



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

TRANSITION IN THE OFFICE OF STATE TREASURER

DEPARTMENT OF TREASURY

As of October 31, 2013



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:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Transition in the Office of State Treasurer
Department of Treasury
As of October 31, 2013

Report Number:
271-0256-14

Released:
April 2014

A financial audit determines if the financial schedules are fairly presented. This financial audit of the Transition in the Office of State Treasurer was required by Section 12.10 of the Michigan Compiled Laws.

Financial Schedule:

Auditor's Report Issued

We issued an unmodified opinion on the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer.

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Background:

Section 12.10 of the *Michigan Compiled Laws* requires the Auditor General to perform an audit of cash and investments in the possession or under the control of the State Treasurer when the State Treasurer vacates office. Andy Dillon vacated the Office of State Treasurer as of October 31, 2013, and R. Kevin Clinton was appointed State Treasurer as of November 1, 2013.

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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
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Lansing, Michigan 48913

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

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

April 4, 2014

Mr. R. Kevin Clinton
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton:

This is our report on the financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of October 31, 2013.

This report contains the receipt of State Treasurer and our independent auditor's report on the financial schedule. This report also contains the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of October 31, 2013 and a glossary of abbreviations and terms.

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

Sincerely,

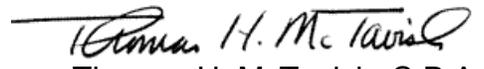

Thomas H. McTavish, C.P.A.
Auditor General

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RECEIPT OF STATE TREASURER

I, R. Kevin Clinton, serving as State Treasurer of the State of Michigan, effective November 1, 2013, hereby acknowledge receipt, possession, and control of the items listed below, as reported on by the Office of the Auditor General in its financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of October 31, 2013, from Andy Dillon, my immediate predecessor:

State Treasurer's Common Cash Available	\$ 5,494,231,706
Other Cash and Cash Equivalents	\$ 66,506,088
Specific Funds' Investments	\$ 57,766,057,068
Collateral Pledged to the State Treasurer	\$ 4,411,108,500

This receipt is given pursuant to Section 12.10 of the *Michigan Compiled Laws*.

R. Kevin Clinton _____ (signature redacted)

Dated 3/24/14

ACKNOWLEDGEMENT:

Andy Dillon _____ (signature redacted)

Dated 3/21/14

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULE



STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedule

Mr. R. Kevin Clinton
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton:

Report on the Financial Schedule

We have audited the accompanying schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of October 31, 2013 and the related note to the financial schedule as listed in the table of contents.

Management's Responsibility for the Financial Schedule

Management is responsible for the preparation and fair presentation of this financial schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedule, whether due to fraud or error. In making those risk assessments,

the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of October 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the accompanying schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer was prepared solely for the purpose of complying with Section 12.10 of the *Michigan Compiled Laws*, which requires an audit of cash and investments in the possession or under the control of the State Treasurer upon a vacancy in the Office of State Treasurer. Accordingly, this schedule does not purport to, and does not, constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan. Our opinion is not modified with respect to this matter.

Sincerely,


Thomas H. McTavish, C.P.A.
Auditor General
March 18, 2014

TRANSITION IN THE OFFICE OF STATE TREASURER
Schedule of Cash and Investments in the Possession or Under the Control
of the State Treasurer and Collateral Pledged to the State Treasurer
As of October 31, 2013

<u>State Treasurer's Common Cash</u>	
Demand deposits	\$ 3,019,351,466
Prime commercial paper	2,665,418,869
Emergency loans	102,194,331
Total cash and equities	<u>\$ 5,786,964,666</u>
Outstanding warrants	<u>(292,732,960)</u>
Total State Treasurer's common cash available	<u>\$ 5,494,231,706</u>
<u>Other Cash and Cash Equivalents</u>	
Mackinac Bridge Authority	\$ 469,909
Michigan Education Trust	65,963,902
Unclaimed Property Division	72,277
Total other cash and cash equivalents	<u>\$ 66,506,088</u>
<u>Specific Funds' Investments</u>	
Game and Fish Lifetime License Trust Fund	\$ 1,433,375
Michigan Veterans' Trust Fund	49,510,115
Game and Fish Protection Trust Fund	194,055,822
Michigan Natural Resources Trust Fund	585,296,795
Michigan State Parks Endowment Fund	179,303,914
Children's Trust Fund	23,677,459
Michigan Nongame Fish and Wildlife Trust Fund	6,145,818
State Lottery Fund	240,750,868
Michigan Education Trust Plans B and C	113,758,857
Michigan Education Trust Plan D	746,084,431
Mackinac Bridge Authority	60,312,967
Legislative Retirement Fund	178,217,005
State Police Pension Fund	1,145,687,382
State Police OPEB Fund	46,131,258
State Employees' Pension Fund	10,016,643,634
State Employees' OPEB Fund	641,200,109
Public School Employees' Pension Fund	40,582,014,002
Public School Employees' OPEB Fund	2,678,608,455
Judges' Pension Fund	256,026,633
Judges' OPEB Fund	736,114
Gifts, Bequests, and Deposits Investment Fund	11,697
Children With Special Needs Fund	20,244,788
Escheats Fund	205,570
Total specific funds' investments	<u>\$ 57,766,057,068</u>
Total cash and investments in the possession or under the control of the State Treasurer	<u><u>\$ 63,326,794,862</u></u>
<u>Collateral Pledged to the State Treasurer</u>	
For insurance companies	\$ 390,099,500
For State deposits	3,945,384,000
For Michigan Education Trust	5,000,000
For Department of Human Services	70,625,000
Total collateral pledged to the State Treasurer	<u><u>\$ 4,411,108,500</u></u>

The accompanying note is an integral part of the financial schedule.

Note to the Financial Schedule

Note 1 Significant Accounting Policies

a. Reporting Entity

This report was prepared solely for the purpose of complying with Section 12.10 of the *Michigan Compiled Laws*, which requires an audit of cash and investments in the possession or under the control of the State Treasurer when the Office of State Treasurer is vacated and a new State Treasurer is appointed. Andy Dillon vacated the Office of State Treasurer as of October 31, 2013, and R. Kevin Clinton was appointed State Treasurer as of November 1, 2013.

For financial reporting purposes, this report includes cash and investment balances under the control of the State Treasurer of various funds and component units that are included within the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* reporting entity.

b. Basis of Accounting and Financial Schedule Presentation

The schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer reports the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer as of October 31, 2013. This report is a special purpose financial presentation prepared to comply with Section 12.10 of the *Michigan Compiled Laws* and does not constitute a complete presentation of assets, liabilities, revenues, and expenses but is otherwise prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, this schedule does not purport to, and does not, constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan.

Cash and investments on the schedule are accounted for using accounting rules promulgated by the Governmental Accounting Standards Board.

c. Description of Cash, Investments, and Pledged Collateral

State Treasurer's Common Cash: The State Treasurer, under the authority provided by State statute, manages the State's common cash. The pooling of cash allows the State Treasurer to invest money not needed to pay immediate obligations so that investment earnings on available cash are maximized. Pool investments are not segregated by fund; rather, each contributing fund's balance is treated as equity in the common cash.

Outstanding warrants represent those State warrants issued and outstanding at October 31, 2013. For the purposes of this schedule, these warrants are deducted from the State Treasurer's common cash pool because they represent an obligation of the pool and the amount is not considered available to meet future obligations.

Other Cash and Cash Equivalents: The State Treasurer has various responsibilities that result in the possession or control of cash and cash equivalents. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.
2. Performing fiscal agent services for the Michigan Education Trust.
3. Serving as administrator for unclaimed property escheated to the Unclaimed Property Division.

Specific Funds' Investments: Specific funds' investments include both short-term and long-term investments. The State Treasurer, under the authority provided by State statutes, manages most investments for the State of Michigan, which consist of stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, mutual funds, and other investments. In July 2004, the investments of the State retirement funds for public school employees, State employees, State police, and judges were consolidated to an investment pool structure. These retirement funds' investments represent a pro-rata share based on ownership of the investment pools.

Collateral Pledged to the State Treasurer: The State Treasurer manages collateral pledged for the following purposes:

1. Collateral pledged by insurance companies as a condition of conducting business in the State.
2. Collateral pledged by banks to secure deposits of State money.
3. Collateral pledged by banks to secure demand deposits of the Michigan Education Trust.
4. Collateral pledged by a bank to secure the Department of Human Services' child support collections.

d. Valuation of Investments and Collateral Pledged to the State Treasurer

The State's common cash pool investments include prime commercial paper, reported at amortized cost, and special loan programs, reported using cost-based measures.

Long-term investments are reported at fair value and short-term investments are reported at amortized cost, except for the State retirement funds using the investment pool structure, which are reported at the fair value of the various investment pools. The fair value of the investment pools is calculated using the value of the securities and other assets within the pools, which includes appreciation of asset values, accrued income, and amounts owed or due from the sale of securities as of the close of business on October 31, 2013.

The fair value of investments traded on a national or international exchange is calculated using quoted market prices. Investments not traded on a national or international exchange are valued based on either equivalent values of comparable investments with similar yield or risk or an estimated fair value.

Collateral pledged to the State Treasurer is reported at par value (the face value of the bonds). On October 31, 2013, collateral pledged by insurance companies included cash in the amount of \$375,000, which was also included in demand deposits of the State Treasurer's common cash.

GLOSSARY

Glossary of Abbreviations and Terms

financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the financial schedules are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

