

FINANCIAL AUDIT  
OF THE  
STATE TREASURER'S ANNUAL REPORT

DEPARTMENT OF TREASURY

October 1, 1998 through September 30, 1999

## EXECUTIVE DIGEST

# STATE TREASURER'S ANNUAL REPORT

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### INTRODUCTION

This report contains the results of our financial audit\* of the State Treasurer's Annual Report, Department of Treasury, for the period October 1, 1998 through September 30, 1999.

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### AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

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### BACKGROUND

The State Treasurer is responsible for investing, managing, accounting for, and safekeeping assets of the State Police, State Employees', Public School Employees', and Judges' Retirement Systems and various trust funds and other money comprising the State's Common Cash pool.

The Bureau of Investments (BOI), Department of Treasury, manages the investments for the State Treasurer. Also, BOI accounts for the investments of the Legislative Retirement System. As of September 30, 1999, the market value of the retirement systems and the State's Common Cash pool totaled over \$50 billion.

\* See glossary at end of report for definition.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a material effect on the Department's financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\*. However, we noted a reportable condition\* in the area of a disaster recovery plan for the Complete Asset Management, Reporting, and Accounting System\* (CAMRA) (Finding 1).

**Audit Objective:** To audit the financial schedules of the State Treasurer as of and for the fiscal year ended September 30, 1999.

**Conclusion:** We expressed an unqualified opinion\* on the State Treasurer's financial schedules as of and for the fiscal year ended September 30, 1999. Our opinion and the financial schedules are included in the State Treasurer's Annual Report issued by the Department of Treasury.

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AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Treasury for the period October 1, 1998 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to

\* See glossary at end of report for definition.

financial audits contained in *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.

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AGENCY RESPONSE

Our audit report contains 1 finding and 1 corresponding recommendation. BOI concurs with the finding.

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June 30, 2000

Mr. Mark A. Murray  
State Treasurer  
Treasury Building  
Lansing, Michigan

Dear Mr. Murray:

This is our report on the financial audit of the State Treasurer's Annual Report, Department of Treasury, for the period October 1, 1998 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency response; comments, finding, recommendation, and agency preliminary response; independent auditor's report on compliance and on internal control over financial reporting; and a glossary of acronyms and terms. The independent auditor's report on the financial schedules was provided to the Department of Treasury separately for inclusion in the State Treasurer's Annual Report.

Our comments, finding, and recommendation are organized by audit objective. 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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## Description of Agency

The State Treasurer is responsible for investing, managing, accounting for, and safekeeping assets of the State Police, State Employees', Public School Employees', and Judges' Retirement Systems and various trust funds and other money comprising the State's Common Cash pool.

The Bureau of Investments (BOI), Department of Treasury, manages the investments for the State Treasurer. Also, BOI accounts for the investments of the Legislative Retirement System. As of September 30, 1999, the market value of the retirement systems and the State's Common Cash pool totaled over \$50 billion.

## Audit Objectives, Audit Scope, and Agency Response

### Audit Objectives

Our financial audit of the State Treasurer's Annual Report, Department of Treasury, had the following objectives:

1. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.
2. To audit the financial schedules of the State Treasurer as of and for the fiscal year ended September 30, 1999.

### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Treasury for the period October 1, 1998 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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.

### Agency Response

Our audit report contains 1 finding and 1 corresponding recommendation. The Bureau of Investments concurs with the finding.

The agency preliminary response which follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

# COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

## COMPLIANCE AND INTERNAL CONTROL

### COMMENT

**Audit Objective:** To assess and report on the Department of Treasury's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a material effect on the Department's financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we noted a reportable condition in the area of a disaster recovery plan for the Complete Asset Management, Reporting, and Accounting System (CAMRA).

### FINDING

#### 1. Disaster Recovery Plan

The Bureau of Investments (BOI) had not developed and tested a disaster recovery plan for restoring CAMRA applications and data in the event of an interruption.

Department of Management and Budget Administrative Guide procedure 1310.02 states that each data center must develop and issue procedures for emergency interruptions in service and make periodic tests to ensure that the procedures are effective. The Administrative Guide requires data centers to establish an off-site backup file library that is a minimum of five miles from the main processing site.

BOI manages the investments for the State Treasurer through its local area network-based investment accounting system known as CAMRA, which replaced its mainframe investment accounting system on July 1, 1998. On October 11, 1999, BOI relocated to a new location, separate from the Department of Treasury

operations in downtown Lansing. BOI maintains its own network, on which the CAMRA applications and data reside. At the time of our fieldwork, BOI had been focusing its efforts on the relocation and year 2000 issues. As a result, BOI had not been able to devote the time necessary to prepare a disaster recovery plan for CAMRA. BOI maintained daily backups of CAMRA applications and data, but it did not store its backup files off site. Its backup files were stored on site in a secure (restricted access) area, but they were not protected from potential losses, such as fire or water damage. BOI did not document its backup procedures. Further, BOI had not established an alternative processing site where it could resume processing if it were to lose its current processing site to a disaster. Prior to the relocation, BOI did not have a disaster recovery plan.

As of September 30, 1999, BOI accounted for approximately \$54.3 billion in investments (market value) on CAMRA. This included the investments for the five State retirement systems totaling approximately \$47.9 billion and the investments of other various State funds totaling approximately \$6.4 billion. Because of the critical nature of the data, the large dollar magnitude, and the significant number of transactions that are processed by CAMRA, it is critical to have a disaster recovery plan to minimize the risk that a service interruption could significantly impair BOI's operations.

### **RECOMMENDATION**

We recommend that BOI develop and test a disaster recovery plan for restoring CAMRA applications and data in the event of an interruption.

### **AGENCY PRELIMINARY RESPONSE**

BOI concurs with the finding and informed us that it previously implemented off-site storage of local area network backup data files in the Treasury Building vault. The backup tapes are maintained for three generations. Year-end backup tapes are maintained for one year.

BOI also informed us that it is in the process of developing a complete disaster recovery plan to ensure full continuity of investment operations in the event of a disaster at its new location.

## FINANCIAL ACCOUNTING AND REPORTING

### COMMENT

**Audit Objective:** To audit the financial schedules of the State Treasurer as of and for the fiscal year ended September 30, 1999.

**Conclusion:** We expressed an unqualified opinion on the State Treasurer's financial schedules as of and for the fiscal year ended September 30, 1999. Our opinion and the financial schedules are included in the State Treasurer's Annual Report issued by the Department of Treasury.

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

February 11, 2000

Mr. Mark A. Murray  
State Treasurer  
Treasury Building  
Lansing, Michigan

Dear Mr. Murray:

We have audited the financial schedules of the State Treasurer as of and for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated February 11, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 State Treasurer's financial schedules are free of material misstatement, we performed tests of the Department of Treasury's 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 schedule 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 Department of Treasury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted a certain 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 Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. The reportable condition is described in Finding 1.

A material weakness is a 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 in amounts that would be material in relation to the financial schedules 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 described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's 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

## Glossary of Acronyms and Terms

BOI	Bureau of Investments, Department of Treasury.
Complete Asset Management, Reporting, and Accounting System (CAMRA)	The investment accounting system used by the Bureau of Investments, Department of Treasury.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with the basis of accounting described in the notes to the financial schedules.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
material weakness	A 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 in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect

the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules.

**unqualified opinion**

An auditor's opinion in which the auditor states, without reservation, that the financial schedules are fairly presented in conformity with the basis of accounting described in the notes to the financial schedules.