



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



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

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*

*State Sponsored Group Insurance Fund  
 Department of Management and Budget,  
 Civil Service Commission, and Office of  
 the State Employer*

*October 1, 2008 through September 30, 2009*

Report Number:  
 071-0143-10

Released:  
 December 2009

*A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the State Sponsored Group Insurance Fund was conducted as part of the constitutional responsibility of the Office of the Auditor General.*

**Financial Statements:**

**Auditor's Report Issued**

We issued an unqualified opinion on the State Sponsored Group Insurance Fund's financial statements.

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**Internal Control Over Financial Reporting**

We did not report any findings related to internal control over financial reporting.

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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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**Background:**

The State Sponsored Group Insurance Fund, a proprietary fund of the State of Michigan, was administratively established to account for employee insurance benefits programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Fund utilizes the State Treasurer's Common Cash pool as its primary cash account for the insurance programs it administers. Premiums collected are deposited and claim payments and administrative expenses are paid from this account.

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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>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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

December 23, 2009

Ms. Lisa Webb Sharpe, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan  
and

Mr. Jeremy S. Stephens, State Personnel Director  
Civil Service Commission  
Capitol Commons Center  
Lansing, Michigan  
and

Ms. Sharon M. Bommarito, Director  
Office of the State Employer  
Capitol Commons Center  
Lansing, Michigan

Dear Ms. Webb Sharpe, Mr. Stephens, and Ms. Bommarito:

This is our report on the financial audit of the State Sponsored Group Insurance Fund, a proprietary fund of the State of Michigan, administered by the Department of Management and Budget, the Civil Service Commission, and the Office of the State Employer, for the period October 1, 2008 through September 30, 2009.

This report contains our report summary, our independent auditor's report on the financial statements, and the Fund's financial statements. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

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

AUDITOR GENERAL



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DEPARTMENT OF MANAGEMENT AND BUDGET, CIVIL SERVICE COMMISSION,  
AND OFFICE OF THE STATE EMPLOYER**

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# INDEPENDENT AUDITOR'S REPORT



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

## Independent Auditor's Report on the Financial Statements

Ms. Lisa Webb Sharpe, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan  
and

Mr. Jeremy S. Stephens, State Personnel Director  
Civil Service Commission  
Capitol Commons Center  
Lansing, Michigan  
and

Ms. Sharon M. Bommarito, Director  
Office of the State Employer  
Capitol Commons Center  
Lansing, Michigan

Dear Ms. Webb Sharpe, Mr. Stephens, and Ms. Bommarito:

We have audited the accompanying financial statements of the State Sponsored Group Insurance Fund, a proprietary fund of the State of Michigan, administered by the Department of Management and Budget, the Civil Service Commission, and the Office of the State Employer, as of and for the fiscal year ended September 30, 2009 as identified in the table of contents. These financial statements are the responsibility of the State Sponsored Group Insurance Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the State Sponsored Group Insurance Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its internal service funds as of September 30, 2009 and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Sponsored Group Insurance Fund, a proprietary fund of the State of Michigan, as of September 30, 2009 and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009 on our consideration of the Fund's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

AUDITOR GENERAL

December 15, 2009



# FINANCIAL STATEMENTS

STATE SPONSORED GROUP INSURANCE FUND  
 Department of Management and Budget, Civil Service Commission, and Office of the State Employer  
 Statement of Net Assets  
As of September 30

	2009
<b>Assets</b>	
Current assets:	
Equity in common cash (Note 4)	\$ 178,583,607
Accounts receivable:	
Amounts due from other funds (Note 5)	25,864,433
Amounts due from component units	180,548
Amounts due from federal agencies (Note 6)	207,626
Miscellaneous	6,108,646
Total current assets	\$ 210,944,859
Other noncurrent assets (Note 7)	1,100,000
Total assets	\$ 212,044,859
<b>Liabilities and Net Assets</b>	
Current liabilities:	
Warrants outstanding	\$ 39,630
Accounts payable and other liabilities:	
Claim liabilities (Note 8)	48,250,685
Vouchers payable	18,697,307
Deferred revenue	151,944
Total current liabilities	\$ 67,139,567
Long-term liabilities:	
Claim liabilities (Note 8)	86,701,973
Total liabilities	\$ 153,841,540
Net Assets	
Unrestricted (Note 9)	58,203,320
Total liabilities and net assets	\$ 212,044,859

The accompanying notes are an integral part of the financial statements.

STATE SPONSORED GROUP INSURANCE FUND

Department of Management and Budget, Civil Service Commission, and Office of the State Employer  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended September 30

	<u>2009</u>
Operating revenues	
Premium contributions	\$ 719,175,919
Federal revenues	<u>251,409</u>
Total operating revenues	<u>\$ 719,427,328</u>
Operating expenses	
Claim payments and premiums	\$ 679,358,597
Service fees and other administrative expense	<u>23,858,784</u>
Total operating expenses	<u>\$ 703,217,381</u>
Operating income	\$ 16,209,947
Nonoperating revenue	
Interest revenue	<u>1,596,174</u>
Change in net assets	\$ 17,806,121
Net assets at beginning of fiscal year	<u>40,397,199</u>
Net assets at end of fiscal year	<u><u>\$ 58,203,320</u></u>

The accompanying notes are an integral part of the financial statements.

STATE SPONSORED GROUP INSURANCE FUND  
Department of Management and Budget, Civil Service Commission, and Office of the State Employer  
Statement of Cash Flows  
For the Fiscal Year Ended September 30

	2009
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 716,989,619
Payments to suppliers	(316,080,314)
Claims paid	(417,004,373)
Receipts from federal agencies	251,409
Net cash used by operating activities	\$ (15,843,660)
<b>Cash flows from noncapital financing activities</b>	
Loans or loan repayments from other funds	\$ 4,131,548
Loans or loan repayments to other funds	(5,635,027)
Net cash used by noncapital financing activities	\$ (1,503,479)
<b>Cash flows from investing activities</b>	
Interest on equity in common cash	\$ 1,596,174
Net cash provided by investing activities	\$ 1,596,174
Net decrease in cash and cash equivalents	\$ (15,750,965)
Cash and cash equivalents at beginning of fiscal year	194,294,941
Cash and cash equivalents at end of fiscal year	\$ 178,543,976
<b>Reconciliation of operating income to net cash used by operating activities</b>	
Operating income	\$ 16,209,947
Adjustments to reconcile operating income with net cash used by operating activities	
Changes in assets and liabilities	
Amounts due from other funds and component units	(1,975,398)
Miscellaneous receivables	1,517,392
Accounts payable and other liabilities	(31,595,601)
Net cash used by operating activities	\$ (15,843,660)
<b>Reconciliation of cash and cash equivalents</b>	
Equity in common cash	\$ 178,583,607
Warrants outstanding	(39,630)
<b>Cash and cash equivalents at end of fiscal year</b>	\$ 178,543,976

The accompanying notes are an integral part of the financial statements.

## Notes to the Financial Statements

### Note 1 **Summary of Significant Accounting Policies**

#### **Reporting Entity**

The accompanying financial statements report the financial position, changes in financial position, and cash flows of the State Sponsored Group Insurance Fund, a proprietary fund of the State of Michigan, as of and for the fiscal year ended September 30, 2009. They are not intended to present the financial position, changes in financial position, and cash flows of the State of Michigan or its internal service funds in conformity with accounting principles generally accepted in the United States of America. The State Sponsored Group Insurance Fund is reported as an internal service fund in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnotes accompanying these financial statements relate directly to the State Sponsored Group Insurance Fund. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; pension benefits; and other postemployment benefits.

#### **Measurement Focus, Basis of Accounting, and Presentation**

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 except those that conflict with a GASB pronouncement.

### **Fund Cash Account**

The Fund utilizes the State Treasurer's Common Cash pool as its primary cash account for the insurance programs it administers. Premiums collected are deposited and claim payments and administrative expenses are paid from this account. Because a single account is used, an individual insurance program can have a deficit cash balance while the Fund in total can have a positive cash balance. For the purpose of the statement of cash flows, the Fund considers equity in the State Treasurer's Common Cash pool net of warrants outstanding to be cash and cash equivalents.

### **Note 2 Description of the Fund**

The State Sponsored Group Insurance Fund was administratively established to account for employee insurance benefit programs, which are largely self funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

To participate in these programs, an employee must be appointed for at least 720 hours and be either full-time or at least 40% part-time (the 40% requirement does not apply to the health program). Funding for the various insurance programs is based on the respective pay action determinations made by the Civil Service Commission and varies among employee groups. In general, funding for each program is as follows:

- The State Health Plan is funded 90% and 10% by the State and the employee, respectively. The State contributes a maximum of 95% of the cost for those employees enrolled in health maintenance organizations up to the amount paid for the same coverage under the State Health Plan.
- Dental insurance is funded 95% and 5% by the State and the employee, respectively.
- The State contributes 100% for vision insurance for employees.
- Contribution rates for long-term disability insurance vary depending on the unused hours of sick leave accumulated by the employee. However, in total, long-term disability is funded 50% and 50% by the State and the employee, respectively.

- The State contributes 100% for employee life insurance coverage, and the employee contributes 100% for dependent life insurance coverage.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Civil Service Commission.

**Note 3 GASB Statement No. 45 Adoption**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was adopted by the State of Michigan for fiscal year 2007-08. Statement No. 45 prohibits the reporting of retiree related postemployment benefits within the State Sponsored Group Insurance Fund. All retiree related activity, including accumulated net assets, is no longer reflected in this report. As of October 1, 2007, the retiree activity is recorded in certain other employee benefit trust funds in the *SOMCAFR*.

**Note 4 Equity in the State Treasurer's Common Cash**

Equity in the State Treasurer's Common Cash pool represents the Fund's interest, at market, in an investment pool managed by the State Treasurer.

The investment authority for the Common Cash pool is found in Public Act 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, its agencies, and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State of Michigan.

The Fund's pro-rata share of the State Treasurer's Common Cash pool was \$178,583,607 at September 30, 2009. For the total amount of deposits and investments in the State Treasurer's Common Cash pool and their specific risks, please refer to the *SOMCAFR*.

**Common Cash Deposits**

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized,
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State Treasurer's Common Cash pool policy requires the following criteria to lessen the custodial credit risk: All financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds; a bank, savings and loan association, or credit union holding the State's funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and no deposit in any financial organization may be in excess of 50% of the net worth of the organization.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Public Act 35 of 1997 requires State deposits to be held in a financial institution that maintains a principal office or branch office located in the State of Michigan. The State had no Common Cash pool deposits subject to foreign currency risk at September 30, 2009.

### **Common Cash Investments**

#### Types of Investments

State Treasurer's Common Cash pool investments include prime commercial paper, corporate notes, and emergency municipal notes.

#### Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial

credit risk, the credit risk, the interest rate risk, the concentration of credit risk, and the foreign currency risk are discussed in the following paragraphs.

### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure by a counterparty, the Fund will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty or

The counterparty's trust department or agent, but not in the government's name.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2009, Common Cash pooled investments were not exposed to custodial credit risk.

### Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

The State Treasurer requires prime commercial paper investments be rated A-1 or P-1 at the time of purchase as rated by the two major rating services, Standard & Poor's (A-1) and Moody's Investor Service (P-1). Borrowers must also have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of a borrower's outstanding debt. The Common Cash pooled investments are further limited to \$200 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed \$300 million.

The State Treasurer's investment of the Common Cash pool in sugar beet loans is evidenced by unrated zero-interest promissory notes. The State Treasurer's investment in emergency municipal loans is evidenced by unrated

notes held by the State in the State's name. In addition, at September 30, 2009, prime commercial paper investments were rated at A-1, P-1, or above.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State Treasurer's Common Cash pool policy states that cash equivalents are to be invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk.

The State Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash pool investments in special loan programs (Emergency Financial Assistance Loan Program, Michigan Marina Dredging Loan Program, Michigan Sugar Beet Loan Program, and Agriculture Disaster Relief Program). These loan programs are investments created through legislation. Although some interest rate risk exposure exists, interest rate risk is not a consideration when entering into the special loan programs.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment with a single issuer.

The Fund is invested in pooled investments in the State of Michigan Common Cash pool, which is excluded from concentration of credit risk disclosure requirements.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

The State Treasurer's Common Cash pool investment policy does not allow for investment in foreign investments or currency; therefore, the Fund is not exposed to foreign currency risk.

**Note 5 Interfund Receivables**

The statement of net assets includes interfund receivables of \$25,864,433 at September 30, 2009. These receivables are primarily composed of amounts temporarily loaned to another internal service fund or the State's General Fund to cover cash shortages or if funds are owed across fiscal years. These loans occurred on September 30, 2009 and were returned in fiscal year 2009-10. These loans can take place because all funds involved are participating members of the State Treasurer's Common Cash pool.

**Note 6 Federal Receivables**

Federal receivables represent monies to be received from the federal government for the American Recovery Reinvestment Act (ARRA). Employees who have been involuntarily laid off are eligible to receive 9 months of COBRA subsidy at 65% paid by the federal government. The statement of net assets includes a receivable of \$207,626 at September 30, 2009.

**Note 7 Other Noncurrent Assets**

Other noncurrent assets represent long term deposits with third party administrators.

**Note 8 Claim Liabilities**

Expenses and liabilities for incurred claims and incurred but not reported or not processed claims, based on estimates from the plan administrators, have been recorded as liabilities in the amount of \$134,952,658 at September 30, 2009. The short-term portion of \$48,250,685 at September 30, 2009 is based on claims information received from plan administrators. Each of the various insurance carriers, with the exception of the long-term disability provider, has professional actuarial staff or outside professional contractors that estimate these amounts based on the program's past experience.

The long-term disability program estimates the incurred and incurred but not reported or not processed liability using actuarial principles, the program's past experience, and information from prior actuary studies. The long-term portion, related to the long-term disability program, is reported at a discounted present value of \$86,522,225 at September 30, 2009. For all claims incurred prior to October 1, 2009, the discounted present value of the long-term disability liability was calculated over a 20-year period using a discount rate of

approximately .5%. The remaining long-term claim liability of \$179,748 pertains to health care and vision insurance programs.

Changes in the Fund's claims liability for employee insurance benefit programs for the fiscal year ended September 30, 2009 are as follows:

Beginning balance	\$ 132,927,934
Current year claims, premiums, and changes	665,548,781
Claims payments and premiums paid	<u>(663,524,057)</u>
Ending balance	<u>\$ 134,952,658</u>

**Note 9 Unrestricted Net Assets**

The statement of net assets includes unrestricted net assets balances of \$58,203,320 at September 30, 2009. Unrestricted net assets represent fund and employee contributions in excess of recognized expenses and amounts required at the benefit program level. Recommended net assets surpluses to cover catastrophic losses of the Fund (based on target funding levels suggested by benefits' consultants) were \$46,188,355 at September 30, 2009.

INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL AND COMPLIANCE



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

Ms. Lisa Webb Sharpe, Director  
Department of Management and Budget  
Lewis Cass Building  
Lansing, Michigan  
and

Mr. Jeremy S. Stephens, State Personnel Director  
Civil Service Commission  
Capitol Commons Center  
Lansing, Michigan  
and

Ms. Sharon M. Bommarito, Director  
Office of the State Employer  
Capitol Commons Center  
Lansing, Michigan

Dear Ms. Webb Sharpe, Mr. Stephens, and Ms. Bommarito:

We have audited the financial statements of the State Sponsored Group Insurance Fund as of and for the fiscal year ended September 30, 2009 and have issued our report thereon dated December 15, 2009. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State Sponsored Group Insurance Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Sponsored Group Insurance Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, the Department of Management and Budget, the Civil Service Commission, the Office of the State Employer, and others within the Fund's management 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

December 15, 2009

# GLOSSARY

## Glossary of Acronyms and Terms

control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial statements that causes the statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles

such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

*SOMCAFR*

*State of Michigan Comprehensive Annual Financial Report.*

unqualified opinion

An auditor's opinion in which the auditor states that the financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.



