



OAG

Office of the Auditor General

201 N. Washington Square, 6th Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, C.P.A., C.I.A.
Auditor General

Testimony to House Oversight Committee September 9, 2014

1. Introductions

- Doug Ringler, Auditor General. Certified public accountant (CPA), certified internal auditor (CIA) – appointed June 9, 2014.
- Laura Hirst, Deputy Auditor General. CPA. Appointed August 3, 2014.

2. Brief Overview of Services

- Financial Audits – issue an opinion on whether the financial statements present a fair depiction of the entity's financial position. Also, a report regarding the internal control over financial reporting. State's Comprehensive Annual Financial Report - 27 consecutive years of unqualified/unmodified opinions.
- State-wide Single Audit – assess the State's compliance with federal regulations related to major federal programs. FY13 Report – 29 unmodified, 7 qualified, 2 adverse (Temporary Assistance for Needy Families, Child Care Development Fund).
- Performance Audits – typically relate to assessing the effectiveness and/or efficiency of the audited entity.
- Follow up Projects – assess the agency's progress toward compliance with previously issued findings. Typically focus on material weaknesses – the most significant type of finding. 35 material weaknesses issued in performance audits to-date in FY14.
- Legislative Requests – ad-hoc requests for special projects.

3. Communication Improvements

- Monthly summary to reflect prior month's activity – See Exhibit 1.
- Inventory of all ongoing projects on website's Work in Process link.
- Developing a mechanism to share a 6-month audit plan with Legislature and departments.
- Joining fiscal agencies during new member orientation.
- Increased presence with Legislative committees.
- Open invitation to meet individually with Legislators regarding areas of interest.

4. Report Improvements

- Summary table of findings inside report cover – See Exhibit 2.
- Bullets that describe considerations leading to our conclusions – includes both positive and negative comments.
- Preliminary Survey Summary – provides a quasi-report to indicate that we noted no significant risks and terminated our audit. See Exhibit 3.
- A variety of report format improvements

5. Organizational Improvements

- Re-aligning management and supervisory staff into functional categories instead of departmental assignments – most common practice across the country.
- Maximizing the efficiency of financial and single audits to enhance resources toward performance and follow up projects.
- Streamlining administrative costs to increase field-related resources.
- Transitioning to electronic correspondence whenever possible.

6. Questions



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

DOUG A. RINGLER, C.P.A., C.I.A.
AUDITOR GENERAL

September 4, 2014

Dear Governor Snyder, Senators, and Representatives:

This letter provides information regarding the status of our audit projects that either began or transitioned into new audit phases during August 2014. Please refer to our website's [Work in Progress](#) for a complete listing of ongoing projects. Although you will no longer receive individual letters reporting the start of audits or approved audit objectives, we would be pleased to discuss with you any interests or areas of concern you have with any of our ongoing projects.

Planning Phase – These are new projects. Typical activities include conducting: the audit entrance meeting; a preliminary survey to identify the audited entity's core activities; assessments of risks and corresponding controls to identify potential program or process improvements or deficiencies; interviews with management and staff, development of detailed audit objectives, and many other tasks.

| <u>Department</u> | <u>Audit Title and Type</u> (Performance – per / Financial – fin / Follow-up - fol) | <u>Project Number</u> |
|------------------------------------|----------------------------------------------------------------------------------------|-----------------------|
| Community Health | Medicaid Customer Service – (per) | 391-0731-14 |
| Corrections | Marquette Branch Prison – (per) | 471-0205-14 |
| Corrections | Prisoner Benefit Funds, Prisoner Store Programs, and Prisoner Accounts – (per) | 471-0380-14 |
| Human Services | W.J. Maxey Boys Training School – (per) | 431-0274-14 |
| Licensing and Regulatory Affairs | Unemployment Insurance Agency – Claimant Services – (per) | 641-0318-14 |
| Military and Veterans Affairs | Michigan Youth Challenge Program – (per) | 511-0300-14 |
| Natural Resources | Mineral, Oil, and Gas Management – (per) | 751-0700-14 |
| State Police | Forensic Science Division – (per) | 551-0160-14 |
| Technology, Management, and Budget | State Surplus – (per) | 071-0139-14 |
| Technology, Management, and Budget | Workers Compensation and Long-Term Disability Programs – (per) | 071-0141-14 |

Audits Terminated – For these projects, after completing the planning phase, we concluded that significant risk did not exist to warrant additional use of audit resources. We issued a Preliminary Survey Summary to reflect this conclusion, distributed copies to management and select legislative members, and posted the summaries on our website.

| <u>Department</u> | <u>Audit Title and Type</u> | <u>Project Number</u> |
|------------------------------------------------|-------------------------------------------------------------|-----------------------|
| Natural Resources | Wildlife Division – (per) | 751-0151-14 |
| State Police and Military and Veterans Affairs | Emergency Management and Homeland Security Division – (per) | 551-0125-14 |

Audit Fieldwork – Typical activities include: additional management and staff interviews; detailed testing of financial transactions, case files, information systems, and other documentation which support the entity's operations; status updates with management and staff; and other tasks.

| <u>Department</u> | <u>Audit Title and Type</u> | <u>Project Number</u> |
|------------------------------------|--------------------------------|-----------------------|
| Technology, Management, and Budget | Mobile Device Security – (per) | 071-0555-14 |

Approved Objectives:

1. To assess the effectiveness of DTMB's efforts to establish a governance structure over mobile device security.
2. To assess the effectiveness of DTMB's efforts to design, implement, and enforce the secure configuration of mobile devices.
3. To assess the effectiveness of DTMB's efforts to ensure that only authorized devices access the State's information technology resources.
4. To assess the effectiveness of DTMB's efforts to mitigate unauthorized disclosure of data during reassignment or disposal of mobile devices.

| <u>Department</u> | <u>Audit Title and Type</u> | <u>Project Number</u> |
|-------------------|-------------------------------------------------------------------------------------|-----------------------|
| Community Health | Community Health Automated Medicaid Processing System (CHAMPS) Claims Edits – (per) | 391-0525-14 |

Approved Objectives:

1. To assess the effectiveness of DTMB and DCH's efforts to control access to CHAMPS claims edit rules
2. To assess the effectiveness of DTMB and DCH's efforts to implement change controls over CHAMPS claims edits.
3. To assess the effectiveness of DTMB and DCH's efforts to evaluate and document its use of CHAMPS claims edits.

| Department | Audit Title and Type | Project Number |
|-------------------|-------------------------------------------------------------|-----------------------|
| Treasury | Michigan Strategic Fund – FY 2014 – (fin) | 271-0401-15 |
| Treasury | Michigan Economic Development Corporation – FY 2014 – (fin) | 271-0406-15 |
| Treasury | Michigan Finance Authority – FY 2014 – (fin) | 271-0340-15 |

Approved Objectives:

1. To express an opinion on whether the entity's financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. To issue a report on internal control over financial reporting and on compliance and other matters in accordance with generally accepted government auditing standards.

| Department | Audit Title and Type | Project Number |
|-----------------------------------|----------------------------------|-----------------------|
| Technology, Management and Budget | Statewide Single Audit – FY 2014 | 000-0100-15 |

Approved Objectives:

1. To issue a report on compliance for each major program, internal control over compliance, and the schedule of expenditures of federal awards as required by OMB Circular A-133.

Please note that some projects, particularly financial audits and follow-up reports, operate from pre-established audit objectives and, therefore, move directly to the audit fieldwork stage.

Report Preparation – Typical activities include: preparing the draft audit report, discussion of draft findings with the audited entity, receipt of the entity's preliminary responses to findings, and other tasks.

| Department | Audit Title and Type | Project Number | Estimated Audit Release Date |
|-------------------|--------------------------------------------------------------------------------------------|-----------------------|-------------------------------------|
| Community Health | Hawthorn Center, Bureau of Hospitals, Centers, and Forensic Mental Health Services – (per) | 391-0215-14 | Oct. 2014 |
| Corrections | General Controls of the Offender Management Network Information System – (fol) | 471-0592-07F | Oct. 2014 |
| Transportation | Transport, Construction, Billboard, and Junk Yard Permitting Activities – (per) | 591-0171-14 | Oct. 2014 |
| Transportation | Office of Rail – (per) | 591-0195-14 | Oct. 2014 |
| Treasury | Bureau of Lottery – (per) | 271-0450-13 | Oct. 2014 |

Audits Released

| Department | Audit Title and Type | Project Number | Date Released | Number of | |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------|---------------------|-----------------------|
| | | | | Material Weaknesses | Reportable Conditions |
| Community Health | Office of Recipient Rights – (per) | 391-0120-13 | 08/08/14 | 2 | 6 |
| Community Health | Michigan Women, Infants, and Children Information System (MI-WIC), Department of Community Health and Department of Technology, Management, and Budget – (fol) | 391-0592-11F | 08/27/14 | 0 | 1 |
| Corrections | Prisoner Education Programs – (per) | 471-0310-14 | 08/19/14 | 0 | 3 |
| Human Services | Michigan State Disbursement Unit, Office of Child Support – (per) | 431-0142-14 | 08/29/14 | 0 | 0 |
| Technology, Management and Budget | Enterprise Warehouse – (per) | 071-0520-14 | 08/19/14 | 1 | 3 |

Although we report this information to you on a monthly basis, we immediately correspond with management and staff as our projects transition through the various stages referenced above.

Please contact me or Laura Hirst, Deputy Auditor General, at (517) 334-8050 if you have questions regarding this summary or wish to discuss specific audit projects.

Sincerely,



Doug Ringler
Auditor General



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
 071-0520-14

Enterprise Data Warehouse

*Department of Technology, Management,
 and Budget*

Released:
 August 2014

The Enterprise Data Warehouse (EDW) is a centralized repository of historical data that is used to support State agencies' decision-making and business processes. The Department of Technology, Management, and Budget (DTMB), in conjunction with State agencies, extracts data from source systems, transforms it into the proper format, and loads it into the EDW. State agencies use analytical tools to query data stored on the EDW to generate State and federal reports, project State revenues, perform trend analyses, and detect fraud.

| Audit Objective | | | Audit Conclusion |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|-----------------------------|
| Objective 1: To assess the effectiveness of the State's efforts to ensure the reliability of data in the EDW. | | | Not effective |
| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| DTMB, in conjunction with State agencies, had not fully established effective interface controls over the EDW (<u>Finding 1</u>). | X | | Agree |
| DTMB, in conjunction with State agencies, had not established an effective governance structure over the EDW (<u>Finding 2</u>). | | X | Agree |

| Audit Objective | | | Audit Conclusion |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|-----------------------------|
| Objective 2: To assess the effectiveness of the State's efforts to implement user access controls over the EDW. | | | Moderately effective |
| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| State agencies, in conjunction with DTMB, had not fully established and implemented effective user access controls over the EDW (<u>Finding 3</u>). | | X | Agree |
| DTMB, in conjunction with State agencies, had not fully established and implemented effective access controls over temporary privileged accounts (<u>Finding 4</u>). | | X | Agree |

