



Michigan
Office of the Auditor General
REPORT SUMMARY

*Report on Internal Control, Compliance,
 and Other Matters*
*State of Michigan Comprehensive Annual
 Financial Report*
State Budget Office
*Department of Technology, Management,
 and Budget*
Fiscal Year Ended September 30, 2012

Report Number:
 071-0010-13

Released:
 June 2013

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. This report is being issued in conjunction with our financial audit of the State of Michigan Comprehensive Annual Financial Report (SOMCAFR).

Financial Statements:

Auditor's Report Issued

We have audited the SOMCAFR principally as of and for the fiscal year ended September 30, 2012 and have issued a separate report thereon dated February 28, 2013. We issued unqualified opinions on 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.

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of

expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies that we consider to be material weaknesses; however, we did identify significant deficiencies (Findings 1 through 5). A significant deficiency is a deficiency, or 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.

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Tax Accruals

The Office of Financial Management (OFM), within the Department of Technology, Management, and Budget (DTMB), in conjunction with other State departments should improve internal control to prevent, or detect and correct, misstatements and ensure the reasonableness of the tax accruals. The Department of Treasury's estimated accrual methodologies were used to record payables of \$720.8 million and receivables of \$2.9 billion for fiscal year 2011-12 (Finding 1).

Medicaid Accrual

The Department of Community Health (DCH) and OFM should continue to improve their internal control to prevent, or detect and correct, misstatements and ensure the reasonableness of the Medicaid accrual. In our audit of the accrual, we noted that there was an increased awareness of the need to strengthen internal control over the Medicaid accrual. The accrual components were prepared timely, and DCH was very receptive to our requests for information and has improved its tracking of estimated accrual with actual results. DCH's estimated accrual methodologies were used to record accrued payables of \$891.2 million and receivables of \$339.9 million for fiscal year 2011-12 (Finding 2).

Capital Assets

DTMB did not have sufficient internal control in place to ensure that computer software acquisition and development costs incurred by State agencies were properly identified and reported to OFM (Finding 3).

Medicaid Physician Adjuster Payments

DCH did not have sufficient internal control in place to ensure that amounts already paid to medical providers through the standard Medicaid reimbursement process were properly aggregated for purposes of calculating Physician Adjuster Program payments (Finding 4).

MDOT Contractor Payments

The Michigan Department of Transportation (MDOT), in conjunction with OFM, did not have sufficient internal control in place to evaluate the dates of service when processing contractor payments and liquidating prior year accounts payable estimates (Finding 5).

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Agency Response:

This report includes 5 findings and 5 corresponding recommendations. OFM indicated that it generally agrees with the recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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