPONSE**

OFM provided us with the following response:

*State agencies and OFM agree that internal control should be improved to help ensure the accuracy of the accounting information recorded in the SOMACFR.*

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\* See glossary at end of report for definition.

## **FINDING 4**

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

MDHHS 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, and disclosure and to ensure the confidentiality 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 MDHHS attached a report containing certain confidential information to a transaction within SIGMA. We identified 1,601 Statewide SIGMA users with access to view this information.

MDHHS informed us including the attachment in SIGMA was an oversight. MDHHS considers this an isolated incident and removed the information from SIGMA once it was brought to their attention.

## **RECOMMENDATION**

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

## **AGENCY PRELIMINARY RESPONSE**

OFM provided us with the following response:

*MDHHS and OFM agree that access to confidential information in SIGMA should be limited to appropriate users.*

## FINDING 5

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

---

The Michigan Department of Transportation (MDOT) did not have sufficient internal control in place to monitor the accuracy of the State's capital assets recorded in the *SOMACFR*.

OFM's year-end capital asset reporting memorandum instructs State agencies to confirm asset balances and classifications are accurately reflected as of the end of the fiscal year.

We noted MDOT did not:

- a. Properly record construction in progress (CIP) for one road project, resulting in a \$42.0 million understatement of expenses and revenue in the governmental activities of the government-wide financial statements.

MDOT informed us the road project was incorrectly recorded as a donated asset when the project began in 2020. When updating the accounting records during fiscal year 2025, MDOT did not make the appropriate adjustments to correct the misclassification.

- b. Ensure CIP amounts were timely reclassified to infrastructure assets for two road projects, resulting in a \$9.0 million understatement of infrastructure assets and overstatement of CIP. The road projects, completed in 2019 and 2023, should have been reclassified prior to their respective year-ends.

MDOT informed us some road projects require manual review to identify project completion, which can take a few years after program activity has ended.

MDOT, in conjunction with OFM, corrected these items prior to the *SOMACFR*'s issuance.

## RECOMMENDATION

We recommend MDOT establish sufficient internal control to monitor the accuracy of the State's capital assets recorded in the *SOMACFR*.

## AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

*MDOT and OFM agree that internal control should be improved to monitor the accuracy of the State's capital assets recorded in the SOMACFR.*

# AGENCY PRELIMINARY RESPONSE

STATE OF MICHIGAN ANNUAL COMPREHENSIVE FINANCIAL REPORT  
Report on Internal Control, Compliance, and Other Matters  
Fiscal Year Ended September 30, 2025  
State Budget Office

## Finding 1 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains Treasury and SBO's preliminary response to Finding 1 and our auditor's comments providing further clarification and context where necessary.

### Finding 1: Liabilities for CIT overpayments not recorded.

OFM provided us with the following response:

#### AGENCY PRELIMINARY RESPONSE

*Treasury, in conjunction with SBO, disagrees with the audit finding. Treasury performed two analyses in fiscal year (FY) 2025 on the CIT credit carryforwards that support our conclusion that the liability is not reasonably estimated. Treasury, in conjunction with SBO, also disagrees with the OAG's assertion that Treasury has not sufficiently and comprehensively supported its position.*

*Treasury's current accounting methodology for credit carryforwards has been in place since the inception of the individual income tax and other business taxes. Treasury's approach is the same as more than half of the states reviewed by Treasury and the OAG. Treasury's carryforward methodology was explicitly explained and included in its audit methodology over 15 years ago. The OAG reviewed and approved that methodology then and annually after that before changing its opinion four years ago.*

#### AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

The OAG devoted significant resources to analyzing this matter over the past four years and attempting to persuade Treasury to develop a liability estimation methodology. Unfortunately, Treasury and SBO's continued position that no estimated amount of unearned revenue related to the CIT credit forward balance is reasonably estimable offers no pragmatic approach moving forward. It commits to no further actions to analyze existing data or taxpayer trends and sets itself on a course of modified audit opinions into the future. Treasury's analyses and response do not provide persuasive information to warrant changes to our Finding; therefore, the Finding and recommendation stand as written.

The OAG's view as to the proper accounting treatment has not changed and remains consistent with Treasury policy authored in 2013 that "...the proper accounting would be to defer current year revenue received and credited forward." Although the OAG audited Treasury's methodology in prior years, this was under the premise that Treasury did not possess sufficient data to estimate a credit forward liability. Treasury now has 13 years of CIT history to reflect upon. The corresponding taxpayer behaviors and trends that can be derived through analysis and evaluation of this data impacts our view on the measurability. Also, the continued growth of the credit forward balance to \$1.0 billion as of November 2025 increases the significance of the matter. Further, the liability recognition in other states lends support to our recommendation.

In addition, it appears Treasury rests on its laurels of an initial determination made 13 years ago that the CIT credit forward balance is not measurable. The response is concerning because it appears to reflect a position that no amount of current information and no amount of unearned revenue will cause SBO and Treasury to revisit a decision

made in 2013, even at the cost of a modified audit opinion. After all, their response commits to doing no more assessment of the issue. Auditing standards do not afford us this approach, as we are required to annually assess whether the financial statements are potentially, materially misstated, including an evaluation of the associated accounting estimates included within the financial statements, or lack thereof. It would stand to reason that Treasury too would annually consider the appropriateness of its treatment of CIT credit forwards; however, it had not until we raised the issue and, as noted in the Finding, it still has not comprehensively supported its position in the four years that have now passed. Further, Treasury contracted with an accounting firm a couple years ago to perform interviews with experts and review practices by other states. The firm's summary reinforced the importance of sufficient support for Treasury's position and ongoing evaluation by recommending it perform a detailed analysis of tax credit carry-forwards over time to determine whether an estimate for the portion of the tax credit carry-forward that represents unearned revenue at year-end is measurable.

*While the OAG has changed its position and decided that attempting to estimate an unearned amount and booking a payable would be preferable to the current ACFR disclosure, that does not mean Treasury's approach is not compliant with GAAP. The OAG states "GASB Codification N50.108 requires recognition of derived tax revenue transactions in the financial statements unless the transactions are not measurable (reasonably estimable)." Treasury has provided evidence to the OAG that the liability related to the carryforward balance is not reasonably estimable. GASB Codification N50.108 also states that when the transactions are not measurable then disclosure is required. The full amounts of the carryforward balances are disclosed in the footnotes of the ACFR.*

*Given the immeasurability, Treasury's approach is to fully disclose credit forwards in the ACFR. This complies with GASB Codification N50.108 and is more useful to the financial statement user than booking a payable that could be inaccurate by hundreds of millions of dollars.*

As noted in our previous auditor's comments, the OAG's view as to the proper accounting treatment has not changed.

Also, accounting principles dictate the information needed for users of the State's financial statements to make informed judgments. Under these standards, solely disclosing the CIT credit forward balance in the notes would only be appropriate if the balance was not measurable. The Finding notes our detailed analysis of taxpayer behavior and credit forward usage concludes existing data provides SBO and Treasury the ability to establish a reasonable estimation methodology.

In addition, the disclosure is not necessarily more useful to all financial statement users. The lack of a recorded payable overstates fund balance and provides those parties charged with governance an inflated impression of amounts available for State spending, especially should taxpayers begin to use accumulated credit forwards rather than making estimated payments.

*Treasury further notes that the OAG's arguments hinge on a misunderstanding of the criteria needed to earn revenue. For example, the OAG states:*

*GASB Codification Section N50.127 requires governments to recognize revenue in the period when the underlying exchange transaction occurs and the resources are available. When a taxpayer files their annual return, it ensures both criteria are met.*

*While an annual return ensures both criteria are met, both criteria can be met without the filing of an annual return. What is needed, as noted in the GASB statement quoted by the OAG, is for the underlying exchange transaction to have occurred. The OAG does not directly say that the filing of an annual return is needed prior to revenue recognition, but it strongly suggests an annual return is vital for revenue recognition determination. For example, the OAG states:*

Treasury's response appears to infer the mere receipt of estimated payments from taxpayers is the underlying exchange transaction. However, the existence of business income and the associated tax obligation, information unknown to Treasury without receiving the corresponding annual return, represents the actual underlying exchange transaction. Our position is monies received with estimated payments should be recognized by the State without an annual return, assuming an appropriate liability is also recognized. Our position is supported by State law that provides a request to carry forward overpayments constitutes a claim for refund (i.e., as the taxpayer's funds, not the State's). As noted in the Finding, with continuing increases to the aggregate CIT credit forward balance, topping \$1.0 billion as reflected on taxpayers' most recent annual tax returns processed by Treasury as of November 30, 2025, and over half of that amount attributed to 9,200 taxpayers with consecutive credit forward balances on their 6 most recently finalized annual returns, SBO and Treasury

The total amount of taxes owed is evidenced through the filing of an annual tax return.

And

Although Treasury informs taxpayers their estimated payments should approximate their tax obligation, in the absence of an annual return, the actual tax owed by the taxpayer is unknown to Treasury because the amount is not reported with the submission of estimated payments.

Treasury continues to assert that credit carryforwards are indistinguishable from estimated payments. Instead, the OAG has indicated it believes that credit carryforwards should be treated like refunds. For example, the OAG states:

The State records a liability for refunds requested on tax returns; however, it does not record a liability or reduce the revenue for credit forward amounts.

The state does not record a liability because the refund was constructively issued and – at the taxpayer's request – applied to the subsequent tax year. That is, the taxpayer directed Treasury to treat the amount as an estimated payment, as permitted by Michigan Compiled Laws, Section 205.30(2): "If a tax return reflects an overpayment or credits in excess of the tax, the declaration of that fact on the return constitutes a claim for refund. If [Treasury] agrees the claim is valid, the ... excess, if any, shall be refunded to the taxpayer or credited, at the taxpayer's request, against any current or subsequent tax liability." At the point the taxpayer requests a carryforward, it should be presumed earned as estimated payments since the taxpayer has indicated they wish to apply the overpayment to their tax liability. While it is possible that some portion is not earned, the same can be said for all estimated payments. If the OAG believes that estimated payments are not earned until an annual return is filed, it should state that plainly.

The OAG contends that their one-year look back (estimate to actual) comparison supports their assertion that the liability amount is reasonably measurable. Treasury disagrees with this assertion for two reasons. First, the OAG did not complete an estimate to actual comparison of FY 2024 as nearly 60% of the November 30, 2025 credit carryforward balance for the approximately 15,000 taxpayers, is for tax years 2023 and prior, not tax year 2024. Therefore, for most of the balance, the actual FY 2024 credit carryforward was unknown and a comparison to the OAG's FY 2024 estimated liability isn't possible. Second, the difference between the OAG's calculated FY 2024 preliminary liability to the known credit carryforward as of November 30, 2025 is \$314.7 million or 47%. This large of a difference does not support that the liability is reasonable measurable, and in fact it supports Treasury's current practice of disclosure.

need to develop an estimation methodology and record a substantial liability to reflect the unearned CIT receipts.

This response paragraph now changes SBO and Treasury's position from the liability not being reasonably estimable to a liability not existing. If the refund was "...constructively issued and – at the taxpayer's request – applied to the subsequent tax year...", this by definition represents a liability because the excess payment will be applied to a future tax year.

By making an estimated payment, the taxpayer is not sacrificing those funds to the State to record as revenue. If the estimated payments ultimately result in an overpayment, the State owes the monies back to the taxpayer. As noted in the Finding, our detailed analysis of taxpayer trends and credit forward usage supports that many taxpayers maintain a credit forward balance in consecutive years, further supporting the revenue has not been earned by the State. As noted in our previous auditor's comments, in the absence of an annual return, Treasury should conduct a more thorough evaluation of the payments received to determine the amount earned. Further, we strongly believe 13 years of data is a sufficient basis to analyze taxpayer behavior to determine the portion of estimated payments not yet earned in the absence of a filed annual return.

Treasury's response indicating credit forward amounts should be presumed earned, is fiscally irresponsible based on the size of the balance as of November 30, 2025 (over \$1.0 billion), that the balance continues to increase, growing from \$365 million in 2013, and the historical usage trends afforded to Treasury having 13 years of individual CIT taxpayer data to analyze.

As mentioned in the Finding, "actual" represents the actual overpayment amount on the taxpayers' subsequent annual tax return finalized by Treasury. Comparison to our estimated liability as of November 30, 2024 for these 15,000 taxpayers indicated our estimate was too conservative (too low), and certainly not zero. Also, as noted in the Finding, Treasury's response fails to acknowledge our estimation methodology is inherently conservative as it does not project growth of the taxpayer's credit forward balance and relies on information already submitted by the taxpayer.

It appears the results of our estimate to actual comparison are lost on Treasury. The \$314.7 million amount cited by Treasury is the difference between the actual outstanding CIT credit forward balance from the most recent annual returns finalized by Treasury as of November 30, 2025 and

our estimated liability one year earlier. We are not advocating for the total CIT credit forward balance being unearned revenue. Also, we acknowledge a return filing lag exists and is precisely why an estimation methodology is necessary. Further, the subsequently finalized annual return represents the most current and best information known to Treasury, regardless of the tax year associated with the return.

*As previously mentioned, Treasury completed two analyses in FY 2025 that support our conclusion that the liability is not reasonably estimated. The OAG cites one of these when it states Treasury performed analysis on approximately 1,000 taxpayers. Prior to that analysis, as agreed to by the Auditor General and Treasurer, Treasury analyzed 100 taxpayers with the largest CIT credit forward balances comprising about 35% of the credit forward balance at that time. Treasury demonstrated through these analyses that the liability is inherently not measurable for many reasons, and we disagree with the OAG's position that we did not sufficiently and comprehensively support our position.*

Unfortunately, Treasury's analyses were skewed toward not recording any liability amount, and its response fails to acknowledge the shortcomings we identified in its results. In short, Treasury relied on its evaluation of six factors, considered in isolation without consideration of other relevant information, for which it appeared only willing to focus on one side of the results, leaving the conclusions reached not fully supported or persuasive. For example, Treasury cited 79% of taxpayers having at least one decrease to their credit forward balance as a reason for the balance being immeasurable. However, Treasury did not consider that 92% of those same taxpayers during the same period also experienced an increase to their credit forward balance. Also, Treasury did not give any credence to the OAG's averaging methodology which smooths fluctuations in the balance and demonstrates an overall trend of an increasing credit forward balance amongst the taxpayers. Further, as noted in the Finding, 9,200 taxpayers, having last known overpayment (credit forward) balances comprising \$518 million of the \$1.0 billion balance as of November 30, 2025, had credit forward balances on their six most recently finalized, consecutive annual returns. While segments of the overall CIT credit forward balance may not be reasonable to estimate, a significant portion of the balance demonstrates observable patterns and historical trends of credit forward usage strongly supporting a liability is estimable and should be recorded. However, Treasury and SBO appear deadlocked in an all-or-nothing view on recording an estimated CIT credit forward liability despite the fact the balance continues to grow and surpassed \$1.0 billion as of the most recently finalized annual tax returns as of November 30, 2025. In our conversations with them, SBO commented the OAG estimate "...could be off \$100 million." Although we do not believe that to be the case, even if it were true, the financial statements would still be materially accurate, and following SBO and Treasury's current approach, the statements are not materially accurate. SBO and Treasury could adopt facets of the OAG estimation methodology they most agree with, then analyze the results into the future to make necessary adjustments.

*The OAG states that Treasury now has 13 years of CIT information to evaluate taxpayer trends; however, multiple years of data does not change the underlying reasons for immeasurability. Treasury continues to disagree with the OAG's assertion that the liability is measurable.*

Unfortunately, it appears the OAG, Treasury, and SBO are at an impasse as it relates to whether an estimated liability is measurable. Unless Treasury and SBO reconsider their stance on the matter moving forward or provide documentable, persuasive information to the contrary, the OAG will likely continue to modify its opinion as to whether the financial statements of the General Fund and governmental activities opinion units are fairly presented within the *State of Michigan Annual Comprehensive Financial Report*.

[Go Back to Finding 1](#)

[Go to Finding 2](#)

## PRIOR AUDIT FOLLOW-UP

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Following is the status of the reported findings from the fiscal year 2024 *State of Michigan Annual Comprehensive Financial Report's* report on internal control, compliance, and other matters (171-0010-25):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Treasury - Tax Credit Forwards	Repeated*	1
2	SBO - Vendor Fraud Controls	Complied	Not applicable
3a - 3c	Treasury - Various Tax Accrual Items	Complied	Not applicable
3d	Treasury - City Income Tax Receivable	Rewritten*	2c
3e	Treasury IIT Legacy System Reconciliation	Repeated	2e
3f	Treasury - ATR/RTBA Receivables	Complied	Not applicable
3g	Treasury - Evaluation of Tax Accrual Estimates	Rewritten	2d
3h	Treasury - IIT Receivable	Complied	Not applicable
4a - 4b(2)	Various Agencies - Financial Accounting Practices	Complied	Not applicable
4b(3)	MDHHS - Medicaid Inpatient Hospital Accrual	Repeated	3c(2)
4c	MSP - FEMA Payable/Receivable	Complied	Not applicable
4d	EGLE/MDARD - MiCARS Internal Control	Repeated	3e
4e	MDOT - System Reconciliations	Complied	Not applicable
4f(1)	OFM - Interest Expense	Rewritten	3d
4f(2) - 4g(1)	OFM/DTMB - Financial Accounting Practices	Complied	Not applicable
4g(2)	LEO - Cash Advance	Rewritten	3b(2)
4h	Treasury - Canceled Refund Accounting	Complied	Not applicable

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\* See glossary at end of report for definition.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>auditor's comments to agency preliminary response</b>	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.
<b>CIP</b>	construction in progress.
<b>CIT</b>	corporate income tax.
<b><i>Codification of Governmental Accounting and Financial Reporting Standards (Codification)</i></b>	An integration of currently effective accounting and reporting standards for state and local governments.
<b>deficiency in internal control over financial reporting</b>	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.
<b>DTMB</b>	Department of Technology, Management, and Budget.
<b>EGLE</b>	Department of Environment, Great Lakes, and Energy.
<b>ERA</b>	Emergency Rental Assistance Program.
<b>financial audit</b>	An audit designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
<b>FTE</b>	flow-through entity.
<b>generally accepted accounting principles (GAAP)</b>	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."

<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>HAF</b>	Homeowners Assistance Fund.
<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>LEO</b>	Department of Labor and Economic Opportunity.
<b>material misstatement</b>	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.
<b>material weakness in internal control over financial reporting</b>	A deficiency, or a combination of deficiencies, in internal control such that a reasonable possibility exists 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>MDOT</b>	Michigan Department of Transportation.
<b>MEGA</b>	Michigan Economic Growth Authority.
<b>MiCARS</b>	Michigan Cashiering and Receivable System.

<b>modified opinion</b>	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
<b>OFM</b>	Office of Financial Management.
<b>qualified opinion</b>	A type of modified opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
<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 warranting the prior audit recommendation to be revised for the circumstances.
<b>SBO</b>	State Budget Office.
<b>significant deficiency in internal control over financial reporting</b>	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.
<b>SOMACFR</b>	<i>State of Michigan Annual Comprehensive Financial Report.</i>
<b>Statewide Integrated Governmental Management Applications (SIGMA)</b>	The State's enterprise resource planning business process and software implementation suite supporting budgeting, accounting, purchasing, human resource management, and other financial management activities.
<b>Treasury</b>	Department of Treasury.











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