STATE OF MICHIGAN

GRETCHEN WHITMER
GOVERNOR

STATE BUDGET OFFICE
LANSING

JENNIFER L. FLOOD
DIRECTOR

July 8, 2026

MEMORANDUM

TO: Jessica Thomas, Internal Auditor
Office of Internal Audit Services
State Budget Office

FROM: Heather Boyd, Director HB
Office of Financial Management
State Budget Office

SUBJECT: Corrective Action Plan for the FY 2025 Report on Internal Control, Compliance, and other Matters for the State of Michigan Annual Comprehensive Financial Report

---

In accordance with the State of Michigan's Financial Management Guide, Part VII, Chapter 3, Section 100, enclosed is a summary table identifying our responses and corrective action plan to address the recommendations contained within the Office of the Auditor General's Report on Internal Control, Compliance, and other Matters for the State of Michigan Annual Comprehensive Financial Report, covering the period of October 1, 2024 through September 30, 2025. The Office of Internal Audit Services, State Budget Office, approved the distribution of the plan.

Enclosures

cc: Executive Office
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency

AUDIT REPORT SUMMARY

DEPARTMENT: Office of Financial Management, State Budget Office
AUDIT PERIOD: October 1, 2024 through September 30, 2025
REPORT DATED: April 3, 2026

Summary of Agency Responses to Recommendations

Recommendations - complied with:

- Finding 2 part e.
- Finding 3 parts c.1., c.2., e., f.1., and f.2.
- Finding 4
- Finding 5 parts a. and b.

Recommendations - agree with and will comply:

- Finding 2 parts a., b., c., and d.
- Finding 3 parts a.1., a.2., b.1., b.2., b.3., and d.

Recommendation - disagree with:

- Finding 1

Office of Financial Management, State Budget Office
Audit Response
Report on Internal Control, Compliance, and Other Matters
State of Michigan Annual Comprehensive Financial Report
October 1, 2024 through September 30, 2025

Finding 1
Liabilities for corporate income tax overpayments not recorded.

Recommendation
We recommend the Department of Treasury (Treasury), in conjunction with the State Budget Office (SBO), establish an estimation methodology and record a liability related to unearned corporate income tax revenues.

Management Views
Treasury, in conjunction with SBO, disagrees with the finding. For additional details regarding the disagreement, please see the Finding 1 Agency Preliminary Response in the fiscal year 2025 Report on Internal Control, Compliance, and Other Matters for the State of Michigan Annual Comprehensive Financial Report (SOMACFR).

Planned Corrective Action
Treasury, in conjunction with SBO, disagrees with the finding and does not intend to take further action.

Anticipated Completion Date
Not applicable

Finding 2
Establishing and monitoring of tax receivables and payables.

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.

Management Views
Treasury and the Office of Financial Management (OFM) agree that internal control related to tax accruals should continue to be improved.

Planned Corrective Action
For part a., Treasury utilizes a Statewide Integrated Governmental Management Applications (SIGMA) report to auto populate revenues within the GASB 34 report, which is the underlying report used to calculate tax accruals. The SIGMA report had not been updated to identify the correct account coding for certain tax revenues. Treasury has updated the procedures to ensure the SIGMA report is updated before it is used in future GASB 34 reports. In addition, the tax accruals were updated incorrectly due to new SIGMA coding and human error. The GASB 34 workbook has been updated to include this new SIGMA coding, and Treasury will be exploring new reporting from the Tax Accrual System to help reconcile these amounts in the future. Treasury will also create review checklists to ensure review procedures identify potential future errors and to make corrections prior to sending the report to OFM.

For part b., Treasury will update procedures related to the billed taxes receivable accrual. The procedure updates will include an explanation that payments received during October and November should not be removed and explain how the business area documents these payments within the billed taxes accrual spreadsheet.

For part c., Treasury completed a system enhancement in April 2025 to restructure the data necessary to develop an appropriate estimate. Now that that system has been enhanced, Treasury needs to accumulate five years of data to formulate an appropriate estimate.

For part d., Treasury's Individual Income Tax (IIT) legacy system did not have the ability to report details related to flow-through entity (FTE) refunds. The system was replaced in November of 2025. Treasury's Accounting Services Division is building the FTE reporting capabilities within the new system and has submitted an enhancement request to analyze FTE payments by tax year to evaluate the accuracy of the prior year estimated accrual. This report enhancement is anticipated to be completed in the summer of 2026.

For part e., Treasury's IIT legacy system did not have the capability to be reconciled to SIGMA as the legacy system did not have a general ledger module. Treasury replaced this legacy system with the Michigan Modernized Integrated Tax System (MiMITS) on November 12, 2025. Treasury's Accounting Services Division started reconciling MiMITS and SIGMA on November 17, 2025.

Anticipated Completion Date
a. July 31, 2026
b. June 30, 2026
c. December 9, 2030
d. July 31, 2026
e. Completed

Finding 3
Various departments' financial accounting practices.

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

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

Planned Corrective Action
For part a.1., Treasury's Accounting Services Division will add an event to Treasury's internal year-end close schedule to perform a review of Michigan Economic Growth Authority information received from the business area for this year-end activity. This review will include a count of businesses for accuracy as well as a comparison of the prior year's calculations. This review will occur prior to forwarding the information to OFM.

For part a.2., Treasury will update procedures related to identifying incoming wire payments to ensure they are posted to the correct funds. The department will update procedures to include reaching out to internal Treasury staff to determine if the account coding has been provided for incoming wire payments and performing other research pertaining to identifying the correct coding. In addition, Treasury management will implement a post review process to sample records and verify staff follow procedures and post payments to correct account coding.

For part b.1., while the Department of Labor and Economic Opportunity (LEO) considers this an isolated incident caused by a misinterpretation of reports that had been received, LEO will reinforce the existing multi-layered review process between the LEO Finance Division and the LEO Grants Division by incorporating a specific validation check for technical report milestones. This enhancement, along with continued adherence to established signing authority levels, will ensure grant payment transactions strictly meet all agreement prerequisites prior to processing.

For part b.2., LEO will develop and execute procedures for a semi-annual reconciliation process for remaining and future advances with the Michigan State Housing Development Authority.

For part b.3, LEO will develop or enhance documented procedures for all federal grant reporting requirements. The procedures will include a process for reconciling federal revenue draws to expenditures.

For part c.1., the Michigan Department of Health and Human Services (MDHHS) has developed and implemented standardized checklists designed to ensure the timely collection of all program information necessary for accurate annual accrual calculations. These checklists are intended to identify programmatic changes that may affect accrual estimates, document program-level justification for year-over-year variances, and reduce the risk of errors or omissions by establishing a consistent and comprehensive information-gathering process. The checklists will be incorporated into the fiscal year 2026 accrual cycle and were distributed to program areas during May 2026, accompanied by detailed instructions outlining required completion and submission procedures.

For part c.2., MDHHS has strengthened its internal accrual calculation procedures to reduce the risk of manual errors and ensure the accurate reporting of Medicaid inpatient hospital expenditures and related receivables. The accrual is generated from a query, and the error occurred because data that should have been excluded from the query results was inadvertently included due to a keying error, which led to an incorrect calculation. A new step has been incorporated into the accrual process to specifically exclude data that is not relevant to the accrual calculation and ensure irrelevant or inappropriate data is not included in the query output. Supervisory review of detailed calculations is already part of the existing control structure and will continue as part of the strengthened process.

For part d., OFM will update its procedures to include additional factors that must be considered when calculating principal and interest related to structured settlement agreements.

For part e., the Department of Environment, Great Lakes, and Energy (EGLE) and the Michigan Department of Agriculture and Rural Development (MDARD) have implemented reconciliation processes between their information systems and the Michigan Cashiering and Receivable System (MiCaRS). Specifically, MDARD has implemented a monthly reconciliation process to verify that customer details, account coding, and invoice amounts in MiCaRS match the source data from the Licensing Portal System. MDARD completed this reconciliation for each month during fiscal year 2026. For EGLE, the corrective action was implemented during the fourth quarter of fiscal year 2025.

For part f.1., Michigan Department of Education's (MDE) payment post processor sends an email to management after the payment jobs are run in MDE's grant management system, the

Next Generation Grant, Application and Cash Management System (NexSys). MDE started attaching the Business Intelligence Detail Breakdown Payment Report, SIGMA Interface Feedback Report, and the NexSys Cash Payments Report (reconciliation) to these emails. MDE's accounting manager is included in these emails and when this is received, the accounting manager reviews the reports and initials the NexSys Cash Payments Report indicating that the reconciliation was completed and saved in the reconciliation files.

For part f.2., MDE created a SIGMA Business Intelligence report to pull manual entries in SIGMA that affect grants paid through NexSys. MDE has implemented procedures to verify the activity that was not originally generated in NexSys is recorded in NexSys on a quarterly basis. Items on the report for grants that are paid through Nexsys are researched to determine if they need to be recorded in the NexSys system. Documentation supporting each item is saved in the files to show that each item is recorded in both SIGMA and NexSys. Not all SIGMA transactions need to be entered into NexSys and that is noted on the reconciliation.

Anticipated Completion Date
a.1. August 31, 2026
a.2. July 15, 2026
b.1. June 30, 2026
b.2. September 30, 2026
b.3. September 30, 2026
c.1. Completed
c.2. Completed
d. July 31, 2026
e. Completed
f.1. Completed
f.2. Completed

Finding 4
Access limits needed for confidential information in SIGMA.

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

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

Planned Corrective Action
The MDHHS Bureau of Revenue Collections will store and maintain all transaction support documentation within role-based, program-specific Content Manager folders. Content Manager is a system separate from SIGMA that is used for document retention. This will ensure that access to confidential information is appropriately restricted based on user roles and program responsibilities.

Anticipated Completion Date
Completed

Finding 5
Financial accounting practices related to capital assets.

Recommendation
We recommend the Michigan Department of Transportation (MDOT) establish sufficient internal control to monitor the accuracy of the State's capital assets recorded in the SOMACFR.

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

Planned Corrective Action
For part a., MDOT has added clarifying language to its internal capital asset reporting procedures specifying the proper use of acquisition types and what to do if the scenario repeats itself.

For part b., MDOT implemented an additional report that calculates days since last activity to assist with timely reclassification efforts. MDOT will review the report at year-end to identify programs with inactivity to determine if the asset is complete, and internal capital asset reporting procedures were updated to outline use of the report.

Anticipated Completion Date
a. Completed
b. Completed