

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

**Michigan Public School Employees'
Retirement System**

Fiscal Year Ended September 30, 2020

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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Report Summary

*Report on Internal Control, Compliance, and
Other Matters
Michigan Public School Employees'
Retirement System
Fiscal Year Ended September 30, 2020*

**Report Number:
071-0152-21**

**Released:
March 2021**

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 Public School Employees' Retirement System's financial statements dated January 29, 2021.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
The Department of Technology, Management, and Budget's Financial Services and Office of Retirement Services did not establish sufficient internal control, which resulted in financial statement line item misstatements prior to audit (Finding #1).		X	Agree

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Doug A. Ringler, CPA, CIA
Auditor General

March 31, 2021

Mr. Scott Koenigs knecht, Chair
Michigan Public School Employees' Retirement System Board
Stevens T. Mason Building
and
Mr. Brom Stibitz, Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
and
Mr. Anthony J. Estell, Director
Office of Retirement Services
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Koenigs knecht, Mr. Stibitz, and Mr. Estell:

This is our report on internal control, compliance, and other matters of the Michigan Public School Employees' Retirement System for the fiscal year ended September 30, 2020.

Your agency provided the 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 to submit it to the State Budget Office upon completion of the audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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,

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Scott Koenigs knecht, Chair
Michigan Public School Employees' Retirement System Board
Stevens T. Mason Building
and
Mr. Brom Stibitz, Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
and
Mr. Anthony J. Estell, Director
Office of Retirement Services
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Koenigs knecht, Mr. Stibitz, and Mr. Estell:

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 Public School Employees' Retirement System as of and for the fiscal year ended September 30, 2020 and the related notes to the basic financial statements and have issued our report thereon dated January 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 have not been 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 System'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 financial statements. 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*.

System's Response to Finding

The System's preliminary response to the finding identified in our audit is included in the body of our report. The System'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
January 29, 2021

FISCAL YEAR 2020
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING #1

**Improvements
needed in internal
control over employer
receivable
transactions.**

The Department of Technology, Management, and Budget's Financial Services (FS) and Office of Retirement Services (ORS) need to enhance their internal control* to ensure that employer receivable transactions are recorded correctly and that misstatements are prevented, or detected and corrected, in a timely manner.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using generally accepted accounting principles* (GAAP). These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; a system of practices to be followed in the performance of duties; qualified personnel that maintain a level of competence; and internal control techniques that are effective and efficient. Each principal department head shall document the system and ensure that the system functions as intended.

Our audit disclosed that FS did not record the receivable and the related contributions for the amount due from participating employers for contributions earned by the Michigan Public School Employees' Retirement System (MPERS) during the fiscal year but not remitted to ORS by September 30, 2020. FS corrected the misstatement prior to the issuance of MPERS's *Comprehensive Annual Financial Report*. The misstatement had the following effects (prior to correction):

Financial Statement Line Item	Amount Overstated/(Understated) (In Millions)
Beginning Net Position Restricted for Pension and OPEB	(\$112.4)
Receivables: Amounts due from employer	(\$106.0)
Additions: Employer contributions	(\$ 85.3)
Additions: Employee contributions	(\$ 20.7)
Net Position Restricted for Pension Benefits and OPEB	(\$106.0)

ORS requires participating employers to submit member payroll records based on the employers' pay date. However, ORS did not collect the employers' pay period beginning and ending dates that corresponded to the pay date. Therefore, both ORS and FS did not realize that they needed to record a transaction for contributions earned by MPERS but not remitted to ORS by the end of the fiscal year.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that FS and ORS enhance their internal control to ensure that employer receivable transactions are recorded correctly and misstatements are prevented, or detected and corrected, in a timely manner.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB provided us with the following response:

DTMB Financial Services (FS) and the Office of Retirement Services (ORS) agree and will comply with the recommendation. Upon notification by the Office of the Auditor General, FS and ORS immediately created a process to estimate the accrual for contributions earned in the current fiscal year and paid after the end of the fiscal year and updated the Michigan Public School Employees' Retirement System (MPERS) Comprehensive Annual Financial Report. ORS will establish an annual process to obtain the necessary employer payroll service dates to estimate the value of contributions earned in the current fiscal year and paid after the end of the fiscal year so that FS can accrue member and employer contributions.

FISCAL YEAR 2019
REPORT ON INTERNAL CONTROL,
COMPLIANCE, AND OTHER MATTERS
FOLLOW-UP

Below is the status of the reported finding from the fiscal year 2019 Michigan Public School Employees' Retirement System report on internal control, compliance, and other matters (071-0152-20):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Improvements needed in internal control over accounting transactions.	Complied	Not applicable
2	Improvements needed to ensure the completeness and accuracy of actuary data.	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.
FS	Financial Services.
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.
MPSERS	Michigan Public School Employees' Retirement System.
ORS	Office of Retirement Services.

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.



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