

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

Michigan Economic Development Corporation
(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2023

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.



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Report Summary

Report on Internal Control, Compliance, and Other Matters

Michigan Economic Development Corporation

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

Fiscal Year Ended September 30, 2023

Report Number:
815-0406-24

Released:
March 2024

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 Economic Development Corporation's (MEDC's) financial statements dated February 13, 2024.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
MEDC did not have sufficient internal control to prevent a \$10 million grant payment from being approved and issued before the grantee met all eligibility requirements (Finding 1).		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

March 27, 2024

Quentin L. Messer, Jr., Chief Executive Officer
and
Awenate Cobbina, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Director Messer and Chair Cobbina:

This is our report on internal control, compliance, and other matters of the Michigan Economic Development Corporation for the fiscal year ended September 30, 2023.

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

TABLE OF CONTENTS

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

	<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 2023 Findings, Recommendations, and Agency Preliminary Responses	
1. Improvements needed to the grant payment approval process.	12
Glossary of Abbreviations and Terms	13

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 and on Compliance and Other Matters

Quentin L. Messer, Jr., Chief Executive Officer
and
Awenate Cobbina, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

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 business-type activities and the fiduciary activities of the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise MEDC's basic financial statements, and have issued our report thereon dated February 13, 2024.

Report on Internal Control Over Financial Reporting

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

MEDC's Response to Finding

Government Auditing Standards require the auditor to perform limited procedures on MEDC'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.



Doug Ringler
Auditor General
February 13, 2024

FISCAL YEAR 2023
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

Improvements needed to the grant payment approval process.

The Michigan Economic Development Corporation (MEDC) did not have sufficient internal control* to ensure grantees met all eligibility requirements prior to authorizing grant payments.

According to Sections N50.117 and N50.118 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board*, expenses in voluntary nonexchange transactions should be recognized when all applicable eligibility requirements are met. MEDC grantees must meet requirements identified in the contract, called milestones, to be eligible to receive grant payments, and any changes to contract terms must be agreed upon in writing by both parties.

In our sample, we identified one instance where the grantee, by executing the grant agreement, met the first milestone and received a \$10 million grant payment. The release of additional funds was contingent on the grantee documenting it had expended all initial funds. MEDC approved and distributed an additional \$10 million grant payment although the grantee did not provide support that \$2.9 million in initial grant funds was expended.

MEDC informed us it had verbal communication with the grantee and thought its payment approval was sufficient to revise contract terms and did not require a written acknowledgment by both parties.

MEDC corrected this error prior to the issuance of the financial statements.

RECOMMENDATION

We recommend MEDC implement sufficient internal control to ensure grantees meet all eligibility requirements prior to authorizing grant payments.

AGENCY PRELIMINARY RESPONSE

MEDC provided us with the following response:

MEDC agrees with the recommendation and will improve internal control to ensure grantees meet all eligibility requirements prior to authorizing grant payments.

* 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.
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.
MEDC	Michigan Economic Development Corporation.
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.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.



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