



STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

June 22, 2007

Mr. Michael Moody, Director
DMB Office of Financial Management
Romney Building - Seventh Floor
111 South Capitol
Lansing, Michigan 48933

RE: Performance Audit of Biennial Internal Control Evaluation Process, Department of
Community Health

Dear Mr. Moody:

In accordance with the Department of Management and Budget's Administrative Manual,
Section 1280.02, enclosed is the Department's final response for the above referenced audit.

Please contact me at 373-1508 if you have any questions.

Sincerely,

Signature Redacted

Pam Myers, Manager
Special Audits, Review and Compliance Section
Office of Audit

PM:kk

Enclosure

cc: Office of the Auditor General	House Appropriations Committee
House Fiscal Agency	House Standing Committee
Senate Fiscal Agency	Senate Appropriations Committee
Executive Office	Senate Standing Committee
DCH, Janet Olszewski	DCH, Ed Dore
DMB, Bob Emerson, State Budget Director	DCH, Nick Lyon

PERFORMANCE AUDIT OF
BIENNIAL INTERNAL CONTROL EVALUATION PROCESS

DEPARTMENT OF COMMUNITY HEALTH

October 1, 2002 through September 30, 2004

AUDIT RESPONSE

Approved: Signature Redacted
Janet Olszewski, Director
Department of Community Health

Date: May 24, 2007



AUDIT REPORT SUMMARY

DEPARTMENT: Community Health
AUDIT PERIOD: October 1, 2002 through September 30, 2004
REPORT DATED: March 2007

DISPOSITION OF AUDIT RECOMMENDATIONS

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS NOT COMPLIED WITH</u>
	1.*	
	2.*	
	3.*	
	4.*	
5.		

* Citation will be complied with during the next biennial internal control evaluation cycle.

Audit Response
Biennial Internal Control Evaluation Process
Department of Community Health
October 1, 2002 through September 30, 2004

Recommendation 1: Oversight of ICE Activities

We recommend that DCH improve its efforts to oversee ICE activities to help ensure that all critical ICE activities are completed within established time frames.

We also recommend that DCH complete all detailed internal control assessments to help ensure that the DCH biennial ICE report is completed in accordance with State law.

Response:

DCH will require the assessable units to complete the detailed ICE worksheets developed by OFM. The worksheets have been designed to focus on critical functions and require the assessable units to include an overall conclusion concerning the adequacy of the controls, to identify material weaknesses found through audits, to include a plan of correction to address identified weaknesses, and to require a signature of attestation from a responsible official. The employee survey, used to evaluate soft controls, was distributed and completed using the intranet during November and December 2006. The evaluation worksheets will be forwarded to the Office of Audit as completed with the expectation that all will be forwarded by March 1, 2007.

- DCH has utilized the evaluation worksheets developed by OFM for the BICE process. Added to the worksheet are requests for reporting of material weaknesses found through external audits, the existence of written policies and procedures, and a statement regarding compliance or non-compliance with laws or regulations. The worksheets also require an overall conclusion on the control system strengths and weaknesses and certification signatures by activity level management and the bureau director.
- The worksheets were forwarded to the Office of Audit for initial review; once reviewed worksheets were sent back to the ICO with comments, for possible corrections and improvements. This initial review by Audit shows that the individuals responsible for completion of these evaluations are still not fully clear on how to properly complete these evaluations; however, there was improvement from the 2004 evaluation. The worksheets are still being submitted to the Office of Audit as of May 15, 2007.
- Instead of using a risk based approach for selecting assessable units, the ICO required all 34 bureaus within the department to complete the evaluation worksheets. It is DCH's intent to perform a risk assessment for the 2008 BICE.
- Timelines were established for the completion of the 2006 BICE, however, the timelines have not been met. For example, the completed BICE was to be submitted to the Office of Audit for review by March 1, 2007. The final BICE report has not yet been submitted as of May 15, 2007.

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Recommendation 2: Computer Application Assessments

We recommend that DCH complete the department-wide application control assessments for its computer applications.

We also recommend that DCH establish a formal methodology to determine which of its critical computer applications should be subject to specific application control assessments.

Response:

For the next evaluation period, DCH will complete the department-wide application control assessments for its critical applications, using the IT risk assessment work sheets developed by OFM. DCH has now compiled a complete listing of its computer applications and expects to complete evaluations for 34 systems. The evaluations will include assessments of the 4 critical applications identified in this audit that were not included in the previous evaluation.

- DCH, in conjunction with DIT, completed a department-wide risk assessment of IT applications using the OFM developed work sheets and through this have identified approximately 140 IT applications used throughout the department. DCH and DIT now jointly share responsibility for maintaining the DCH application database.
- Using this risk assessment and obtaining input from DCH management, applications identified in this audit report, input from DIT staff, and a statewide report of critical applications from the Office of Enterprise Services (that identified six critical DCH applications) DCH selected 34 applications for inclusion in the current BICE.
- DCH utilized the revamped evaluation worksheets prepared by OFM in the 2006 BICE. Training was provided, in February 2007, to appropriate staff, on the preparation of these worksheets. The BICE report has not been completed as of May 15, 2007.

Recommendation 3: Training

We recommend that DCH provide sufficient training and communicate clear expectations to its assessable units' management staff to help prepare them for their role in the biennial ICE process.

Response:

Mandatory training sessions have been completed for the 2006 assessment period. All participants were given a manual that included the general framework for performing evaluations, developed by OFM and based upon the COSO model. The sessions were more detailed, covered the entire manual, and placed particular emphasis on DCH's expectations of the assessable units' management.

- DCH provided program assessment training to participants in September and October 2006. Training was provided to IT assessment participants in February 2007.

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- Two training manuals (program and IT) were provided for participants and included evaluation worksheets, instructions, background on the BICE process, etc.
- As previously indicated, based upon review of the evaluation worksheets, the training was not sufficient to ensure that the individuals completing the assessments had a clear understanding of the various required reporting components.

Recommendation 4: Internal Control Assessments

We recommend that DCH improve its biennial ICE process to help ensure that DCH assessable units sufficiently evaluate and document their internal control.

Response:

To improve the evaluation process for the next assessment period, DCH scheduled and conducted more extensive training sessions during which expectations for each assessable unit's management was clearly emphasized. The completed work sheets will be carefully reviewed by the ICO and incomplete or improperly completed work sheets will be returned for further analysis. DCH does not expect the current assessment to address in detail every conceivable activity conducted throughout DCH.

- DCH provided training to each assessable units' management concerning the completion of the evaluation worksheets. This training was provided for units selected for program assessment and for the IT applications selected for assessment.
- In the training the attendees were verbally instructed to report material weaknesses identified during this review process and through audits completed by external entities. The worksheets and written materials provided only instructed that material weaknesses identified by external audits be included.
- The ICO forwarded the completed worksheets to Internal Audit for review. Problems were communicated to the ICO and the worksheets were returned for correction as needed. DCH Internal Audit has concluded as a result of this review that the training provided has still not made it clear to all responsible individuals how to appropriately complete the worksheets.
- The ICO completed similar reviews of the worksheets using teams of 4 individuals to review and evaluate the responses.
- The BICE has not been completed as of May 15, 2007.

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Recommendation 5: Office of Audit's Evaluation of ICE Activities

We recommend that the Office of Audit improve its efforts to evaluate DCH's ICE activities.

Response:

The Office of Audit will develop and utilize an audit program as part of its assessment for the next reporting cycle. The final report issued by the internal auditor to the director will include a conclusion as warranted based on the results of the Office of Audit's assessment.

- The Office of Audit developed and utilized an audit program to guide its assessment of the BICE reporting process. The program utilized employed the framework provided by OFM.
- The work performed during this review was clearly documented in the working papers.
- The final report issued by the internal auditor included a conclusion regarding the results of the assessment and followed the framework provided by the OFM. Due to delays in the completion of the BICE report by the ICO the internal auditor report could not include conclusions on the representations made by the ICO. The BICE has not been completed as of May 15, 2007.