



MICHIGAN STRATEGIC FUND

August 15, 2016

Mr. Jeffery S. Bankowski
Office of Performance and Transformation
Internal Audit Services
Constitution Hall, 3rd Floor
Lansing, Michigan 48909

Dear Mr. Bankowski:

In accordance with the State of Michigan, Financial Management Guide, Part VII, Chapter 4, Section 100, enclosed is a summary table which identifies our response and corrective action plan to address recommendations in the Report on Internal Control, Compliance, and other Matters for the Michigan Strategic Fund Financial Report, covering the period of October 1, 2014 through September 30, 2015.

Please contact Allen Williams, Director, Office of Audit and Financial Compliance, directly with any questions. Mr. Williams can be reached at (517) 335-9247.

Sincerely, ..

Signature Redacted

Amanda Bright McClanahan
Executive Vice President and
Chief Financial and Procurement Officer

Enclosure

c: Jarrod Agen, Chief of Staff, Executive Office
Doug Ringler, Auditor General, Office of the Auditor General
Ellen Jeffries, Director, Senate Fiscal Agency
Mary Ann Cleary, Director, House Fiscal Agency
Senator Dave Hildenbrand, Chair, Senate Appropriations Committee
Representative Al Pscholka, Chair, House Appropriations Committee
Senator Wayne Schmidt, Chair, Senate Commerce Committee
Senator Ken Horn, Chair, Senate Economic Development and International Investment
Committee
Representative Joel Johnson, Chair, House Workforce and Talent Committee
Steve Arwood, Michigan Economic Development Corporation
Jill Trepkoski, Michigan Economic Development Corporation
Allen Williams, Michigan Economic Development Corporation

AUDIT RESPONSE SUMMARY

Internal Control and Compliance Audit of the Michigan Strategic Fund October 1, 2014 through September 30, 2015

I. Citations complied with:

None

II. Citations to be complied with:

- #1. The estimated date of compliance is April 1, 2017.
- #2. The estimated date of compliance is November 30, 2016.

III. Citations agency disagrees with:

None

**Internal Control and Compliance Audit of the Michigan Strategic Fund
October 1, 2014 through September 30, 2015**

FINDING #1 – Development of Controls Necessary to Ensure Accuracy of Investment Transactions and Financial Statement Balances

We recommend that the Michigan Strategic Fund (MSF) improve its internal control procedures to ensure that it properly records and reports MSF financial activity in accordance with generally accepted accounting principles (GAAP).

Final Agency Response:

MSF agrees and will comply.

MSF engaged the services of Office of Performance and Transformation, Office of Internal Audit Services (OIAS) to assist in formally documenting loan and investment accounting processes. On June 27, 2016, OIAS released a report recommending that MEDC/MSF:

1. Draft a policy for determining the fair market value of investments and related accounting treatment; and develop a consistent approach to remove assets from the MSF portfolio that are no longer viable.
2. Formally document processes and related procedures for determining realized and unrealized investment gains and recovering delinquent loans within the Capital Access Program (CAP).
3. Facilitate training for accounting staff to ensure that they consistently and accurately apply standard loan and investment accounting processes.
4. Establish comprehensive guidance for accounting staff to improve database management and succession planning by formally documenting accounting procedures for MSF loan and investment processes; and developing detailed system manuals for its CAP, Collateral & Participation (C&P), and LA Pro databases.
5. Implement Chief Financial Officer approval of loan and investment setup, maintenance, and year-end processes.
6. Review and update documented MSF loan and investment accounting processes at least annually.

MSF is currently considering and assessing each of the above recommendations. MSF is engaging the assistance of an outside consultant to review our internal processes and assist with the development of implementation strategies. The policy and procedural changes that can be implemented prior to the fiscal year end process for 2016 will be prioritized.

It should also be noted that new accounting requirements outlined in GASB Statement 72, Paragraphs 64-68 raise questions over whether the *Application of Fair Value* for a number of investments is appropriate. MSF is currently working with the Office of Financial Management to draft policy specifically related to these new requirements.

Our expected date of completion is April 1, 2017, for the entire corrective action plan as outlined. New accounting requirements as outlined in GASB 72 will be implemented by December 31, 2016 as part of the fiscal year 2016 year-end process.

FINDING #2 – Timeliness of Financial Reporting Should be Improved

We recommend that MSF continue to improve its internal control over financial reporting to ensure that it adheres to established deadlines for recording and reporting its financial activity.

Final Agency Response:

MSF agrees and will comply.

MSF is continuing its efforts towards developing additional staff and year-end planning tools aimed at improving year-end performance and timeliness. Specifically, MSF Finance has created a year-end closing schedule and log which tracks all our internal deadlines plus those agreed to with the OAG. MSF Finance management along with the Audit & Financial Compliance unit will diligently monitor the year-end closing schedule to ensure that all deadlines are met. Weekly status meetings will be held with staff starting the week of October 10, 2016.

The estimated date of compliance is November 30, 2016.