

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

Michigan Strategic Fund
(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2022

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 Strategic Fund

(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2022

**Report Number:
186-0401-23**

**Released:
April 2023**

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 Strategic Fund's financial statements dated February 28, 2023.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
The Michigan Strategic Fund could not identify the portion of the \$12.4 billion of conduit debt issued since 1979 that remained outstanding as of September 30, 2022 (Finding 1).		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

April 28, 2023

Mr. Quentin L. Messer, Jr.
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Mr. Messer:

This is our report on internal control, compliance, and other matters of the Michigan Strategic Fund for the fiscal year ended September 30, 2022.

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,

Doug Ringler
Auditor General

TABLE OF CONTENTS

MICHIGAN STRATEGIC FUND

	<u>Page</u>
Report Summary	1
Report Letter	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	8
Fiscal Year 2022 Findings, Recommendations, and Agency Preliminary Responses	
1. Improvements needed in conduit debt identification and disclosure.	12
Glossary of Abbreviations and Terms	13

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. Quentin L. Messer, Jr.
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Mr. Messer:

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 governmental activities and each major fund of the Michigan Strategic Fund (Fund), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2022 and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units and were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion on them. Accordingly, we did not express an opinion on the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the Fund's basic financial statements, and we have issued our report thereon dated February 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and each major fund, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's governmental activities and each major 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*.

Fund's Response to Finding

Government Auditing Standards require the auditor to perform limited procedures on the Fund's preliminary response to the finding identified in our audit. The response is included after the finding. The response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 28, 2023

FISCAL YEAR 2022
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

Improvements needed in conduit debt identification and disclosure.

The Michigan Strategic Fund (MSF) did not have a process in place to identify and disclose the total amount of conduit debt outstanding as of September 30, 2022, as required by accounting principles generally accepted in the United States of America* (GAAP). MSF disclosed \$12.4 billion total conduit debt issued since 1979 but could not determine the amount outstanding.

A conduit debt obligation is a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor). Conduit debt obligations issued by MSF, such as private activity bonds, are not obligations of MSF or the State of Michigan and, therefore, are not reported on MSF's financial statements. Governmental Accounting Standards Board* Interpretation No. 2 requires governmental entities to disclose the amount of conduit debt obligations outstanding at the balance sheet date. If the amount is not determinable or cannot reasonably be estimated, issuers may provide the aggregate original issue amount for conduit debt obligations issued prior to the implementation of this Interpretation, which was prior to October 1, 1996 for MSF. At a minimum, MSF should have disclosed the amount of conduit debt issued through September 30, 1996 and the amount outstanding for conduit debt issued from October 1, 1996 through September 30, 2022.

MSF did not maintain sufficient detailed records to calculate the amount of issued conduit debt obligations which is still outstanding and did not take other steps, such as confirming balances with third-party obligors or lenders, to identify the outstanding balance amount.

MSF informed us limited resources impacted its ability to determine the total outstanding conduit debt amount as of September 30, 2022.

RECOMMENDATION

We recommend MSF implement a process to identify and disclose the total conduit debt outstanding as of the balance sheet date in accordance with GAAP.

AGENCY PRELIMINARY RESPONSE

MSF provided us with the following response:

MSF agrees with the recommendation and will develop a process to identify and disclose the total conduit debt outstanding amount as of the fiscal year-end balance sheet date in accordance with GAAP.

* See glossary at end of report for definition.

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 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	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 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.
MSF	Michigan Strategic Fund.
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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