

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

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

Fiscal Year Ended September 30, 2025

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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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Office of the Auditor General

## Report Summary

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

### *Michigan Strategic Fund (MSF)*

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

### *Fiscal Year Ended September 30, 2025*

**Report Number:  
185-0401-26**

**Released:  
May 2026**

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 MSF's financial statements dated March 10, 2026.

<b>Findings Related to Internal Control, Compliance, and Other Matters</b>	<b>Material Weakness</b>	<b>Significant Deficiency</b>	<b>Agency Preliminary Response</b>
MSF needs to enhance its internal control to ensure accounting transactions are appropriately recorded and misstatements are prevented, or detected and corrected, in a timely manner ( <a href="#">Finding 1</a> ).		X	Agrees

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**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

May 28, 2026

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

President Messer:

This is our report on internal control, compliance, and other matters of the Michigan Strategic Fund for the fiscal year ended September 30, 2025.

Your agency provided the preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will 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 style.

Doug Ringler  
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

Quentin L. Messer, Jr.  
President, Michigan Strategic Fund  
Chair, Michigan Strategic Fund Board of Directors  
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 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, 2025 and the related notes to the financial statements. We were not engaged to audit the financial statements of the Fund's 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 do 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 March 10, 2026.

### **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 identified a deficiency in internal control, as described in Finding 1 in the body of our report, that we consider to be a significant deficiency.

**Report on Compliance and Other Matters**

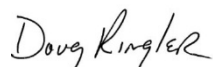
As part of obtaining reasonable assurance about whether the Fund's governmental activities and each major fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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.



Doug Ringler  
Auditor General  
March 10, 2026



FISCAL YEAR 2025  
FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## FINDING 1

### Improvements needed to internal control over accounting transactions.

The Michigan Strategic Fund (MSF) needs to enhance its internal control\* to ensure accounting transactions are appropriately recorded and misstatements are prevented, or detected and corrected, in a timely manner.

Section 18.1485 of the *Michigan Compiled Laws* states each department shall establish and maintain an internal 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.

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\* (GASB), expenses in voluntary nonexchange transactions should be recognized when all applicable eligibility requirements are met.

Our audit disclosed the following internal control deficiencies:

- a. MSF did not ensure grantees met all eligibility requirements for 2 (25%) of 8 randomly selected year-end payable transactions prior to recording the payable. No cash payments were made in relation to these transactions; however, these misstatements had the following effects (prior to correction):

Financial Statement Line Item	Amount Overstated/ (Understated)
Fund Level - General Operations Fund:	
Revenues: Federal revenues	\$ 481,681
Expenditures: Other programs	\$ 481,681
Current liabilities: Accounts payable and other liabilities	\$ 481,681
Current liabilities: Unearned revenue	\$ (481,681)
Fund Level - Jobs for Michigan Investment Fund:	
Expenditures: Jobs for Michigan Investment Fund	\$ 749,000
Current liabilities: Accounts payable and other liabilities	\$ 749,000
Fund balance: Restricted fund balance	\$ (749,000)
Entity-Wide:	
Expenses: Other programs	\$ 481,681
Expenses: Jobs for Michigan Investment Fund	\$ 749,000
Revenues: Federal revenues	\$ 481,681
Current liabilities: Accounts payable and other liabilities	\$1,230,681
Current liabilities: Unearned revenue	\$ (481,681)
Net position restricted for: Jobs for Michigan Investment Fund	\$ (749,000)

\* See glossary at end of report for definition.

MSF informed us staff misinterpreted the requirements for year-end payable transactions and, therefore, conservatively established the payables.

- b. MSF did not reclassify transactions which were temporarily coded to expenditures. At year-end, MSF typically reclassifies loan and investment disbursement entries to record assets; however, MSF did not initially reclassify some fiscal year 2025 activity and the following misstatements occurred (prior to correction):

Financial Statement Line Item	Amount Overstated/ (Understated)
Fund Level - General Operations Fund:	
Expenditures: Other programs	\$ 1,837,500
Noncurrent assets: Economic development equity programs	\$(1,837,500)
Fund balance: Restricted fund balance	\$(1,837,500)
Entity-Wide:	
Expenses: Other programs	\$ 1,837,500
Noncurrent assets: Economic development equity programs	\$(1,837,500)
Net position restricted for: Other purposes	\$(1,837,500)

MSF informed us it did not initially reclassify the transactions because staff believed reclassification would not have a financial statement effect.

- c. MSF did not have an effective process to validate the sources of information used to calculate the equity in its aggregate discretely presented component units. MSF contracted with an independent certified public accountant (CPA) firm to calculate the component units' equity utilizing the component units' financial statements, of which 8 (89%) of 9 are unaudited. These financial statements include assets and liabilities, such as loans to and investments in other entities, which can significantly impact the component units' total equity. MSF did not take sufficient steps to validate these other assets and liabilities. Prior to the issuance of MSF's financial statements, we were able to obtain sufficient appropriate evidence to support the reasonableness of the equity recorded.

MSF informed us it had turnover in management previously responsible for recording MSF's equity in component units. In an attempt to improve its controls over the component unit valuation, it contracted with an independent CPA firm to perform a limited review of the component units' financial statements. MSF relied on this review as it lacked the time and historical knowledge to implement additional validation procedures.

- d. MSF did not fully update financial databases containing contact information for borrowers, lending institutions, or investees to reflect current contact information. We noted MSF's financial team did not have up-to-date contact information in its databases for 8 (27%) of 30 direct loans, 3 (8%) of 39 participation loans, and 4 (21%) of 19 economic development equity programs (EDEP) randomly and judgmentally sampled, which led to inefficiencies in confirming asset balances.

MSF informed us the information in its tracking systems was not fully updated in a timely manner but, upon auditor notification, was able to provide correct contact information during the audit and the associated loan and EDEP balances were confirmed.

## **RECOMMENDATION**

We recommend MSF enhance its internal control to ensure accounting transactions are appropriately recorded and misstatements are prevented, or detected and corrected, in a timely manner.

## **AGENCY PRELIMINARY RESPONSE**

MSF provided us with the following response:

*The MSF agrees with this finding and the related recommendation. MSF will improve internal control to ensure accounting transactions are appropriately recorded and misstatements are prevented, or detected and corrected, in a timely manner.*

*Regarding part (c), MSF made a good faith effort to analyze and validate the balances by contracting with an outside independent accounting firm to assist with that work. MSF will improve its process to further validate the balances provided by component units.*

*Regarding part (d), MSF has a process to update contact information for borrowers, lending institutions, and investees; and will continue to improve that process. MSF had correct contact information outside of the identified databases for the applicable entities and was ultimately able to provide it to auditors in a reasonable time and will ensure those updates are made timely in the identified systems of record in the future.*

## PRIOR AUDIT FOLLOW-UP

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Following is the status of the reported finding from the fiscal year 2024 Michigan Strategic Fund report on internal control, compliance, and other matters (185-0401-25):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1a	Recording year-end grant payables.	Repeated*	1a
1b	Adjusting loan and lease receivable balances.	Complied	Not applicable

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\* See glossary at end of report for definition.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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<b><i>Codification of Governmental Accounting and Financial Reporting Standards (Codification)</i></b>	An integration of currently effective accounting and reporting standards for state and local governments.
<b>CPA</b>	certified public accountant.
<b>deficiency in internal control over financial reporting</b>	The design or operation of a control not allowing management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
<b>EDEP</b>	economic development equity programs.
<b>financial audit</b>	An audit 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.
<b>generally accepted accounting principles (GAAP)</b>	A technical accounting term encompassing 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."
<b>Governmental Accounting Standards Board (GASB)</b>	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.
<b>internal control</b>	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.
<b>material misstatement</b>	A misstatement in the financial statements causing 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 a reasonable possibility exists a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

**MSF**

Michigan Strategic Fund.

**repeated**

The wording of the current recommendation remains essentially the same as the prior audit recommendation.

**significant deficiency in internal control over financial reporting**

A deficiency, or a combination of deficiencies, in internal control 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 the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.







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