

EXECUTIVE DIGEST

OFFICE OF FINANCIAL MANAGEMENT

INTRODUCTION

This report contains the results of our performance audit* of the Office of Financial Management (OFM), Department of Management and Budget (DMB).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

DMB was created by the Executive Organization Act (Act 380, P.A. 1965). Sections 18.1101 - 18.1594 of the *Michigan Compiled Laws* define DMB's responsibilities.

OFM is located within DMB and is charged with maintaining a central accounting system and a Statewide internal control structure* . OFM has broad supervisory powers over all accounting and financial reporting activities within State agencies. OFM is divided into three divisions (the Financial Control Division; Financial Operations Division; and the Technical, Audit, and Business Services Division).

The Financial Control Division is responsible for developing and approving State accounting procedures and policies, publishing the *State of Michigan*

Comprehensive Annual Financial Report (SOMCAFR), and providing accounting and financial reporting guidance to State agencies.

The Financial Operations Division is responsible for maintaining security over the Michigan Administrative Information Network* (MAIN), i.e., the State's financial management system; maintaining MAIN's central vendor/payee file*; and administering the State's employee payroll system.

The Technical, Audit, and Business Services Division is responsible for developing a biennial Statewide internal audit plan; planning, monitoring, and conducting internal audit engagements at State agencies; monitoring and evaluating the Statewide internal control structure; and following up agencies' responses to the audit reports of the Office of the Auditor General.

OFM had 39 employees as of September 6, 1997. OFM's expenditures for fiscal year 1996-97 were approximately \$3.33 million.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness of OFM's oversight of the State's accounting and financial reporting processes.

Conclusion: We concluded that OFM was generally effective in its oversight of the State's accounting and financial reporting processes. However, we noted reportable conditions* related to OFM's accounting and financial reporting services provided to State agencies

(Finding 1), controls over appropriation and operating transfers (Finding 2), and OFM's reporting on the State's compliance with constitutional requirements (Finding 3).

Noteworthy Accomplishments: OFM made significant progress during fiscal years 1995-96 and 1996-97 in the development of more effective and efficient year-end closing procedures and processes under MAIN. OFM issued the fiscal year 1995-96 *SOMCAFR* over two weeks prior to its statutory due date and over a month earlier than the previous year. Finally, the results of a survey we conducted of 30 State agencies' chief accountants indicated that users are generally satisfied with OFM's overall performance in providing accounting and financial reporting guidance and that OFM's performance had improved significantly during the last two years.

Audit Objective: To assess the effectiveness of OFM's administration of MAIN security and MAIN's central vendor/payee file.

Conclusion: We concluded that OFM was generally effective in its administration of MAIN security and MAIN's central vendor/payee file. However, we noted reportable conditions related to MAIN access controls (Finding 4), user security profiles* (Findings 5 and 6), selected user classes* (Findings 7 through 9), controls over payments to inactive vendors (Finding 10), and controls over vendor/payee file registrations (Finding 11).

Noteworthy Accomplishments: In October 1996, OFM developed and implemented security policies and procedures for the Data Collection and Distribution

System, a component of MAIN used to process employee time and attendance information and to perform labor distribution. In addition, OFM successfully implemented new automated processes for reporting taxable payments made to State vendors/payees and for performing backup withholding. Finally, the results of a survey we conducted of 30 State agencies' chief accountants indicated that users are generally satisfied with OFM's overall performance in maintaining MAIN security.

Audit Objective: To assess the effectiveness of OFM's oversight of the Statewide internal control structure and the completion of internal audits.

Conclusion: Departmental budget reductions prior to our audit significantly restricted OFM's ability to maintain staffing levels sufficient to carry out its responsibilities for oversight of the Statewide internal control structure and the completion of internal audits. However, with the restoration of regular funding in fiscal year 1996-97 and the creation of the TABS Division, OFM made significant progress toward re-establishing its role of providing oversight for the Statewide internal control structure and the completion of internal audits. We will make an assessment of OFM's effectiveness in carrying out its responsibilities in a future audit.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Office of Financial Management. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit excluded the Personnel-Payroll Information System for Michigan, i.e., the State's employee payroll system, which we audit separately.

Our audit procedures were applied primarily to OFM's operations during the period October 1, 1995 through August 31, 1997.

To accomplish our objectives, we discussed the goals and objectives of OFM's three divisions with OFM personnel. Also, we examined various program records and interviewed OFM personnel. We surveyed key financial management personnel within State agencies to determine agency satisfaction with OFM's performance in providing accounting and financial reporting services and maintaining MAIN security. We reviewed and tested OFM's procedures and controls over its significant operating activities. In addition, we followed up applicable recommendations from our prior audit of OFM, our 1994-95 *SOMCAFR* management letter, and our 1996 financial related audit of MAIN.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes 11 findings and 12 corresponding recommendations. OFM's preliminary response indicated that it agreed with all of the recommendations and that it has complied or will comply with them.

OFM has complied with 23 of the 29 prior audit recommendations included within the scope of our current audit. Five prior audit recommendations are repeated in this audit report, and 1 was combined with another recommendation in this report.