
MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION

August 15, 2016

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

**Subject: Final Agency Response to OAG's Internal Control and Compliance Audit of
MEDC**

Dear Mr. Bankowski:

In accordance with the State of Michigan Financial Management Guide, Part VII, attached is our Final Agency Response including corrective action plans to address recommendations contained within the Office of the Auditor General's internal control and compliance audit of the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan. This audit covered the period October 1, 2014 through September 30, 2015.

If you have any questions regarding this report, please feel free to contact Allen Williams at (517) 335-9247 or williamsa6@michigan.gov.

Sincerely,

Signature Redacted

Amanda Bright McClanahan
Executive Vice President and
Chief Financial Officer 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

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AUDIT RESPONSE SUMMARY

Internal Control and Compliance Audit of Michigan Economic Development Corporation 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.

III. Citations agency disagrees with:

None

**Internal Control and Compliance Audit of Michigan Economic Development Corporation
(MEDC) 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 MEDC improve its internal control procedures to ensure that it properly records and reports the fair value of its investments in accordance with generally accepted accounting principles (GAAP).

Final Agency Response:

MEDC agrees and will comply.

MEDC 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 MEDC 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 MEDC 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 MEDC loan and investment accounting processes at least annually.

MEDC is currently considering and assessing each of the above recommendations. MEDC 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. MEDC 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.