



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.  
AUDITOR GENERAL

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

Audit report information can be accessed at:

*<http://audgen.michigan.gov>*



Michigan  
Office of the Auditor General  
**REPORT SUMMARY**

*Report on the Provisions of the Single Audit Act*

Report Number:  
271-0400-11

*Michigan Strategic Fund*

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

*October 1, 2008 through September 30, 2010*

Released:  
April 2011

*A single audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.*

**Financial Statements:**

We have audited the basic financial statements of the Michigan Strategic Fund (MSF) for the fiscal years ended September 30, 2010 and September 30, 2009 and have issued a report thereon dated February 8, 2011.

**Auditor's Report Issued**

We issued unqualified opinions on MSF's basic financial statements.

~ ~ ~ ~ ~

**Internal Control Over Financial Reporting**

We also issued an independent auditor's report on internal control over financial reporting and on compliance and other matters thereon dated February 8, 2011. We did not report any findings related to internal control over financial reporting.

~ ~ ~ ~ ~

**Noncompliance and Other Matters  
Material to the Financial Statements**

We did not identify any instances of noncompliance or other matters that are

required to be reported under *Government Auditing Standards.*

~ ~ ~ ~ ~

**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited one cluster (including 1 ARRA related program) as a major program and issued a qualified opinion. MSF expended a total of \$83.7 million in federal awards, including \$85,767 of ARRA funding, during the two-year period ended September 30, 2010. The cluster audited as a major program is identified on the back of this summary.

~ ~ ~ ~ ~

**Internal Control Over Major Programs**

We identified significant deficiencies in internal control over federal program compliance (Findings 1 and 2). We consider Finding 1 to be a material weakness.

~ ~ ~ ~ ~

**Required Reporting of Noncompliance**

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 1 and 2).

~ ~ ~ ~ ~

We audited the following cluster as a major program:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
14.228	<u>CDBG - State-Administered Small Cities Program Cluster</u> <ul style="list-style-type: none"><li>Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii</li></ul>	Qualified
14.255	<ul style="list-style-type: none"><li>ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)</li></ul>	

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

April 27, 2011

Mr. Michael Finney, President and Chief Executive Officer  
Michigan Strategic Fund  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Finney:

This is our report on the provisions of the Single Audit Act as applicable to the Michigan Strategic Fund (MSF), a discretely presented component unit of the State of Michigan, for the period October 1, 2008 through September 30, 2010. We have also audited MSF's financial statements for the fiscal years ended September 30, 2010 and September 30, 2009 and have issued a separate report thereon dated February 8, 2011.

This report contains our report summary, MSF's schedule of expenditures of federal awards, our independent auditor's report on compliance with requirements that could have a direct and material effect on each major program, on internal control over compliance, and on the schedule of expenditures of federal awards in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, the report contains MSF's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section III of the schedule of findings and questioned costs. The agency preliminary response is contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL



## TABLE OF CONTENTS

### MICHIGAN STRATEGIC FUND

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
FINANCIAL SCHEDULE	
Schedule of Expenditures of Federal Awards	8
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE, INTERNAL CONTROL OVER COMPLIANCE, AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance With OMB Circular A-133	12
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Section I: Summary of Auditor's Results	15
Section II: Findings Related to the Financial Statements	16
Section III: Findings and Questioned Costs Related to Federal Awards	16
1. CDBG - State-Administered Small Cities Program Cluster, CFDA 14.228 and 14.255, Reporting	16
2. CDBG - State-Administered Small Cities Program Cluster, CFDA 14.228 and 14.255, Access Controls	18

## OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	21
Corrective Action Plan	24

## GLOSSARY

Glossary of Acronyms and Terms	27
--------------------------------	----



# FINANCIAL SCHEDULE

**MICHIGAN STRATEGIC FUND**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2008 Through September 30, 2010

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 2009		
		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>U.S. Department of Housing and Urban Development</u></b>				
CDBG - State-Administered Small Cities Program Cluster:				
Direct Programs:				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (3) (4)	14.228	\$ 899,926	\$ 34,342,607	\$ 35,242,533
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	14.255	19,703		19,703
Total CDBG - State-Administered Small Cities Program Cluster		<u>\$ 919,629</u>	<u>\$ 34,342,607</u>	<u>\$ 35,262,236</u>
Direct Program:				
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	\$	\$ 30,111	\$ 30,111
Total Direct Program		<u>\$ 0</u>	<u>\$ 30,111</u>	<u>\$ 30,111</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<b><u>\$ 919,629</u></b>	<b><u>\$ 34,372,718</u></b>	<b><u>\$ 35,292,347</u></b>
<b><u>U.S. National Endowment for the Arts</u></b>				
Direct Program:				
Promotion of the Arts Partnership Agreements (5)	45.025	\$	\$	\$ 0
<b>Total U.S. National Endowment for the Arts</b>		<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>
Total Expenditures of Federal Awards		<u>\$ 919,629</u>	<u>\$ 34,372,718</u>	<u>\$ 35,292,347</u>

- (1) Basis of Presentation: This schedule presents the federal grant activity of the Michigan Strategic Fund (MSF) on the modified accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) Program income increases the federal award; federal regulations allow for the entity to retain and spend program income according to the federal guidelines. MSF collected \$1.4 million and \$1.6 million in program income for the fiscal years ended September 30, 2009 and September 30, 2010, respectively.
- (4) CFDA 14.228 has open grants from program years 2000 through 2010.
- (5) The Promotion of the Arts Partnership Agreements Program (CFDA 45.025) was transferred to MSF by Executive Order No. 2009-36, effective October 1, 2009. Previously, the program was administered by the Department of History, Arts and Libraries.

<u>For the Fiscal Year Ended September 30, 2010</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 929,494	\$ 46,577,578	\$ 47,507,072	\$ 82,749,605
15,070	50,994	66,064	85,767
<u>\$ 944,564</u>	<u>\$ 46,628,572</u>	<u>\$ 47,573,136</u>	<u>\$ 82,835,372</u>
<u>\$</u>	<u>\$</u>	<u>\$ 0</u>	<u>\$ 30,111</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,111</u>
<b><u>\$ 944,564</u></b>	<b><u>\$ 46,628,572</u></b>	<b><u>\$ 47,573,136</u></b>	<b><u>\$ 82,865,483</u></b>
<u>\$</u>	<u>\$ 839,155</u>	<u>\$ 839,155</u>	<u>\$ 839,155</u>
<b><u>\$ 0</u></b>	<b><u>\$ 839,155</u></b>	<b><u>\$ 839,155</u></b>	<b><u>\$ 839,155</u></b>
<u>\$ 944,564</u>	<u>\$ 47,467,727</u>	<u>\$ 48,412,291</u>	<u>\$ 83,704,638</u>



INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE,  
INTERNAL CONTROL OVER COMPLIANCE,  
AND THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report on Compliance With  
Requirements That Could Have a Direct and Material Effect on  
Each Major Program, on Internal Control Over Compliance,  
and on the Schedule of Expenditures of Federal Awards in  
Accordance With OMB Circular A-133

Mr. Michael Finney, President and Chief Executive Officer  
Michigan Strategic Fund  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Finney:

Compliance

We have audited the Michigan Strategic Fund's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Michigan Strategic Fund's major federal program for the two-year period ended September 30, 2010. The Michigan Strategic Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Michigan Strategic Fund's management. Our responsibility is to express an opinion on the Michigan Strategic Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the preceding paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Michigan Strategic Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Michigan Strategic Fund's compliance with those requirements.

As described in Finding 1 in the accompanying schedule of findings and questioned costs, the Michigan Strategic Fund did not comply with requirements regarding reporting that are applicable to its CDBG - State-Administered Small Cities Program Cluster. Compliance with such requirements is necessary, in our opinion, for the Michigan Strategic Fund to comply with the requirements applicable to that cluster.

In our opinion, except for the noncompliance described in the preceding paragraph, the Michigan Strategic Fund complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on its major federal program for the two-year period ended September 30, 2010. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs in Finding 2.

### Internal Control Over Compliance

Management of the Michigan Strategic Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Michigan Strategic Fund's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Michigan Strategic Fund's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 2 to be a significant deficiency.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of the Michigan Strategic Fund as of and for the fiscal years ended September 30, 2010 and September 30, 2009 and have issued our report thereon dated February 8, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Michigan Strategic Fund's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Michigan Strategic Fund's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Michigan Strategic Fund's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Michigan Strategic Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Strategic Fund's Board of Directors, management, others within the entity, and federal awarding agencies 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

March 29, 2011 - As pertaining to Compliance and Internal Control Over Compliance

February 8, 2011 - As pertaining to the Schedule of Expenditures of Federal Awards

SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS



## Section I: Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Significant deficiencies* identified that are not considered to be material weaknesses?	None reported
Noncompliance or other matters material to the financial statements?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified*
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<u>CFDA* Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	<u>CDBG - State-Administered Small Cities Program Cluster:</u> <ul style="list-style-type: none"> <li>Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii</li> </ul>
14.255	<ul style="list-style-type: none"> <li>ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)</li> </ul>

\* See glossary at end of report for definition.

Dollar threshold used to distinguish between type A and type B programs: \$2,511,139

Auditee qualified as a low-risk auditee\*? No

## Section II: Findings Related to the Financial Statements

We did not report any findings related to the financial statements.

**The status of the findings related to the financial statements that were reported in prior single audits\* is disclosed in the summary schedule of prior audit findings.**

## Section III: Findings and Questioned Costs\* Related to Federal Awards

### **FINDING (2711101MSF)**

1. CDBG - State-Administered Small Cities Program Cluster, CFDA 14.228 and 14.255, Reporting

U.S. Department of Housing and Urban Development	CDBG - State-Administered Small Cities Program Cluster:  CFDA 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  CFDA 14.255: ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)
Award Number: B-10-DC-26-0001 B-09-DC-26-0001 B-09-DY-26-0001	Award Period: 07/01/2010 - 06/30/2011 01/01/2009 - 06/30/2010 06/29/2009 - 09/30/2012
	Known Questioned Costs: \$0

\* See glossary at end of report for definition.

The Michigan Strategic Fund's (MSF's) internal control over the CDBG - State-Administered Small Cities Program Cluster did not ensure compliance with federal laws and regulations regarding reporting. Our review disclosed a material weakness in internal control and material noncompliance regarding reporting.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CDBG - State-Administered Small Cities Program Cluster awards.

Federal expenditures for the CDBG - State-Administered Small Cities Program Cluster totaled \$82.8 million, including \$85,767 of American Recovery and Reinvestment Act\* (ARRA) funding, for the two-year period ended September 30, 2010.

Our review disclosed:

- a. MSF's internal control did not ensure that its federal reports were accurate, as required by Title 24, Part 91, section 520 of the *Code of Federal Regulations*. Our review of the performance evaluation report (PER) for program year 2009 disclosed that MSF understated the amount of grants awarded to subrecipients\* by approximately \$8 million. The PER is submitted on a yearly basis for each CDBG program year that is still active. The PER explains how MSF is accomplishing its housing and community development projects.
- b. MSF's internal control did not ensure that its quarterly reports required by Section 1512 of ARRA were accurate and supported by its accounting records. Our review disclosed:
  - (1) MSF understated expenditures on 3 (60%) of 5 quarterly ARRA reports. For the three-month period ended March 31, 2010, MSF understated expenditures by \$6,576 of \$19,724; for the three-month period ended June 30, 2010, MSF understated expenditures by \$12,573 of \$32,297; and for the three-month period ended September 30, 2010, MSF understated expenditures by \$1,584 of \$67,586.

\* See glossary at end of report for definition.

- (2) MSF did not consistently use the same accounting basis to prepare its quarterly ARRA reports. Federal requirements allow either the cash or the accrual basis of accounting. MSF prepared the quarterly ARRA report for the three-month period ended December 31, 2009 using the accrual basis of accounting and prepared the quarterly ARRA report for the three-month period ended March 31, 2010 using the cash basis of accounting.
- (3) MSF did not have a process in place to verify the accuracy of the information contained in the quarterly ARRA reports. As a result, our review of 5 quarterly ARRA reports noted that MSF inaccurately reported the award date for 3 quarterly ARRA reports and the activity code for 5 quarterly ARRA reports.

**RECOMMENDATION**

We recommend that MSF improve its internal control over the CDBG - State-Administered Small Cities Program Cluster to ensure compliance with federal laws and regulations regarding reporting.

**FINDING (2711102MSF)**

2. CDBG - State-Administered Small Cities Program Cluster, CFDA 14.228 and 14.255, Access Controls

U.S. Department of Housing and Urban Development	CDBG - State-Administered Small Cities Program Cluster:  CFDA 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  CFDA 14.255: ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)
Award Number: B-10-DC-26-0001 B-09-DC-26-0001 B-09-DY-26-0001	Award Period: 07/01/2010 - 06/30/2011 01/01/2009 - 06/30/2010 06/29/2009 - 09/30/2012
	Known Questioned Costs: \$0

MSF had not established effective access controls over the CDBG Small Cities Database. Without effective access controls, MSF cannot ensure that the CDBG Small Cities Database application and data have been properly secured against unauthorized modification.

According to the State of Michigan Financial Management Guide (Part VII, Chapter 1, Section 900), access controls help to ensure that users are only able to access applications and data which they are authorized to view and use.

MSF did not have an effective process to disable user accounts for employees who no longer required access to the CDBG Small Cities Database. We identified 5 users who no longer required access because they were either departed or retired or they were performing other job responsibilities. Failure to remove access when users no longer require access leaves the CDBG Small Cities Database vulnerable to unauthorized access and changes to CDBG data. The CDBG Small Cities Database is used to generate the PERs. The PERs are required for reporting the use of CDBG funds for the program year to the U.S. Department of Housing and Urban Development. Because we found access controls to be ineffective, MSF could not ensure that the federal reports generated from the CDBG Small Cities Database were complete and accurate.

### **RECOMMENDATION**

We recommend that MSF establish effective access controls over the CDBG Small Cities Database.

**The status of the findings related to federal awards that were reported in prior single audits is disclosed in the summary schedule of prior audit findings.**

## OTHER SCHEDULES

MICHIGAN STRATEGIC FUND  
Summary Schedule of Prior Audit Findings  
As of March 29, 2011

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 2710901  
**Finding Title:** Year-End Accruals

**Finding:** The Michigan Strategic Fund's (MSF's) accrual methodology did not ensure that it recorded accrued expenditures and revenues at year-end in accordance with generally accepted accounting principles.

**Agency Comments:** MSF agreed with the finding and the recommendation. MSF made changes to internal processes and procedures for proactively estimating potential obligations where grantees have failed to provide sufficient accounts payable information.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 2710902  
**Finding Title:** Supporting Documentation

**Finding:** MSF's internal control did not ensure that it obtained and reviewed sufficient supporting documentation for amounts calculated by another State agency prior to processing transactions.

**Agency Comments:** MSF agreed with the finding and the recommendation. MSF made proper accounting entries to correct the situation and now ensures independent verification of funds held in trust by third parties for future years.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 2710903  
**Finding Title:** Payroll Controls

**Finding:** MSF's internal control did not ensure that supervisors approved employee time sheets. In addition, MSF did not ensure that payroll costs charged to federal programs were properly documented in accordance with federal compliance requirements.

**Agency Comments:** MSF agreed with the finding and recommendation. MSF had the appropriate supervisor sign a separate biannual certification for employees charged to Community Development Block Grants (CDBG) federal funds during the audit period. MSF also instituted training and a policy requiring all managers to approve time in the Data Collection and Distribution System (DCDS) on a biweekly basis.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

##### Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 2710904  
**Finding Title:** Payroll Controls

See Finding 2710903 with the findings related to the financial statements.

##### Audit Findings Not Corrected or Partially Corrected:

**Note:** The following finding was reported in the financial audit, including the provisions of the Single Audit Act, of the Department of History, Arts and Libraries issued in March 2011. The Promotion of the Arts Partnership Agreements Program (CFDA 45.025) was transferred to MSF by Executive Order No. 2009-36, effective October 1, 2009. Previously, the Program was administered by the Department of History, Arts and Libraries. MSF has agreed with the finding and began developing procedures and policies to correct all issues identified starting with fiscal year 2010-11.



**Audit Period:** October 1, 2008 through September 30, 2009  
**Finding Number:** 2511004  
**Finding Title:** Promotion of the Arts - Partnership Agreements, *CFDA 45.025*

**Finding:** The Promotion of the Arts - Partnership Agreements Program's internal control did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, and subrecipient monitoring.

**Agency Comments:** The Michigan Council for Arts and Cultural Affairs (MCACA) agrees that funding was advanced to subrecipients without obtaining prior approval from the Department of Technology, Management & Budget. MCACA enters into agreements with the subrecipients prior to any funds being issued for work, and the agreements include all contractual obligations, such as scope of work and payment schedules. The final payment to a subrecipient is withheld until the receipt by MCACA of a complete final report that includes an accounting of all project related expenses as well as other project related outcomes.

MCACA believes that the payment method used was the most efficient way to handle this program involving many grants with most grants in small award amounts and with very little federal funding.

While MCACA did not draw federal funds before making payments to the subrecipients, it agrees that funds were advanced to subrecipients prior to receiving documentation of actual expenditures incurred by the subrecipients.

MCACA agrees that it has not developed a policy for ensuring compliance with the subrecipient monitoring requirement. Although MCACA has not developed a policy, its practice is to monitor grantee Web sites, to use the Web site service "Guidestar," to review press reviews of shows and exhibits, to meet with specific groups (e.g., local arts agencies), and to also utilize e-mail correspondence and phone calls.

MICHIGAN STRATEGIC FUND

Corrective Action Plan

As of April 13, 2011

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

The Office of the Auditor General has audited the financial statements of the Michigan Strategic Fund (MSF) for the fiscal years ended September 30, 2010 and September 30, 2009 and has issued a separate report thereon dated February 8, 2011.

There were no findings related to the financial statements for fiscal years 2009-10 and 2008-09.

**FINDINGS RELATED TO FEDERAL AWARDS**

- Finding Number:** 2711101MSF
- Finding Title:** CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228 and 14.255, Reporting
- Management Views:** MSF agrees with the finding.
- Planned Corrective Action:**
- a. MSF will develop necessary ad hoc reports from the Small Cities Database to verify the accuracy of and reconcile data in the performance evaluation report (PER) submitted to the U.S. Department of Housing and Urban Development (HUD). This finding does not impact MSF financial statements or the reimbursement received from HUD.
  - b. MSF will establish a process to ensure that the 1512 quarterly American Recovery and Reinvestment Act (ARRA) reports are in line with MSF accounting records and are prepared to ensure its compliance with federal laws and regulations regarding ARRA. This finding does not

impact MSF financial statements or the reimbursement received from HUD.

**Anticipated Completion Date:** June 30, 2011

**Responsible Individual:** Katherine Czarnecki, Manager Community Programs

---

**Finding Number:** 2711102MSF

**Finding Title:** CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228 and 14.255, Access Controls

**Management Views:** MSF agrees with the finding. MSF's current policy requires the Human Resources office to notify Information Technology when employees leave MSF or transfer within MSF. Based on this notification, access rights are changed accordingly. The log-in access to the Small Cities Database is a secondary security feature. During the audit period, MSF did have instances when access rights were not changed.

**Planned Corrective Action:** MSF has policies and procedures for stricter implementation to prevent unauthorized access to the Small Cities Database.

**Anticipated Completion Date:** June 30, 2011

**Responsible Individual:** Kim Fedewa, Manager of Information Technology

---

# GLOSSARY

## Glossary of Acronyms and Terms

American Recovery and Reinvestment Act (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
CDBG	Community Development Block Grants.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that 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.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.

HUD	U.S. Department of Housing and Urban Development.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or

financial statements will not be prevented, or detected and corrected, on a timely basis.

MCACA

Michigan Council for Arts and Cultural Affairs.

pass-through entity

A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

PER

performance evaluation report.

qualified opinion

An auditor's opinion in which the auditor:

- a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible

violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

significant deficiency  
in internal control over  
federal program  
compliance

A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

significant deficiency  
in internal control over  
financial reporting

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.

single audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of 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, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.



subrecipient A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

U.S. Office of Management and Budget (OMB) A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.





