



STATE OF MICHIGAN
DEPARTMENT OF MILITARY & VETERANS AFFAIRS
LANSING

RICK SNYDER
GOVERNOR

MG GREGORY J. VADNAIS
THE ADJUTANT GENERAL AND DIRECTOR

November 5, 2012

Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's Single Audit Report (#511-0100-12) of the Department of Military and Veterans Affairs for the period October 1, 2009 through September 30, 2011.

Questions regarding the summary table or corrective action plans should be directed to me.

Sincerely,

Signature Redacted

Alfred E. Christian
Chief Financial Officer

Enclosure

cc: Executive Office
Office of Auditor General
House Fiscal Agency
Senate Fiscal Agency
House Appropriations Sub-Committee Military and Veterans Affairs
Senate Appropriations Sub-Committee State Police and Military Affairs

Department of Military and Veterans Affairs
Summary of Agency Responses to Recommendations
Report Number 511-0100-12
Audit Period October 1, 2009 – September 30, 2011

1. Audit recommendations the agency complied with:

Finding #5111202 – Capital Asset Reporting

- In June 2012, as a part of completing the FY12 Midyear Capital Assets and Lease Reporting Packages, the Department properly reported to Office of Financial Management (OFM) the disposal of capital asset that were on the State's records, but were no longer owned by the State.

Finding #5111203 – Revenue Classifications

- The Department has developed and implemented procedures to properly classify private medical insurance (PMI) revenues utilizing comptroller object 1555 "1st and 3rd Party Reimbursement-Services". We are preparing journal vouchers as necessary and have added PMI revenue verification to our year-end checklist.

Finding #5111206 – Military Construction, National Guard, CFDA 12.400

- The Construction and Facilities Management Office (CFMO) has put internal controls in place to ensure State Operations receives the project inspection report, 593R form, in a timely manner, so that if an extension is needed, it can then be requested. CFMO will continue with their hands on meetings with USPFMO to ensure obligations are all accounted for in accordance with the regulation. State Operations has implemented internal controls to ensure timely delivery to NGB full and final accountings for completed projects. State Operations inquires when payment requests for military construction projects are made as to the status of the military construction project so that if an extension letter is need, it can be requested in a timely manner.

Finding #5111208 – National Guard Challenge Program

- Eligibility – In July 2012 new procedures were initiated to ensure compliance with all ChalleNGe Program requirements. Records for each applicant/student will reflect their status in all areas and these records will be safeguarded to prevent loss/damage. An internal audit of program files was conducted on August 21, 2012 and all the previous eligibility issues have been corrected.
- Matching, Level of Effort, and Earmarking – Effective January 2012, DMVA no longer applies U.S. Department of Education's Title I grant received from Battle Creek School District to meet state matching requirements.
- Procurement and Suspension and Debarment – The Department has established procedures to check the Excluded Parties List System (EPLS) when entering into a contractual agreement with a vendor, including documenting a print-screen of the EPLS confirmation of vendor standing and placing it in the contract file.
- Reporting – In August 2011 a new staff member was hired to assist with the preparation of federal billings. After one year of training, we believe adding this staff member has begun to have an impact on minimizing the time elapsing between the transfer of federal funds and the disbursement of funds by the State.

2. Audit recommendations the agency agrees with and will comply:

Finding #5111201 – Schedule of Federal Awards (SEFA)

- The Department has taken steps to ensure that all federal awards are properly identified and accounted for on the SEFA and has established procedures to ensure that the Department prepares its SEFA in accordance with OMB Circular A-133 and State financial management policies. We believe reasonable internal controls have been implemented. We are committed to further strengthening our internal controls. Beginning with the FY12 SEFA preparation, we will have a final review performed by a knowledgeable person independent of the schedule preparer to ensure it is as accurate and complete as possible. The SEFA will be analyzed for exceptions and deviations from the prior year to enhance accuracy and completeness. The SEFA report will be prepared and submitted before February 1, 2013.

Finding #5111202 – Capital Asset Reporting

- The Department will complete a Capital Assets and Lease Reporting Package to record the estimated value of the three armories built in the 1910s, 1920s and 1950s and the one parcel of armory land, that are currently not on the State's capital asset records. The number reportable has been reduced to three because three armories were sold during FY12. An updated report will be submitted to OFM, Accounting and Financial Reporting Division by December 31, 2012.

Finding #5111204 – Cash Management

- Concerning finding a(1) and a(2), the Department is working with the Federal Program Manager and USPFO to obtain all the funds from the federal government that are due the State of Michigan. The Department will send a quarterly report listing all unreimbursed expenditures and request the Federal Program Manager provides us with a status update. As for future cash management, we have developed a process for requesting funds in a timely manner for O&M projects and Minor Construction Projects. For vendor payments of \$50,000 or more, we receive the Federal Program manager's certification signature on the request for reimbursement the same day the payment is released in ADPICS. The signed request is delivered to USPFO for processing within 2 business days.
- Concerning finding 2b, during the audit period only one person was responsible for submitting reimbursement requests. In August 2011 a new staff member was hired to assist with the preparation of federal billings. After one year of training, we believe adding this staff member has begun to have an impact on minimizing the time elapsing between the transfer of federal funds and the disbursement of funds by the State. However, in October 2011 The U.S. Department Defense-National Guard Bureau changed their financial system from Standard Financial System (STAFINS) to General Fund Enterprise Business System (GFEBS). GFEBS is a commercial-off-the-shelf financial management system. The implementation of this new financial system significantly delayed reimbursements during the first six months of fiscal year 2012. As a result, we anticipate full compliance with the audit finding will occur during fiscal year 2013. The Department has engaged communication, cooperation and coordination with federal program managers and the USPFO throughout FY12 addressing reimbursement issues related to GFEBS implementation.

Finding #5111205 – Procurement

- Please see corrective action plans in Findings 5111207 and 5111208

Finding #5111207 National Guard Military Operations and Maintenance (O&M) Projects and ARRA – National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401

- Activities Allowed or Unallowed – Appendix 28 is now a Special Military Cooperative Agreement effective October 1, 2011. No further action is required.
- Allowable Costs/Costs Principles – Our corrective action is twofold, number one; Human Resources Office staff has contacted the Timekeepers requesting all the original timesheets that are more than one year old be sent to the Human Resources Office in Lansing. As the timesheets are received, those documents are being sent to the Records Center in accordance with State records retention policies and procedures. And two; the Human Resources Office will be assigning DCDS access to every employee and supervisor in the Department so that he/she can enter his/her own time and supervisors can approve in DCDS. In the work areas where individual time entry is possible (e.g. computer access), we will be insisting that this be the process with the ultimate goal being that eventually everyone enters his/her own time. Individual time entry for all employees will be much easier for this Department once DCDS is transitioned to a web-based application in 2014.
- Concerning Item b. (2) where the employee's activities were not directly chargeable to the O & M Program, an approved Centralized Personnel Plan (CPP) is in place effective October 1, 2011. This cost allocation plan will ensure that payroll costs are charged to the appropriate federal programs.
- Davis-Bacon – The ARRA program has concluded. When legislation exists concerning Davis Bacon, we will ensure that the aforementioned language is included in DMVA contracts.
- Procurement and Suspension and Debarment – The ARRA program has concluded. DMVA will ensure Buy American language is included in construction contracts when required.

3. Audit recommendations the agency disagrees with:

Finding #5111208 – National Guard Challenge Program

- Procurement and Suspension and Debarment re: STARBASE Academy - We agree that DMVA did not obtain state Administrative Board approval and did not competitively bid the procurement. We have a long standing relationship with STARBASE Inc. A grant agreement was developed by DMVA Judge Advocate General between the Department and STARBASE, Inc, in 1997 and that model continues to be used today. This program has been audited annually by a private audit firm, Office of the Auditor General (Single Audits) and USPFO-Internal Review. None of these audits have questioned the validity of the grant agreement. Because STARBASE Inc., a non-profit organization, initiated this innovative program, created the objectives by which the program would be analyzed and deem successful, was qualified and competent, we have not sought to competitively bid this grant.