

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

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**Michigan Military Retirement Provisions**

Fiscal Year Ended September 30, 2020

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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

### *Report on Internal Control, Compliance, and Other Matters*

### *Michigan Military Retirement Provisions*

### *Fiscal Year Ended September 30, 2020*

**Report Number:**  
**071-0158-21**

**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 Military Retirement Provisions' financial statements dated January 25, 2021.

<b>Findings Related to Internal Control, Compliance, and Other Matters</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
The Department of Technology, Management, and Budget's Financial Services did not establish sufficient internal control, which resulted in misstatements in the notes to the financial statements and related supporting schedules prior to audit ( <a href="#">Finding #1</a> ).		X	Agrees

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Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General





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**Doug A. Ringler, CPA, CIA**  
Auditor General

March 31, 2021

Colonel John J. Wojcik, Chair  
State of Michigan Retirement 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 Colonel Wojcik, Mr. Stibitz, and Mr. Estell:

This is our report on internal control, compliance, and other matters of the Michigan Military Retirement Provisions 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

Colonel John J. Wojcik, Chair  
State of Michigan Retirement 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 Colonel Wojcik, 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 Military Retirement Provisions (MMRP) 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 25, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered MMRP'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 MMRP's internal control. Accordingly, we do not express an opinion on the effectiveness of MMRP'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 MMRP'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*.

### **MMRP's Response to Finding**

MMRP's preliminary response to the finding identified in our audit is included in the body of our report. MMRP'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 25, 2021



FISCAL YEAR 2020  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## FINDING #1

### Improvements needed in procedures for transferring funds between reserves.

The Department of Technology, Management, and Budget's Financial Services (FS) should continue to enhance its internal control to prevent, or detect and correct, misstatements in the notes to the financial statements and related supporting schedules.

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), including recordkeeping procedures 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.

Section 38.11(3) of the *Michigan Compiled Laws* states that if, in any year, the Michigan Military Retirement Provisions' (MMRP's) pension reserve fund is insufficient to cover the reserves for retirement allowances and other benefits being paid from the fund, the amount or amounts of the insufficiency or insufficiencies shall be transferred from the employer's accumulation fund to the pension reserve fund.

Our audit disclosed that MMRP's reserve for retired benefit payments did not have a sufficient balance as of September 30, 2020 to cover the reserves for retirement allowances and other benefits being paid from the fund, and FS did not record a transfer from MMRP's reserve for employer contributions. FS corrected the misstatement prior to the issuance of MMRP's *Comprehensive Annual Financial Report*. The misstatement had the following effects (prior to correction) on the reserves disclosed in Note 2 of the financial statements and the supporting schedule, Detail of Changes in Plan Fiduciary Net Position:

Schedule Line Item	Reserve Amount Overstated/(Understated) (In Millions)	
	Employer Contributions	Retired Benefit Payments
Other Changes in Net Position:		
Transfers of employer shares	\$56.4	\$(56.4)
Net Position Restricted for Pension Benefits:		
End of Year	\$56.4	\$(56.4)

FS informed us that its procedures for transferring funds between reserves did not consider the requirements of Section 38.11(3) of the *Michigan Compiled Laws*.

\* See glossary at end of report for definition.

**RECOMMENDATION**

We recommend that FS enhance internal control to prevent, or detect and correct, misstatements in the notes to the financial statements and related supporting schedules.

**AGENCY  
PRELIMINARY  
RESPONSE**

DTMB provided us with the following response:

*DTMB Financial Services (FS) agrees and will comply with the recommendation. Upon notification by the Office of the Auditor General, FS immediately corrected the misstatement and updated the Michigan Military Retirement Provisions' Comprehensive Annual Financial Report. FS, with assistance from Office of Retirement Services, will establish an annual process to review statutory language, procedures, and any applicable changes made to existing processes to ensure compliance with the Michigan Compiled Laws for transferring of monies between reserve funds.*

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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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.
MMRP	Michigan Military Retirement Provisions.



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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