

Office of the Auditor General
Report on Internal Control Over Financial Reporting

**State of Michigan Postemployment Life
Insurance Benefit Plan**

Schedule of Employer Allocations and Schedule of Other
Postemployment Benefit Amounts by Employer

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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Report Summary

*Report on Internal Control Over Financial Reporting
State of Michigan Postemployment Life Insurance Benefit Plan - Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Amounts by Employer
Fiscal Year Ended September 30, 2021*

Report Number:
071-0168-22

Released:
March 2023

Generally accepted auditing standards require that an auditor report to management and those charged with governance any significant deficiencies or material weaknesses 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 dated January 18, 2023 on the State of Michigan Postemployment Life Insurance Benefit Plan's schedule of employer allocations and schedule of other postemployment benefit amounts by employer for the fiscal year ended September 30, 2021.

Findings Related to Internal Control Over Financial Reporting	Material Weakness	Significant Deficiency	Agency Preliminary Response
Lack of sufficient internal control resulted in an improper determination of other postemployment benefit liabilities that was not detected and corrected prior to audit and ultimately delayed the issuance of the financial schedules by approximately three months (Finding 1).	X		Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

March 2, 2023

Mr. Jase Bolger, Acting Chair
and
Mr. John Gnodtke, State Personnel Director
Michigan Civil Service Commission
Capitol Commons Center
Lansing, Michigan
and
Ms. Michelle Lange, Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
Lansing, Michigan

Dear Mr. Bolger, Mr. Gnodtke, and Ms. Lange:

This is our report on internal control over financial reporting of the State of Michigan Postemployment Life Insurance Benefit Plan's schedule of employer allocations and schedule of other postemployment benefit amounts by employer 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 an 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 black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL



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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on Internal Control Over Financial Reporting

Mr. Jase Bolger, Acting Chair
and
Mr. John Gnodtke, State Personnel Director
Michigan Civil Service Commission
Capitol Commons Center
Lansing, Michigan
and
Ms. Michelle Lange, Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
Lansing, Michigan

Dear Mr. Bolger, Mr. Gnodtke, and Ms. Lange:

In planning and performing our audit of the State of Michigan Postemployment Life Insurance Benefit Plan's (Plan's) schedule of employer allocations and schedule of other postemployment benefit amounts by employer (schedules) as of and for the fiscal year ended September 30, 2021 and the related notes in accordance with auditing standards generally accepted in the United States of America, we considered the Plan'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 opinions on the schedules, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 schedules 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 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 were not identified. We identified a deficiency in internal control, as described in Finding 1, that we consider to be a material weakness.

The Plan's preliminary response to the material weakness identified in our audit was not subjected to auditing procedures applied in the audit of the schedules and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Michigan Civil Service Commission, the Department of Technology, Management, and Budget, and the State of Michigan Postemployment Life Insurance Benefit Plan's participating employers and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive style with a large, prominent "D" and "R".

Doug Ringler
Auditor General
January 18, 2023

FISCAL YEAR 2021
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

Improvement in internal control needed to ensure proper determination of OPEB liabilities.

The Michigan Civil Service Commission (CSC) Employee Benefits Division and the Office of Retirement Services (ORS), Department of Technology, Management, and Budget, did not have sufficient internal control* to ensure proper determination of the life insurance other postemployment benefit (OPEB) liability on the schedule of OPEB amounts by employer for the fiscal year ended September 30, 2021. Although CSC corrected the misstatements prior to issuing the schedules, the absence of these controls in fiscal year 2021 delayed issuance by approximately three months. Without control improvements, risk exists that other misstatements could occur and not be detected in a timely manner.

Section 18.1485 of the *Michigan Compiled Laws* states each department shall establish and maintain an internal accounting and administrative control system using generally accepted accounting principles*. 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 the system functions as intended.

In addition, Governmental Accounting Standards Board* (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires employers participating in a cost-sharing pension plan to recognize in their financial statements the proportionate share of the collective net OPEB liability, deferred inflows of resources, deferred outflows of resources, and OPEB expense. The proportionate share of the net OPEB liability is determined based on each employer's actual employer contributions.

CSC and ORS provide the actuary all active and retired participants, respectively, and their beneficiaries eligible for life insurance benefits as of September 30th. The actuary uses this information to determine the employer's OPEB liability amount based on the participant counts and eligible life insurance benefit amounts.

CSC and ORS did not properly identify all Michigan State Employees' Retirement System (MSERS) retirees eligible for life insurance benefits as of September 30, 2021.

* See glossary at end of report for definition.

Our audit disclosed the following misstatements which CSC corrected prior to the issuance of the schedules:

Employer	Overstatement (Understatement) of September 30, 2021 OPEB Liability
State of Michigan	\$ (27,615,017)
State Building Authority	(2,264)
Information Technology Fund	(1,295,183)
State Lottery Fund	(127,316)
Office Services Revolving Fund	(63,109)
Liquor Purchase Revolving Fund	(66,669)
Correctional Industries Revolving Fund	(26,775)
Motor Transport Fund	(20,601)
Risk Management Fund	(5,625)
Michigan Veterans' Facility Authority	(190,655)
Michigan State Housing Development Authority	(173,840)
Michigan Economic Development Corporation	(55,529)
Mackinac Bridge Authority	(41,332)
Michigan Finance Authority	(35,542)
Michigan Strategic Fund	(27,406)
Michigan Education Trust	(10,533)
Mackinac Island State Park Commission	(4,352)
State Land Bank Authority	(8,160)
Total	<u>\$ (29,769,907)</u>

When determining the count of MSERS participants eligible for life insurance, we noted ORS did not provide 1,593 eligible retirees and their life insurance benefit amounts to the actuary. ORS incorrectly excluded 860 retirees who were deceased after September 30, 2021. In addition, ORS incorrectly excluded 733 MSERS defined contribution plan retirees because it did not confirm with CSC the life insurance eligible retirees as of September 30, 2021. ORS and CSC informed us they had not established a routine schedule by which updated information should be provided.

We consider this deficiency to be a material weakness in internal control because of the possibility a material misstatement may not be prevented or detected and corrected on a timely basis.

RECOMMENDATION

We recommend that CSC and ORS implement sufficient internal control to ensure the proper determination of the life insurance OPEB liability on the schedule of OPEB amounts by employer.

**AGENCY
PRELIMINARY
RESPONSE**

CSC and ORS provided us with the following response:

Michigan Civil Service Commission (CSC), Employee Benefits Division, and Office of Retirement Services (ORS), Department of Technology, Management, and Budget (DTMB) agree with the recommendation. CSC and ORS will expand our efforts to establish more effective controls to mitigate errors during the

compilation of the life insurance participant data. Additional internal control measures are being reviewed to identify potential errors and discrepancies when compiling the life insurance participant data as reported each fiscal year.

GLOSSARY OF ABBREVIATIONS AND TERMS

CSC	Michigan Civil Service Commission.
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 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 schedules that causes the schedules 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 schedules will not be prevented, or detected and corrected, on a timely basis.
MSERS	Michigan State Employees' Retirement System.
OPEB	other postemployment benefit.

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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