

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

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**Self-Insurers' Security Fund**  
Department of Labor and Economic Opportunity

Calendar Year Ended December 31, 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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# OAG

Office of the Auditor General

## Report Summary

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

### *Self-Insurers' Security Fund*

### *Department of Labor and Economic Opportunity*

### *Calendar Year Ended December 31, 2020*

**Report Number:**  
**186-0101-21**

**Released:**  
**May 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 Self-Insurers' Security Fund's financial statements dated March 26, 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 Labor and Economic Opportunity, in conjunction with the Department of Licensing and Regulatory Affairs, should improve the Self-Insurers' Security Fund's financial reporting process ( <u>Finding #1</u> ).		X	Agree

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

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





# OAG

Office of the Auditor General

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

May 11, 2021

Ms. Lee Anne Fontaine, Chair  
Board of Trustees for the Funds Administration  
and  
Ms. Susan R. Corbin, Acting Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan

Dear Ms. Fontaine and Ms. Corbin:

This is our report on internal control, compliance, and other matters of the Self-Insurers' Security Fund, Department of Labor and Economic Opportunity, for the calendar year ended December 31, 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,

A handwritten signature in cursive script that reads "Laura J. Hirst".

Laura J. Hirst, CPA  
Deputy Auditor General



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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



**Office of the Auditor General**

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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

Ms. Lee Anne Fontaine, Chair  
Board of Trustees for the Funds Administration  
and  
Ms. Susan R. Corbin, Acting Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan

Dear Ms. Fontaine and Ms. Corbin:

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 financial statements of the Self-Insurers' Security Fund, Funds Administration, Workers' Disability Compensation Agency, Department of Labor and Economic Opportunity, as of and for the calendar year ended December 31, 2020 and the related notes to the financial statements and have issued our report thereon dated March 26, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Self-Insurers' Security Fund'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Self-Insurers' Security Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Self-Insurers' Security Fund'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 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 Self-Insurers' Security Fund'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 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*.

**Department's Response to Finding**

The Department's preliminary response to the finding identified in our audit is included in the body of our report. The Department'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.

Sincerely,



Laura J. Hirst, CPA  
Deputy Auditor General  
March 26, 2021



CALENDAR YEAR 2020  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

**FINDING #1**

**Financial reporting process needs improvement.**

The Department of Labor and Economic Opportunity (LEO), in conjunction with the Department of Licensing and Regulatory Affairs (LARA), should improve the Self-Insurers' Security Fund's (SISF's) financial reporting process to help ensure the complete and accurate preparation of its financial statements.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to establish and maintain an internal accounting and administrative control system using generally accepted accounting principles\* (GAAP). It explains that the controls should include a system of practices to be followed in the performance of duties; be effective, efficient, and documented; and function as intended.

For calendar year 2020, LEO and LARA agreed that LEO's responsibilities included providing all data for preparation of SISF financial statements to LARA accounting staff and that LARA's responsibilities included the preparation of the annual financial statements for SISF.

Although we issued an unmodified opinion\* on SISF's financial statements, our review of SISF's financial reporting process disclosed that LEO and LARA did not always efficiently prepare drafts of the financial statements and notes and ensure that they were complete and accurate. Ensuring complete procedures for the closing process would help improve LEO's and LARA's efficiency at preparing the financial statements, especially since statute requires the inclusion of calendar year financial statements in SISF's annual report by March 31 each year.

LEO and LARA cited difficulties in the financial statement preparation process because of the complexity of financial statements requiring conversion from a fiscal year to a calendar year basis, including the SISF financial statement presentation that differs from the presentation included in the *State of Michigan Comprehensive Annual Financial Report* on a fiscal year basis.

**RECOMMENDATION**

We recommend that LEO, in conjunction with LARA, improve SISF's financial reporting process.

**AGENCY PRELIMINARY RESPONSE**

LEO provided us with the following response:

*LEO and LARA agree.*

*LEO and LARA will explore efforts to update current procedures for the purpose of enhancing the completeness and accuracy of the financial statements while decreasing the chance of potential errors in the future.*

\* See glossary at end of report for definition.

*LEO and LARA acknowledge the need for continuous improvement to existing procedures for year-end financial statement preparation. As noted in the finding by the OAG, difficulty in generating the financial statements is due in part to the complexity of converting from a fiscal year to a calendar year, including the SISF financial statement presentation that differs from the presentation included in the State of Michigan's Comprehensive Annual Financial Report on a fiscal year basis. In addition, these conversions and creation of financial statements must be done in an extremely short period of time. The statute dictates that a copy of the calendar year financial statements must be included in the annual report by March 31 of each year. This added level of complexity in the generation of the statements in addition to the short time frame are hurdles that will exist annually because of the statute.*

## **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.
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.
LARA	Department of Licensing and Regulatory Affairs.
LEO	Department of Labor and Economic Opportunity.
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.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.

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.

SISF

Self-Insurers' Security Fund.

unmodified opinion

The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.







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