



MICHIGAN

OFFICE OF THE AUDITOR GENERAL



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

Management Letter

Michigan Higher Education Assistance Authority
 (A Discretely Presented Component Unit of the State of Michigan)
 October 1, 2008 through September 30, 2009

Report Number:
 271-0272-10M

Released:
 January 2010

The management letter is used to report significant deficiencies in internal control over financial reporting and other matters that come to the auditor's attention during the completion of the financial audit conducted in accordance with generally accepted government auditing standards. This management letter is being issued in conjunction with our financial audit of the Michigan Higher Education Assistance Authority, a discretely presented component unit of the State of Michigan.

Financial Statements:

Auditor's Report Issued

We have audited the financial statements of the Michigan Higher Education Assistance Authority as of and for the fiscal year ended September 30, 2009 and have issued a separate report thereon dated December 22, 2009. We issued unqualified opinions on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority.

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Internal Control Over Financial Reporting

We identified a significant deficiency in internal control over financial reporting (Finding 1). We do not consider this significant deficiency to be a material weakness.

The Authority did not have sufficient procedures to ensure that late financial transactions were included in the financial statements (Finding 1).

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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:

Our management letter includes 1 finding and 1 corresponding recommendation. The Authority's preliminary response indicates that it agrees with the recommendation.

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

January 29, 2010

Mr. Robert J. Kleine, Chair
Michigan Higher Education Assistance Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

We have audited the financial statements of the Michigan Higher Education Assistance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009 and have issued a separate report thereon dated December 22, 2009. In planning and performing our audit of the financial statements of the Authority, we considered the Authority's internal control over financial reporting and compliance and other matters. This is our management letter on the internal control over financial reporting and on compliance and other matters of the Michigan Higher Education Assistance Authority for the period October 1, 2008 through September 30, 2009.

This report contains our report summary; our independent auditor's report on internal control over financial reporting and on compliance and other matters; our finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms.

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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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



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

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

Mr. Robert J. Kleine, Chair
Michigan Higher Education Assistance Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Higher Education Assistance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 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 Michigan Higher Education Assistance Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Higher Education Assistance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Michigan Higher Education Assistance Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 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 by the entity's internal control. We consider the deficiency described in Finding 1 to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the third paragraph of this section is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Higher Education Assistance Authority'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*.

The agency preliminary response to the finding identified in our audit is included in the body of our management letter. We did not audit the agency preliminary response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Higher Education Assistance Authority, management, and others within the Authority 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 22, 2009

FINDING, RECOMMENDATION,
AND AGENCY PRELIMINARY RESPONSE

FINDING

1. Controls Over Financial Reporting

The Michigan Higher Education Assistance Authority did not have sufficient procedures to ensure that late financial transactions were included in the financial statements. As a result, the Authority's draft financial statements for the governmental fund did not include two transactions that understated accounts receivable by \$800,000, deferred revenue by \$500,000, and revenue and net assets by \$300,000. The Authority corrected the draft financial statements.

Section 1100.114b of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board, provides that financial reports should be prepared covering all funds and activities of the entity. The Authority and the Department of Treasury share responsibilities for the recording of financial transactions in two separate accounting systems. The Authority prepares its financial statements from the financial information in both accounting systems. The Department of Treasury records transactions for the Office of Scholarships and Grants which are included in the Authority's governmental fund. The Department of Treasury recorded a receivable for one of the scholarship programs late in the closing process. The Authority did not have a procedure to identify late transactions recorded in the accounting records.

RECOMMENDATION

We recommend that the Authority implement sufficient procedures to ensure that late financial transactions are included in the financial statements.

AGENCY PRELIMINARY RESPONSE

The Authority agrees with the recommendation. The Authority informed us that to ensure that late financial transactions are included in its annual financial statements, the Authority implemented additional procedures for notification by the Authority's Office of Scholarships and Grants to the Authority's Fiscal Division on communications with the Department of Treasury related to the recording of late financial transactions. In addition, the Authority informed us its Fiscal Division added a task to its internal fiscal year-end closing schedule to contact the Department of Treasury's Finance and Accounting Division to obtain verification of any late financial transactions to allow for adjustments in the Authority's draft financial statements.

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 schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
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 schedules and/or financial statements that causes the schedules and/or 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 schedules and/or 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 schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

unqualified opinion

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

