

FINANCIAL AUDIT
OF THE

MICHIGAN EDUCATION TRUST

October 1, 2001 through September 30, 2002



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Report Number:
27-284-02M

Michigan Education Trust

Fiscal Year Ended September 30, 2002

Released:
April 2003

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial statements. This financial audit of the Michigan Education Trust (MET) was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Reports Issued

We issued unqualified opinions on MET's financial statements. Our opinions and the financial statements are included in MET's Annual Reports.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify a reportable condition (Finding 1).

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Noncompliance Material to the Financial Statements

We did not identify any instances of noncompliance applicable to the financial

statements that are required to be reported under *Government Auditing Standards*.

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Background:

MET was created by Act 316, P.A. 1986, to operate a prepaid college tuition program that will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. MET is governed by a 9-member Board of Directors that consists of the State Treasurer and 8 members appointed by the Governor with the advice and consent of the Senate.

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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: www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

April 29, 2003

Mr. Jay B. Rising, Chairman
Michigan Education Trust Board of Directors
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

This is our report on the financial audit of the Michigan Education Trust for the period October 1, 2001 through September 30, 2002.

This report contains our report summary; our independent auditor's report on compliance and on internal control over financial reporting; a finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms. The independent auditor's reports on the financial statements for the Michigan Education Trust Plans B and C and Plan D were provided to the Michigan Education Trust separately for inclusion in the Michigan Education Trust's Annual Reports.

The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

November 15, 2002

Dr. Douglas B. Roberts, Chairman
Board of Directors
Michigan Education Trust
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

We have audited the financial statements of the Michigan Education Trust, a component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2002 and have issued our report thereon dated November 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Michigan Education Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Education Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal

control over financial reporting that, in our judgment, could adversely affect the Michigan Education Trust's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Michigan Education Trust's Board of Directors and management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

FINDING

1. **MET Contract Documentation**

The Michigan Education Trust* (MET) needs to retain documentation that MET contracts* have been received within open enrollment periods established by the MET Board of Directors.

Michigan Administrative Code R 390.1802(1) requires that applications* received by MET be date-stamped as evidence of receipt. In addition, MET procedure 5.2 requires that the Mail Operations Division, Administrative Services Bureau, Department of Treasury, date-stamp the contracts upon receipt. The date-stamp is used to verify that the contract was received during the open enrollment period, a MET eligibility requirement established by the MET Board of Directors. To comply with these provisions, MET instructed the Mail Operations Division to date-stamp the envelopes in which the contracts were received.

Our review of contract documentation for 19 contract payments that MET received during our audit period disclosed 4 (21%) contracts that MET did not retain the date-stamped envelopes documenting the date of receipt. MET informed us that it did not retain the date-stamped envelopes for open enrollment periods earlier than the most recent open enrollment period. Because the 4 contracts were executed in a prior open enrollment period, MET could not substantiate whether the contracts were received within the related open enrollment period.

RECOMMENDATION

We recommend that MET retain documentation that MET contracts have been received within open enrollment periods established by the MET Board of Directors.

AGENCY PRELIMINARY RESPONSE

MET agrees with the finding and will comply with the recommendation by date-stamping all contracts received during the current and future enrollment periods. MET has amended its procedures, requiring the Mail Operations Division to date-stamp all contract signature pages received.

* See glossary at end of report for definition.

Glossary of Acronyms and Terms

application	See definition of "contract."
contract	The preprinted form that is completed by the contract purchaser and submitted to MET to purchase prepaid undergraduate tuition for a named contract beneficiary. Also referred to as the "contract signature page," it serves as both the MET application and the contract between the contract purchaser and MET.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Michigan Education Trust (MET)

Established by Act 316, P.A. 1986, the MET program is an Internal Revenue Code Section 529 prepaid tuition program that allows parents, grandparents, businesses, and others to purchase prepaid undergraduate tuition for children residing in Michigan at any Michigan public college or university. MET is governed by a nine-member Board of Directors and is administered by MET staff, administratively located within the Michigan Department of Treasury.

reportable condition

A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.