

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

**Michigan Public School Employees'
Retirement System**
(A Fiduciary Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2021

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 Public School Employees' Retirement System

*(A Fiduciary Component Unit of the State of Michigan)
Fiscal Year Ended September 30, 2021*

**Report Number:
071-0152-22**

**Released:
April 2022**

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 February 24, 2022.

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 did not establish sufficient internal control, which necessitated corrections to the financial statements and related supporting schedules prior to issuance (Finding 1).		X	Agrees

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Office of the Auditor General
201 N. Washington Square, Sixth Floor
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

April 28, 2022

Mr. Scott Koenigs knecht, Chair
Michigan Public School Employees' Retirement System Board
Stevens T. Mason Building
and
Ms. Michelle Lange, Acting 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, Ms. Lange, 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, 2021.

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 Koenigsknecht, Chair
Michigan Public School Employees' Retirement System Board
Stevens T. Mason Building
and
Ms. Michelle Lange, Acting 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. Koenigsknecht, Ms. Lange, 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, a fiduciary component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2021 and the related notes to the basic financial statements and have issued our report thereon dated February 24, 2022.

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
February 24, 2022

FISCAL YEAR 2021
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 (DTMB'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*, 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.

Our audit disclosed that FS improperly recorded fiscal year 2021 unfunded actuarial accrued liability employer contributions to the reserve for employer contributions pension plus instead of the reserve for employer contributions. FS corrected the misstatements prior to the issuance of the *Michigan Public School Employees' Retirement System Annual Comprehensive Financial Report*. The misstatement had the following effects (prior to correction) on the reserves disclosed in Note 2 to the financial statements and the supporting schedule, detail of changes in plan fiduciary net position:

Schedule Line Item	Amount Overstated/(Understated) (In Millions)	
	Employer Contributions	Employer Contributions Pension Plus
Contributions:		
Employer contributions - Colleges and universities	\$ (10.9)	\$ 10.9
Employer contributions - School districts and other	\$(144.7)	\$144.7
Net Position Restricted for Pension Benefits and OPEB:		
End of Year	\$(155.6)	\$155.6

FS informed us that unfunded actuarial accrued liability contributions are automatically recorded as employer contributions in the reserve for employer contributions pension plus and that a year-end adjustment is required to move the contribution to the employer contributions reserve. However, the year-end adjustment was not made during fiscal year 2021.

RECOMMENDATION

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

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB provided us with the following response:

DTMB Financial Services and Office of Retirement Services agree and will comply with the recommendation. Upon notification by the Office of the Auditor General, Financial Services immediately corrected the identified error and updated the MPSERS Annual Comprehensive Financial Report. Financial Services is working to assess and enhance the current controls in place and implement additional controls to ensure misstatements in accounting transactions will be prevented or detected and corrected.

Below is the status of the reported finding from the fiscal year 2020 Michigan Public School Employees' Retirement System report on internal control, compliance, and other matters (071-0152-21):

<u>Prior Audit Finding Number</u>	<u>Topic Area</u>	<u>Current Status</u>	<u>Current Finding Number</u>
1	Improvements needed in internal control over employer receivable transactions.	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.
DTMB	Department of Technology, Management, and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the 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."
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 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 financial statements will not be prevented, or detected and corrected, on a timely basis.
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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