

Office of the Auditor General
Financial Audit Report

Transition in the Office of State Treasurer

Department of Treasury

As of December 31, 2018

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Financial Audit

Transition in the Office of State Treasurer

Department of Treasury

As of December 31, 2018

Report Number:
271-0256-19

Released:
May 2019

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

Auditor's Report Issued

UNMODIFIED OPINION

MODIFIED OPINION

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 to reflect that it was fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

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 upon a vacancy in the Office of State Treasurer. Nick A. Khouri vacated the Office of State Treasurer as of December 31, 2018, and Rachael Eubanks was appointed State Treasurer as of January 1, 2019.

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Doug A. Ringler, CPA, CIA
Auditor General

May 15, 2019

Ms. Rachael Eubanks
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Ms. Eubanks:

This is our financial audit report on the Transition in the Office of State Treasurer, Department of Treasury, as of December 31, 2018. This financial audit is required by Section 12.10 of the *Michigan Compiled Laws*.

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

Sincerely,

Doug Ringler
Auditor General

TABLE OF CONTENTS

TRANSITION IN THE OFFICE OF STATE TREASURER

	<u>Page</u>
Report Summary	1
Report Letter	3
Independent Auditor's Report on the Financial Schedule	8
Transition in the Office of State Treasurer Financial Schedule	
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 December 31, 2018	10
Notes to the Financial Schedule	11
Glossary of Abbreviations and Terms	14

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULE



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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on the Financial Schedule

Ms. Rachael Eubanks
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Ms. Eubanks:

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 December 31, 2018 and the related notes to the financial schedule.

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 December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the accompanying financial schedule 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 financial 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.

As discussed in Note 2, the accompanying financial schedule does not include the defined contribution investments of the Legislative Retirement System or any investments of the Public School Employees' Retirement System, State Employees' Retirement System, State Police Retirement System, Judges' Retirement System, and Military Retirement Provisions.

Our opinion is not modified with respect to these matters.

Sincerely,



Doug Ringler
Auditor General
May 6, 2019

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 December 31, 2018

State Treasurer's Common Cash Pool - Cash and Cash Equivalents

Demand deposits	\$ 1,153,075,520
Outstanding checks	(171,807,787)
Net demand deposits	\$ 981,267,733
Prime commercial paper	4,735,249,693
Emergency loans	288,633,022
Total State Treasurer's common cash pool - Cash and cash equivalents	<u>\$ 6,005,150,448</u>

Other Cash and Cash Equivalents

Mackinac Bridge Authority	\$ 8,454,879
Michigan Achieving a Better Life Experience (ABLE) Program	3,456,155
Michigan Education Trust	56,061,589
Total other cash and cash equivalents	<u>\$ 67,972,623</u>

Specific Funds' Investments

Game and Fish Lifetime License Trust Fund	\$ 2,626,647
Michigan Veterans' Trust Fund	56,815,030
Game and Fish Protection Trust Fund	225,460,226
Michigan Natural Resources Trust Fund	663,297,101
Michigan State Parks Endowment Fund	289,567,407
Children's Trust Fund	24,579,931
Michigan Nongame Fish and Wildlife Fund	6,665,693
Kirtland's Warbler Dedicated Account	613,357
State Lottery Fund	172,591,453
Michigan Education Trust Plans B and C	100,973,195
Michigan Education Trust Plan D	865,606,533
Mackinac Bridge Authority	94,162,188
Legislative Retirement Fund	136,728,134
Gifts, Bequests, and Deposits Investment Fund	11,298
Children With Special Needs Fund	20,959,498
Fostering Futures Scholarship Trust Fund	461,632
Escheats Fund	2,590,414
Michigan Achieving a Better Life Experience (ABLE) Program	3,861,848
Total specific funds' investments	<u>\$ 2,667,571,585</u>

Total cash and investments in the possession or under the control of the State Treasurer

\$ 8,740,694,656

Collateral Pledged to the State Treasurer

For insurance companies	\$ 293,231,363
For State deposits	1,396,829,000
For Michigan Education Trust	5,000,000
For Michigan Department of Health and Human Services	<u>68,568,000</u>

Total collateral pledged to the State Treasurer

\$ 1,763,628,363

The accompanying notes are an integral part of the financial schedule.

NOTES 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 upon a vacancy in the Office of State Treasurer. Nick A. Khouri vacated the Office of State Treasurer as of December 31, 2018, and Rachael Eubanks was appointed State Treasurer as of January 1, 2019.

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 December 31, 2018. 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 Pool - Cash and Cash Equivalents: The State Treasurer, under the authority provided by State statute, manages the State's common cash pool. 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 checks represent those State checks issued and outstanding at December 31, 2018.

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 the Michigan Achieving a Better Life Experience (ABLE) Program.

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.

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 Michigan Department of Health and 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.

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

Collateral pledged to the State Treasurer is reported at par value (the face value of the bonds). On December 31, 2018, collateral pledged by insurance companies included cash in the amount of \$1,625,000, which was also included in demand deposits of the State Treasurer's common cash pool.

Note 2

Retirement System Investments

Executive Order No. 2018-10, effective November 26, 2018, created the State of Michigan Investment Board and transferred sole fiduciary responsibility of certain retirement assets from the State Treasurer to the Board. Accordingly, the financial schedule does not include the defined contribution investments of the Legislative Retirement System or any investments of the Public School Employees' Retirement System, State Employees' Retirement System, State Police Retirement System, Judges' Retirement System, and Military Retirement Provisions.

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.
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 financial schedule that causes the schedule to not present fairly the financial position in accordance with the applicable financial reporting framework.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
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.



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