

Office of the Auditor General  
Report on Internal Control, Compliance, and Other Matters

---

**Michigan Strategic Fund**  
(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2016

---



---

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*

---



# OAG

Office of the Auditor General

## Report Summary

### *Report on Internal Control, Compliance, and Other Matters*

### *Michigan Strategic Fund*

*(A Discretely Presented Component Unit of the State of Michigan)*

### *Fiscal Year Ended September 30, 2016*

**Report Number:**  
**271-0401-17**

**Released:**  
**March 2017**

Generally accepted government auditing standards require an auditor to report on internal control over financial reporting; compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements; and other matters coming to the attention of the auditor during the completion of a financial audit. We are issuing this report in conjunction with our independent auditor's report on the Michigan Strategic Fund's financial statements dated January 18, 2017.

<b>Findings Related to Internal Control, Compliance, and Other Matters</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
None reported.			Not applicable.

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

Office of the Auditor General  
201 N. Washington Square, Sixth Floor  
Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

**Doug A. Ringler, CPA, CIA**  
Auditor General

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

Mr. Steven Arwood  
President, Michigan Strategic Fund  
Chair, Michigan Strategic Fund Board of Directors  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Arwood:

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the Michigan Strategic Fund, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 18, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's basic financial statements are free from 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*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Doug Ringler  
Auditor General  
January 18, 2017

Below is the status of the reported findings from the fiscal year 2015 Michigan Strategic Fund report on internal control, compliance, and other matters:

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1a	Recording all necessary fair market value adjusting entries.	Not applicable	Not applicable
1b	Recording investment impairment losses.	Not applicable	Not applicable
1c	Reporting certain balance sheet activity in the financial statements.	Not applicable	Not applicable
2	Adhering to established deadlines for recording and reporting financial activity.	Complied	Not applicable

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, the Michigan Strategic Fund financial statements no longer contain line items that meet the definition of investments. In the prior audit, certain line items were classified as investments. Therefore, prior audit Findings #1a and #1b are not applicable.

In addition, Executive Order No. 2014-12, effective March 2015, transferred the Workforce Development Agency from the Michigan Strategic Fund to the Michigan Talent Investment Agency. Therefore, prior audit Finding #1c is not applicable.



