



## MICHIGAN STRATEGIC FUND

300 N Washington Sq.  
Lansing, MI 48913

July 14, 2014

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Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> Floor  
Lansing, Michigan 48913

In accordance with the State of Michigan, Financial Management Guide, Part VII, Chapter 4, Section 100, enclosed is a summary table identify our response and corrective action plan to address recommendations in the Report on the Performance Audit of the Michigan Strategic Fund, Treasury (271-0401-14M), covering the period of October 1, 2012 through September 30, 2013.

Questions regarding the summary table or corrective action plans should be directed to Juzer Modi at 517-241-0524; or [modij1@michigan.org](mailto:modij1@michigan.org).

Sincerely,

Signature Redacted

Minesh Mody, CFO  
Michigan Strategic Fund

cc: Executive Office  
Office of the Auditor General  
House and Senate Appropriation Sub-committees  
House and Senate Standing Committees  
House and Senate Fiscal Agencies  
Michael Finney, CEO, MEDC  
Minesh Mody, CFO, MEDC  
Juzer Modi, Director, Financial Services  
Marna Wilson, Internal Auditor

**Michigan Strategic Fund Financial Report  
Fiscal Year 2013 Corrective Action Plan for  
Report on Internal Control, Compliance, and other Matters**

1. Audit recommendations the agency complied with:

Finding 2- Loan Interest Revenue

Finding 3a – Salesforce Access Controls

2. Audit recommendations the agency agrees with and will comply:

Finding 1 – Investment Impairment Losses

Finding 3b, 3c – Salesforce Access Controls

3. Audit recommendations the agency disagrees with: Not Applicable

**Michigan Strategic Fund Corporation Financial Report  
Fiscal Year 2013 Corrective Action Plan for  
Report on Internal Control, Compliance, and other Matters**

**Finding 1: Investment Impairment Losses**

The Michigan Strategic Fund's (MSF's) internal control over financial reporting did not ensure that it properly recorded and reported investment impairment losses in accordance with generally accepted accounting principles.

**Recommendation**

We recommend that MSF implement internal control over financial reporting to ensure that it properly records and reports investment impairment losses in accordance with generally accepted accounting principles.

**Preliminary Response**

MSF agrees with the recommendation and indicated that MSF's long-standing policy has been to adjust investment values for impairment losses only when a significant event occurred, such as bankruptcy filing or the closing of the investee's business. MSF indicated that it will implement a process to also include an annual review of investments that will consider any known factors that could cause an investment impairment loss.

**Corrective Action Plan:**

Finance, in conjunction with the program staff, have drafted an investment policy which includes annual review of all investments for possible valuation adjustments. This policy will be reviewed by our leadership and will be in place by 6/30/2014.

**Finding 2: Loan Interest Revenue**

MSF's internal control over financial reporting did not ensure that it properly recorded and reported loan interest revenue in accordance with generally accepted accounting principles. As a result, MSF could not ensure the prevention or detection of misstatements in interest and investment earnings revenue reported in its financial statements.

**Recommendation:**

We recommend that MSF implement internal control over financial reporting to ensure that it properly records and reports loan interest revenue in accordance with generally accepted accounting principles.

Preliminary Response:

MSF agrees with the finding. However, it should be noted that this was a revenue classification error and did not impact MSF's fund balance in prior years. Our FY 2013 financial statements were changed to reflect this recommendation. We have also changed our revenue recording method for future years.

No further corrective action needed.

**Finding 3: Salesforce Access Controls**

MSF had not established effective access controls over its Salesforce customer relationship management system (Salesforce). Our review of MSF's access controls over Salesforce disclosed:

- a. MSF did not limit the number of system administrators and did not assign appropriate access rights to system administrators to ensure proper segregation of duties. We noted 18 system administrators who had the ability to log in as other users and perform activities without the use of a user password.
- b. MSF did not sufficiently monitor user activity, including system administrators, within Salesforce to ensure that users performed only authorized activities relevant to their respective jobs and positions. For example, users with the ability to approve grant payments also had the ability to change payment amounts prior to approving payments in Salesforce. MSF informed us that, although an audit trail exists in Salesforce, it did not regularly monitor this audit trail.

- c. MSF had not established a formal process to periodically review user access rights to ensure that only authorized users had access to Salesforce and that the users' access rights were commensurate with their job duties.

Recommendation:

We recommend that MSF establish effective access controls over Salesforce.

Preliminary Response:

MSF agrees with the recommendation and indicated that it has or will implement corrective action. MSF also believes it is important to note there is no evidence or even a suggestion of abuse of Salesforce system administrator privileges. However, MSF informed us that it has implemented the following corrective actions:

- In response to point a. above, MSF has reduced the number of system administrators down from 18 to 13 and will review the necessity of these privileges on an ongoing basis.
- In response to point b. above, MSF has determined that Salesforce has the capability to disable the global capability for system administrators to log on as other users. MSF has requested Salesforce to disable this feature.

Corrective Action Plan:

The following corrective actions will be implemented:

- In response to point b. above, MSF will set up procedures to monitor existing payment-related audit trails on a regular basis by 6/30/2014.
- In response to point c. above, MSF will set up a process to periodically check user access rights and privileges every 90 days to ensure that the users' access rights are in sync with their job duties.