



## MICHIGAN STRATEGIC FUND

300 N Washington Sq  
Lansing, MI 48913

June 4, 2013

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Mr. Doug Ringler, Director  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> Floor  
Lansing, Michigan 48913

Dear Director Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, enclosed is a summary table identifying our response and corrective action plan to address the recommendation contained within the Office of the Auditor General's Financial Audit Report of the Michigan Strategic Fund (October 1, 2011 through September 30, 2012).

Questions regarding the summary table or corrective action plans should be directed to Juzer Modi at 517.241.0524; or [modij1@michigan.org](mailto:modij1@michigan.org).

Sincerely,

Signature Redacted

Minesh Mody, CFO  
Michigan Strategic Fund

Enclosure

JM:bs

cc: Executive Office  
Office of the Auditor General  
House Fiscal Agency  
Senate Fiscal Agency

Michigan Strategic Fund  
Financial Audit  
Summary of Agency Responses to Recommendations  
October 1, 2011 through September 30, 2012

1. Audit recommendations the agency complied with:  
1, 2a, 2b and 2c
2. Audit recommendations the agency agrees with and will comply:  
2d
3. Audit recommendations the agency disagrees with: Not Applicable

**Michigan Strategic Fund – FY 2012  
Financial Audit  
Agency response to recommendation**

**FINDING 1**

**Controls Over Loans Receivables Data**

The Michigan Strategic Fund's (MSF's) internal control over loans receivable data did not ensure loss provisions were properly excluded from loans receivable balances before recording transactions in its financial accounting systems. As a result, MSF could not ensure the prevention or detection of misstatements in loans receivable reported in its financial statements.

**RECOMMENDATION**

We recommend that MSF improve its internal control over loans receivable data to ensure loss provisions are properly excluded from loans receivable balances before recording transactions in its financial accounting systems.

**MSF RESPONSE**

MSF agreed with the finding and necessary adjustments were made to reflect correct loan receivable amount.

**CORRECTIVE ACTION**

MSF has made changes in the subsidiary ledger system to flag loans with loss provision. This will help reconciling loss provision maintained on spreadsheet with the list generated from the system prior to recording loss provisions. The process will also include comparing the current year loan loss provisions spreadsheet to the prior year one and follow up with portfolio managers on any changes.

**FINDING 2**

**Management of Awards to Recipients System (MARS) Controls**

MSF had not established effective access controls over MARS. Also, MSF, in conjunction with the Department of Technology, Management, and Budget (DTMB), did not obtain assurances regarding internal control over MARS from its service provider.

Our review of MSF's controls over MARS disclosed:

- a. MSF did not monitor user activity in MARS, including the activity of those with privileged access rights, to ensure that users are performing only authorized activities relevant to their respective jobs and positions.
- b. MSF did not periodically monitor user access rights to MARS to ensure that only authorized users have access to the data and applications.
- c. MSF did not ensure the protection of passwords from unauthorized use by requiring users to periodically change their passwords in MARS.

- d. MSF, in conjunction with DTMB, did not obtain assurance regarding the MARS service provider's internal controls by obtaining its established policies and procedures, an independent audit, or certification of the service provider's hosting facility to verify that policies are in place to protect confidential and sensitive data.

#### Recommendations

We recommend that MSF establish effective access controls over MARS.

We also recommend that MSF, in conjunction with DTMB, obtain assurances regarding internal control over MARS from its service provider.

#### MSF's response

We agree with findings related to MARS system.

#### Corrective Action Plan

- a. A procedure was developed so that all activity of MARS "superusers" is reviewed monthly and a report verifying this review is provided to MSF management. This process is now fully implemented.
- b. A procedure was developed to require authorized officials of recipients and state departments using MARS to validate their list of employees with access to MARS. This validation process is designed so that all users are reviewed within a cycle of 12 months. This process is now fully implemented.
- c. MARS software developer has fully implemented process to ensure password integrity as recommended by the finding.
- d. DTMB has been aware of the requirement and began a process, in conjunction with their DIT-0170 "Information Technology Project Security Plan & Assessment" review, to obtain the required certifications. MSF has contacted DTMB and will continue to work with DTMB to acquire appropriate documentation.