

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

---

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

Fiscal Year Ended September 30, 2015

---

---

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

*Fiscal Year Ended September 30, 2015*

**Report Number:**  
**271-0406-16**

**Released:**  
**May 2016**

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 Economic Development Corporation's (MEDC's) financial statements dated March 3, 2016.

<b>Findings Related to Internal Control, Compliance, and Other Matters</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
MEDC did not have sufficient internal control procedures in place to ensure that it properly recorded and reported the fair value of its investments in accordance with generally accepted accounting principles ( <u>Finding #1</u> ).		X	Agrees

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

May 3, 2016

Mr. Steven Arwood, Chief Executive Officer  
and  
Mr. Doug Rothwell, Executive Committee Chair  
Michigan Economic Development Corporation  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Arwood and Mr. Rothwell:

We have audited the basic financial statements of the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2015 and have issued a separate report thereon dated March 3, 2016. In planning and performing our audit of the financial statements, we considered MEDC's internal control over financial reporting and compliance and other matters. This is our report on internal control, compliance, and other matters of MEDC for the fiscal year ended September 30, 2015.

Your agency provided a preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above 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.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

	<u>Page</u>
Report Summary	1
Report Letter	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	8
Fiscal Year 2015 Findings, Recommendations, and Agency Preliminary Responses	
1. Development of controls is necessary to ensure accuracy of investment transactions and financial statement balances.	12
Fiscal Year 2014 Report on Internal Control, Compliance, and Other Matters Follow-Up	14
Glossary of Abbreviations and Terms	15





# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



**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, Chief Executive Officer  
and  
Mr. Doug Rothwell, Executive Committee Chair  
Michigan Economic Development Corporation  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Arwood and Mr. Rothwell:

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 basic financial statements of the Michigan Economic Development Corporation, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2015 and the related notes to the basic financial statements and have issued our report thereon dated March 3, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Michigan Economic Development Corporation'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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Economic Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Michigan Economic Development Corporation'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described in Finding #1, that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Michigan Economic Development Corporation'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*.

**Michigan Economic Development Corporation's Response to Finding**

The Michigan Economic Development Corporation's preliminary response to the finding identified in our audit is included in the body of our report. The Michigan Economic Development Corporation's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

**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  
March 3, 2016



FISCAL YEAR 2015  
FINDINGS, RECOMMENDATIONS, AND  
AGENCY PRELIMINARY RESPONSES

## **FINDING #1**

---

**Development of controls is necessary to ensure accuracy of investment transactions and financial statement balances.**

---

The Michigan Economic Development Corporation (MEDC) did not have sufficient internal control\* procedures in place to ensure that it properly recorded and reported the fair value of its investments in accordance with generally accepted accounting principles\* (GAAP). MEDC initially understated its investments and net increase (decrease) in fair value of investments by \$3.1 million. After our review, MEDC recorded adjusting entries to correct the misstatement. Although MEDC's final, audited financial statements were materially correct, MEDC should develop internal control procedures to help ensure the accuracy of the investment transactions and related financial statement balances in future years.

---

MEDC initially understated its investment financial statement balances by \$3.1 million.

---

Section 150.105 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board\* (GASB), states that investments should be reported at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. The section also states that if a quoted market price is available for an investment, the fair value to be used is the total of the number of trading units of the instrument times the market price per unit.

An MEDC investment became publicly traded during fiscal year 2015; however, MEDC did not adjust its valuation of the investment to the publicly traded fair value as of September 30, 2015.

## **RECOMMENDATION**

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 GAAP.

## **AGENCY PRELIMINARY RESPONSE**

MEDC provided us with the following response:

*MEDC agrees that improvements in its internal control related to investment fair market valuation are needed. MEDC began an engagement with outside consultants on this issue in January 2016, whose preliminary recommendations will be available by May 2016 for review and implementation. MEDC anticipates improved policies and procedures to be implemented prior to the year-end closing process for fiscal year 2016.*

\* See glossary at end of report for definition.

FISCAL YEAR 2014  
REPORT ON INTERNAL CONTROL,  
COMPLIANCE, AND OTHER MATTERS  
FOLLOW-UP

Below is the status of the reported finding from the fiscal year 2014 MEDC report on internal control, compliance, and other matters:

<u>Prior Audit Finding Number</u>	<u>Topic Area</u>	<u>Current Status</u>	<u>Current Finding Number</u>
1	Investment Impairment Losses	Complied	Not applicable



## **GLOSSARY OF ABBREVIATIONS AND TERMS**

---

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 basic financial statements 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.
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.
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
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 basic financial statements will not be prevented, or detected and corrected, on a timely basis.
MEDC	Michigan Economic Development Corporation.
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.





