

**Michigan Achieving A Better Life (ABLE) Program
(A Private Purpose Trust Fund
of the State of Michigan)**

Financial Statements

September 30, 2017



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Independent Auditors' Report

Ms. Rachael Eubanks
State Treasurer
Michigan Department of Treasury

Mr. Doug Ringler, CPA, CIA
Auditor General
Office of the Auditor General

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan Achieving A Better Life Experience (ABLE) Program, as of September 30, 2017 and for the period from November 1, 2016 through September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of Michigan Achieving A Better Life Experience (ABLE) Program, as of September 30, 2017, and the respective changes in fiduciary net position, for the period from November 1, 2016 through September 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements of Michigan Achieving A Better Life (ABLE) Program, are intended to present the fiduciary net position and changes in fiduciary net position of only that portion of the activities of the State of Michigan that is attributable to the Michigan Achieving A Better Life (ABLE) Program. They do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019 on our consideration of Michigan Achieving A Better Life Experience (ABLE) Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Michigan Achieving A Better Life Experience (ABLE) Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan Achieving A Better Life Experience (ABLE) Program's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Lansing, Michigan
March 25, 2019

Michigan Achieving A Better Life (ABLE) Program

Management Discussion and Analysis

For the Period from November 1, 2016 through September 30, 2017

The following discussion of the Michigan Achieving A Better Life Experience (ABLE) Program (MiABLE) financial performance provides an overview of MiABLE's financial activities as of September 30, 2017 and for the period from November 1, 2016 through September 30, 2017. Please read it in conjunction with the financial statements.

Michigan Achieving A Better Life Experience (ABLE) Program Act

The Michigan Achieving A Better Life Experience (ABLE) Program Act (Public Act 160 of 2015 of the *Michigan Compiled Laws*) established a savings program in which an individual or a designated representative of a designated beneficiary can open an MiABLE savings account to save money to pay the qualified disability expenses of the designated beneficiary. MiABLE is a private purpose trust fund of the State of Michigan and is included in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). TSA Consulting Group Inc. (TSA) serves as the program manager and is responsible for providing administrative services and investment management services for the participant plans. To facilitate the investment of contributions received from account owners participating in the plan, TSA established the trust with FPS Trust Company, LLC (FPS) to serve as the custodian.

Financial Highlights

The following highlight some of MiABLE's key financial results:

- Plan operations commenced on November 1, 2016.
- The program held approximately \$ 2.57 million in net contributions from account owners as of September 30, 2017.
- During 2017, contributions received from participants were \$ 2.75 million and distributions to participants for the period were approximately \$ 251,000. The Program earned approximately \$ 82,000 from investments.
- As of September 30, 2017, approximately \$ 17,000 of program management and account-based fees were paid to TSA/FPS. These fees are based on total accounts and the value of investments held in the Trust.

Overview of Financial Statements

MiABLE's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). As required under generally accepted accounting principles applicable to fiduciary fund types, MiABLE's financial statements are prepared using the accrual basis of accounting. Investments are reported at fair value, and all investment transactions are recorded on a trade-date basis. Changes in fair value, along with realized gains (losses), are included in net change in fair value of investments on the statement of changes in fiduciary net position. Amounts received from participants are recognized when they are received, and distributions to participants are recognized when paid. Program management and account-based fees are accrued and paid quarterly.

MiABLE's basic financial statements comprise the statement of fiduciary net position, the statement of changes in fiduciary net position and the related notes to the financial statements. The statement of fiduciary net position presents information on MiABLE's assets and liabilities, with the difference between them representing net position held in trust. The statement of changes in fiduciary net position shows how MiABLE's fiduciary net position changed during the year. The notes to the financial statements provide additional information about the amounts presented in the financial statements. It is essential that readers of this report consider the notes to the financial statements to obtain a full understanding of the financial statements.

Michigan Achieving A Better Life (ABLE) Program
Management Discussion and Analysis
For the Period from November 1, 2016 through September 30, 2017

Financial Analysis

Fiduciary Net Position

The following condensed statement of fiduciary net position provides a “snapshot” of the overall financial position of MiABLE:

	September 30, 2017
Total assets	\$ 2,575,783
Total liabilities	9,167
Net position held in trust	\$ 2,566,616

The reported balance of net position held in trust represents the cumulative total of amounts received from participants since MiABLE’s inception, increased by net investment income, and decreased by distributions to participants and program management fees paid.

Investments, which total approximately \$ 1.63 million at September 30, 2017, represent 63% of MiABLE’s total assets. Account owners may choose to invest in a bank savings account option, or one or more Target Risk Options, each of which invests in a predetermined asset allocation of mutual funds, exchanged-traded funds (ETFs) and/or an interest bearing savings account, structure for different levels of risk tolerance and time horizons.

Other assets, which totaled approximately \$ 948,000 at September 30, 2017, represents cash. MiABLE’s liabilities, which totaled approximately \$ 9,000 at September 30, 2017, comprise of a payable for program and account-based fees.

Changes in Fiduciary Net Position

The following condensed statement of changes in fiduciary net position summarizes how MiABLE’s net position held in trust changed during the period presented:

	November 1, 2016 through September 30, 2017
Received from participants	\$ 2,752,553
Net investment income	82,271
Total additions	2,834,824
Distributed to participants	(250,982)
Program management and account-based fees paid	(17,226)
Total deductions	(268,208)
Change in net position	2,566,616
Net position held in trust - November 1, 2016	-
Net position held in trust - September 30, 2017	\$ 2,566,616

Michigan Achieving A Better Life (ABLE) Program
Management Discussion and Analysis
For the Period from November 1, 2016 through September 30, 2017

Investment Commentary

MiABLE accounts offer a pre-screened list of brand-name low-cost investments from Vanguard and Dimensional funds. Also available are five pre-defined asset allocation models constructed from the pre-screened list of investments, ranging in approach from conservative to aggressive.

The different asset classes include fixed income, foreign and domestic equity funds, and involves a range of market capitalization and industry sectors. Investments within each asset class that meet initial screening criteria are identified and reviewed for viability. Each portfolio and fund manager is evaluated against qualitative and quantitative methodologies. Investments that have demonstrated a discipline of performance history, style consistency, preservation and stewardship are selected. Each is then monitored and reviewed regularly.

The MiABLE plan also offers a bank saving investment option.

Contacting MiABLE

The financial report is designed to provide the Legislature, the executive branch of the government, the public, and other interested parties with an overview of the financial results of the Program's activities and to show the accountability for the money it receives. If you have any questions about this report or need additional information regarding the MiABLE Program, contact R. Scott DeVarona, 430 W. Allegan Street, Lansing, Michigan, 48922 or go to www.michigan.gov/miable.

Michigan Achieving A Better Life Experience (ABLE) Program
Statement of Fiduciary Net Position
September 30, 2017

Assets

Cash	\$ 948,419
Investments	<u>1,627,364</u>

Total assets

2,575,783

Liabilities

Fees payable	<u>9,167</u>
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Net position held in trust

\$ 2,566,616

Michigan Achieving A Better Life Experience (ABLE) Program
Statement of Changes in Fiduciary Net Position
For the Period from November 1, 2016 through September 30, 2017

Additions

Received from participants	\$ 2,752,553
Investment income	
Interest and dividends	20,471
Net change in fair value of investments	61,800
Net investment income	82,271
Total additions	2,834,824

Deductions

Distributed to participants	250,982
Program management and account-based fees paid	17,226
Total deductions	268,208

Change in net position

2,566,616

Total net position held in trust - November 1, 2016

-

Total net position held in trust - September 30, 2017

\$ 2,566,616

Michigan Achieving A Better Life Experience (ABLE) Program

Notes to the Financial Statements

September 30, 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Michigan Achieving A Better Life Experience (ABLE) Program (MiABLE), a private purpose trust fund of the State of Michigan, was established within the Michigan Department of Treasury by Public Act 160 of 2015. MiABLE is a savings program created to encourage and assist individuals and families in saving funds for the purpose of supporting individuals with disabilities, to maintain health, independence, and quality of life. These funds are expected to provide secure funding for qualified disability expenses on behalf of designated beneficiaries with disabilities that will supplement, but not supplant, benefits provided through private insurance, the Supplemental Security Income (SSI) program, the Medicaid program, the beneficiary's employment, and other sources.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accompanying financial statements present only MiABLE. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan as a whole or its other funds in conformity with accounting principles generally accepted in the United State of America.

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As allowed by the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, MiABLE follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins, except those that conflict with a GASB pronouncement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash Deposits

Cash balances, which are part of MiABLE's investment options are held by the service organization at Vectra Bank as custodian. As of September 30, 2017, MiABLE's bank balance was \$ 983,892, in which \$ 733,892 was uninsured and uncollateralized.

Investments

MiABLE accounts offer a pre-screened list of brand-name low-cost investments from Vanguard and Dimensional funds. Also available are five pre-defined asset allocation models constructed from the pre-screened list of investments, ranging in approach from conservative to aggressive.

The different asset classes include fixed income, foreign and domestic equity funds, and involves a range of market capitalization and industry sectors. Investments within each asset class that meet initial screening criteria are identified and reviewed for viability. Each portfolio and fund manager is evaluated against qualitative and quantitative methodologies. Investments that have demonstrated a discipline of performance history, style consistency, preservation and stewardship are selected. Each is then monitored and reviewed regularly.

Michigan Achieving A Better Life Experience (ABLE) Program
Notes to the Financial Statements
September 30, 2017

The MiABLE plan also offers a bank saving investment option.

Net realized and unrealized gains are included in the net change in fair value of investments on the statement of changes in fiduciary net position. Purchases and sales are recorded on a trade-date basis. Dividends and capital gain distributions are recorded on the ex-dividend date.

Investment Income

Dividend income and capital gain distributions from the underlying funds, if any, are recorded on the ex-dividend date. Capital gain distributions, if any, from underlying funds are a component of the net increase in the fair value of investments. Interest income is recorded earned.

Income Taxes

MiABLE is exempt from federal income tax under Section 529A of the Internal Revenue Code and does not expect to have any unrelated business income subject to tax. Accordingly, no provision for federal income taxed has been made.

Note 2 – Investments and Cash Deposits

MiABLE’s investments at September 30, 2017, are as follows:

	Category	Fair Value
Mutual Funds, at fair value:		
Dimensional US Core Equity 2	Mid-Cap Blend	\$ 426,663
Dimensional Emerging Markets Core	Diversified Emerging Markets	137,081
Dimensional Five-Year Global Fixed Portfolio	World Bond	42,524
Dimensional Global Real Estate Securities	Global Real Estate	92,706
Dimensional Inflation Protected Securities	Inflation-Protected Bond	208,039
Dimensional Intermediate Government Fixed Income	Intermediate Government	126,024
Dimensional International Vector Equity	Foreign Small/Mid Value	110,341
Dimensional Two-Year Global Fixed Portfolio	World Bond	37,772
Vanguard Developed Markets Index Fund	Foreign Large Blend	197,937
Vanguard Short-Term Bond Index Fund	Short-Term Bond	124,443
Vanguard Total Bond Market Index Fund	Intermediate-Term Bond	123,834
Total mutual funds		1,627,364
Bank Savings Account	Cash	948,419
Total cash and investments		\$ 2,575,783

Michigan Achieving A Better Life Experience (ABLE) Program
Notes to the Financial Statements
September 30, 2017

The following table calculates the net change in the fair value of investments and cash during the year ended September 30, 2017:

Fair value of cash and investments - September 30, 2017	\$ 2,575,783
Less cost of investments purchased and dividends reinvested during the period	(2,773,024)
Plus proceeds from investments sold during the period	259,041
Less fair value of cash and investments - November 1, 2016	-
Net change in fair value of cash and investments	\$ 61,800

The mutual funds in which MiABLE invests comprise various investment securities whose asset holdings include corporate debt and equity securities, obligations of the United States government and government agencies, and international securities. These securities are exposed to various risks, such as interest rate, market, and credit risk, and it is at least reasonably possible that changes in their fair values could occur in the near term, materially affecting the amounts reported in MiABLE's financial statements.

Certain investments are subject to a variety of investment risks based on the amount of risk in the underlying funds. GASB requires that entities disclose certain essential risk information about deposits and investments. All of MiABLE's investment portfolios are uninsured and unregistered and are held by a custodian in MiABLE's name.

MiABLE's cash and investments are subject to certain types of risk, which are detailed below:

Investment Policy

The investments that compose the various portfolio options are specified in the MiABLE participant disclosure statement. There are no separate formal investment policies that specifically addresses credit risk, custodial credit risk, interest risk, or foreign currency risk.

Credit Risk

The Dimensional Five-Year Global Fixed Portfolio, Dimensional Inflation Protected Securities, Dimensional Intermediate Government Fixed Income, Dimensional Two-Year Global Fixed Portfolio, Vanguard Short-Term Bond Index Fund, and Vanguard Total Bond Market Index Fund include bonds issued by corporations, foreign governments, and the U.S. government, its agencies, and instrumentalities. MiABLE may be indirectly exposed to credit risk, which is the risk that a bond issuer will fail to pay interest and principal, when due, as a result of adverse market or economic conditions.

None of the mutual funds in which MiABLE invests are rated by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure, MiABLE's deposits and investments may not be returned. An account owner has an investment in an investment portfolio and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that investment may be allocated. Because of this ownership structure, the custodial credit risk is significantly mitigated.

Michigan Achieving A Better Life Experience (ABLE) Program
Notes to the Financial Statements
September 30, 2017

Interest Rate Risk

The Dimensional Five-Year Global Fixed Portfolio, Dimensional Inflation Protected Securities, Dimensional Intermediate Government Fixed Income, Dimensional Two-Year Global Fixed Portfolio, Vanguard Short-Term Bond Index Fund, and Vanguard Total Bond Market Index Fund, due to their investment primarily in bonds, may also be exposed to interest rate risk, which is the risk that changes in interest rates will adversely impact the fair value of an investment. Average maturity is the average length of time until fixed-income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call a bond before its maturity date. In general, the longer the average maturity, the more a fund's share price will fluctuate in response to changes in interest rates. As of September 30, 2017, the average maturity of holdings in each of these investments are as follows:

	<u>Average Maturity</u>
Dimensional Five-Year Global Fixed Portfolio	3.92 years
Dimensional Inflation Protected Securities	8.34 years
Dimensional Intermediate Government Fixed Income	7.21 years
Dimensional Two-Year Global Fixed Portfolio	1.59 years
Vanguard Short-Term Bond Index Fund	2.86 years
Vanguard Total Bond Market Index Fund	8.33 years

Foreign Currency Risk

The Dimensional Emerging Markets Core, Dimensional Five-Year Global Fixed Portfolio, Dimensional Global Real Estate Securities, Dimensional International Vector Equity, Dimensional Two-Year Global Fixed Portfolio, Vanguard Developed Markets Index Fund may include international securities and foreign currency in their underlying asset holdings. There are certain inherent risks involved when investing in international securities and foreign currency that are not present with investments in domestic securities, such as foreign currency exchange rate fluctuations, adverse political and economic developments, natural disasters, and the possible prevention or delay of currency exchange due to foreign governmental laws or restrictions. MiABLE does not have any direct investment in foreign securities. As of September 30, 2017, the values of investments in underlying mutual funds that significantly invest in foreign dominated contracts are as follows:

	<u>Foreign Currency</u>	<u>Market Value</u>
Dimensional Emerging Markets Core	Various	\$ 137,081
Dimensional Five-Year Global Fixed Portfolio	Various	\$ 42,524
Dimensional Global Real Estate Securities	Various	\$ 92,706
Dimensional International Vector Equity	Various	\$ 110,341
Dimensional Two-Year Global Fixed Portfolio	Various	\$ 37,772
Vanguard Developed Markets Index Fund	Various	\$ 197,937

Note 3 - Fair Value Measurement

The investments are reported at closing market prices as of the reporting date. Accounting standards categorize fair value measurements according to a hierarchy that is based on valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted market prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable.

MiABLE has the following recurring fair value measurements as of September 30, 2017:

- Mutual funds of \$ 1,627,364 are valued using quoted market prices (Level 1 inputs)

Michigan Achieving A Better Life Experience (ABLE) Program
Notes to the Financial Statements
September 30, 2017

Note 4 - Fees and Expenses

Program Management Fees

MiABLE pays a fee to a service organization for administering and managing the investment options. This fee, which is 0.5% on average daily balance for the quarter, is accrued quarterly and reduces the net asset value per unit of each investment. Program management fees for the period from November 1, 2016 through September 30, 2017 was \$ 4,243.

Underlying Investment Fees

Investment advisory fees, administrative fees, and other expenses related to management of the mutual funds in which MiABLE invests are paid out of the assets of the mutual funds and reduce the amount of income available to be distributed to MiABLE in the form of dividends or capital gains. These underlying fund expenses are not direct expenses paid from MiABLE assets, and therefore, are not reported in MiABLE's financial statements.

Account-Based Fees

Each individual account is charged a quarterly maintenance fee of \$ 11.25. This fee is processed as withdrawals from the individual accounts. Total account fees for the period from November 1, 2016 through September 30, 2017, was \$ 12,983.

Note 5 - Risk Management

The State of Michigan has elected not to purchase commercial insurance for many of the risks of losses to which it and the Authority are exposed. The State of Michigan is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims.

Note 6 - Commitments

MiABLE has contracted with a third party to manage the program, maintain records, and be the custodian of the investments. This third party contracts with subcontractors to perform the duties. The contract expires on August 31, 2021.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Ms. Rachael Eubanks
State Treasurer
Michigan Department of Treasury

Mr. Doug Ringler, CPA, CIA
Auditor General
Office of the Auditor General

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 accompanying financial statements of Michigan Achieving A Better Life (ABLE) Program as of September 30, 2017 and for the period from November 1, 2016 through September 30, 2017, and the related notes to the financial statements, which collectively comprise Michigan Achieving A Better Life (ABLE) Program's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan Achieving A Better Life (ABLE) Program'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan Achieving A Better Life (ABLE) Program's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan Achieving A Better Life (ABLE) Program'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 2017-001 to 2017-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan Achieving A Better Life (ABLE) Program's 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 Achieving A Better Life (ABLE) Program's Response to Findings

Michigan Achieving A Better Life (ABLE) Program's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses in the section titled "Views of Responsible Officials and Corrective Action Plan". Michigan Achieving A Better Life (ABLE) Program's response was not subjected to the auditing procedures applied in the audit of the 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.

Yeo & Yeo, P.C.

Lansing, Michigan
March 25, 2019

Michigan Achieving A Better Life Experience (ABLE) Program
Schedule of Findings and Responses
September 30, 2017

Finding 2017-001 - Material Weakness - Monitoring and Reconciliations

Criteria:

Section 18.1485 of the Michigan Compiled Laws required each department to establish and maintain an internal accounting and administrative control system. The State of Michigan Financial Management Guide (Part VII, Chapter 1, Section 1000) requires oversight of a third party service organization's internal control system when those services have a material effect on an entity's operation and reporting.

Condition:

MiABLE did not routinely monitor the financial statements or internal controls of the program on an interim basis. MiABLE did not validate amounts and did not reconcile financial information provided by the service organization.

Cause:

The program was created through legislation and staffed by current State of Michigan employees. During the setup of the MiABLE program, the focus was on growing participant numbers more than monitoring support for financial statements or reconciling financial information to support. MiABLE delegated most of the controls to the service organizations and did not have sufficient internal user controls to monitor the financial statements or service organizations.

Effect:

Financial statements and other financial information were not monitored and provided to the Treasurer as required. User controls were also not utilized to validate balances from service organizations which reduces the ability to detect errors and validate information provided by the service organizations for the financial statements and related notes.

Recommendation:

We recommend that MiABLE perform timely reviews of the financial statements, and other financial information provided by service organizations and use the information to fully report to the Treasurer. We also recommend that MiABLE implement a monitoring program and documented over all critical internal controls. This monitor program should include a review that internal control procedures were used and a procedure for initialing and dating those items which were reviewed. This will allow management to ensure all aspects of internal control are being implemented as designed, thus helping prevent or detect errors on a timely basis.

Views of Responsible Officials and Corrective Action Plan:

Treasury agrees with the recommendation. MiABLE staff has access to aggregate MiABLE account data throughout the year that allows for the real time review of program and account information which has been used to report to various stakeholders in the Disability Community, Treasury Leadership, the Legislature, and the general public. Furthermore, staff has access to beneficiary specific account data, including all account transactions (including deposits, withdrawals, investment changes, and fees assessed). Aggregate MiABLE asset and beneficiary data are reported monthly for review by the Treasurer.

Staff have implemented procedures to request and ensure the delivery of quarterly financial statements from the service organization. MiABLE staff has received, reviewed, and stored annual financial statements and quarterly reconciliation reports, bank statements, and position statements from the service organization for 2016, 2017, and 2018 which show balanced bank and position accounts with no abnormal account activity.

MiABLE has also implemented documented procedures to review quarterly statements from the service organization. Furthermore, Treasury has formalized documented procedures to ensure internal controls are reviewed according to the Treasury's standard schedule.

Michigan Achieving A Better Life Experience (ABLE) Program
Schedule of Findings and Responses
September 30, 2017

Finding 2017-002 - Material Weakness – Maintain Physical Records

Criteria:

Pursuant to Public Act 160 of 2015, paragraph 206.983 section 6, MiABLE is required to keep adequate records related to financial statement balances and compile the information in statements to be presented to the treasurer in a timely manner.

Condition:

A summary of financial information was reported annually but the detail was not obtained from the service organization or retained by MiABLE, or presented to the treasurer on an interim basis.

Cause:

The program was created through legislation and staffed by current State of Michigan employees. During the setup of the MiABLE program, the focus was on growing participant numbers and records were not maintained as required.

Effect:

Financial statement records were not obtained and retained throughout the year which reduces the ability to detect errors and validate information provided by the service organizations. This can also cause delays in performing audits and they did not comply with the audit requirement for the period from November 1, 2016 through September 30, 2017.

Recommendation:

We recommend that MiABLE obtain and retain support for financial statement balances including, but not limited to bank statements and reconciliations, investment statements and reconciliations, rollup report and transactions, and a fees charged report from the service organizations, and report to the Treasurer on a monthly basis. This can be facilitated by creating a checklist of documents needed each month to document that items were received monthly.

Views of Responsible Officials and Corrective Action Plan:

Treasury agrees with the recommendation. Treasury has implemented procedures to ensure the delivery and storage of financial statements from the MiABLE service organization. Per the executed contract, MiABLE will receive and review financial statements quarterly. MiABLE staff has access to aggregate MiABLE account data throughout the year that allows for the real time review of account information that has been used to report to various stakeholders in the Disability Community, Treasury Leadership, the Legislature, and general public. Furthermore, staff has access to beneficiary specific account data, including all account transactions (including deposits, withdrawals, investment changes, and fees assessed). Aggregate MiABLE asset and beneficiary data is reported monthly for review by the Treasurer.

MiABLE staff has subsequently received and stored reconciliation reports for the previous periods. The procedures for the delivery, review, and storage of all reports, statistics, and metrics will ensure internal controls are being met. Furthermore, formalized MiABLE procedures will ensure internal controls are reviewed according to the approved Treasury standard schedule.

Finally, a checklist has been developed to ensure documents needed from the vendor are received.

Michigan Achieving A Better Life Experience (ABLE) Program
Schedule of Findings and Responses
September 30, 2017

Finding 2017-003 - Material Weakness - Participant Statements Not Reconciled to Financials

Criteria:

Statements provided to participants should agree to financial statement amounts to verify proper custodianship was maintained.

Condition:

Participant statements did not agree to balances tracked in the accounting system. The differences were due to fees of \$ 9,167 which were recorded by the service organization as of September 30, 2017 but were not reported as of year-end on the statements provided to the participants. We also noted that the number of shares owned by participants differed from accounting records.

Cause:

Additional information was included in the activity rollup report provided by the service organization that was not in the participant statements due to certain timing differences. These differences involved the investment fees accrued at year-end of \$ 9,167 and number of shares reported that were not reconciled at year-end. This difference in share reported was due to the activity being recorded for fees and dividends at year-end without the share activity being reflected in the accounting system.

Effect:

Records maintained by MiABLE at year-end included amounts not reported on the participant statements which can reduce participant confidence in custodial ability of program. Participants expect what is report on their statements to be what is owed.

Recommendation:

We recommend that MiABLE reconciles yearend information provided by the service organizations to balances reported to participants at year-end and record any necessary accruals. This may also include updating reporting system to include year-end fees to participant statements.

Views of Responsible Officials and Corrective Action Plan:

Treasury does not agree with this recommendation. Treasury does not receive participant yearend statements and cannot record accruals in the service organization's accounting system. Therefore, Treasury cannot implement this recommendation.

For 2017, the service organization used the settlement date as the parameter for transaction inclusion on participant statements. This resulted in fees accrued through the end of the period and charged to the following period. The service organization has implemented a parameter change for reporting using the effective date of transactions for inclusion on participant statements. The parameter was changed for 2018 reports and statements. This change remediates this finding.