



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

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.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*  
*Transition in the Office of State Treasurer*  
*Department of Treasury*  
*As of December 31, 2010*

Report Number:  
271-0256-11

Released:  
June 2011

*A financial audit determines if the financial schedules are fairly presented. This financial audit of the Transition in the Office of State Treasurer was required by Section 12.10 of the Michigan Compiled Laws.*

***Financial Schedule:***

**Auditor's Report Issued**

We issued an unqualified opinion on the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer.

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***Background:***

Section 12.10 of the *Michigan Compiled Laws* requires the Auditor General to perform an audit of cash and investments in the possession or under the control of the State Treasurer when the State Treasurer vacates office. Robert J. Kleine vacated the Office of State Treasurer as of December 31, 2010, and Andy Dillon was appointed State Treasurer as of January 1, 2011.

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or by visiting our Web site at:  
<http://audgen.michigan.gov>



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**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General





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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

June 17, 2011

Mr. Andy Dillon  
State Treasurer  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Dillon:

This is our report on the financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of December 31, 2010.

This report contains the receipt of State Treasurer and our independent auditor's report on the financial schedule. This report also contains the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of December 31, 2010 and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL



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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RECEIPT OF STATE TREASURER

I, Andy Dillon, serving as State Treasurer of the State of Michigan, effective January 1, 2011, hereby acknowledge receipt, possession, and control of the items listed below, as reported on by the Office of the Auditor General in its financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of December 31, 2010, from Robert J. Kleine, my immediate predecessor:

State Treasurer's Common Cash Available	\$ 3,877,573,041
Specific Funds' Investments	\$ 51,289,774,408
Other Cash and Investments	\$ 50,880,597
Collateral Pledged to the State Treasurer	\$ 2,185,139,000

This receipt is given pursuant to Section 12.10 of the *Michigan Compiled Laws*.

Dated 6/8/11 Andy Dillon \_\_\_\_\_

ACKNOWLEDGEMENT:

Dated 6-8-11 Robert J. Kleine \_\_\_\_\_



# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULE



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on the Financial Schedule

Mr. Andy Dillon  
State Treasurer  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Dillon:

We have audited the accompanying schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of December 31, 2010. This schedule is the responsibility of the Department of Treasury's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer was prepared solely for the purpose of complying with Section 12.10 of the *Michigan Compiled Laws*, which requires an audit of cash and investments when the Office of State Treasurer is vacated and a new State Treasurer is appointed. Accordingly, this schedule does not purport to, and does not, constitute a complete financial presentation of assets, liabilities, revenues, and expenses for the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan.

In our opinion, the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer referred to in the first paragraph presents fairly, in all material respects, the cash, investments, and pledged collateral of the State Treasurer as of December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Governor, the Legislature, the State Treasurer, and the Department of Treasury's management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

May 5, 2011

TRANSITION IN THE OFFICE OF STATE TREASURER  
Schedule of Cash and Investments in the  
Possession or Under the Control of the State Treasurer and  
Collateral Pledged to the State Treasurer  
As of December 31, 2010

State Treasurer's Common Cash

Cash on hand	\$ 445
Demand deposits	1,646,620,572
Time deposits	9,250,000
Prime commercial paper	2,332,754,121
Emergency municipal loans	64,728,884
Michigan Sugar Beet Loan Program	<u>450,000</u>

Total cash and equities \$ 4,053,804,022

Outstanding warrants (176,230,981)

Total State Treasurer's common cash available \$ 3,877,573,041

Specific Funds' Investments

Michigan Conservation and Recreation Legacy Fund - Game and Fish Protection	
Account, Lifetime License Trust Fund	\$ 1,720,885
Michigan Veterans' Trust Fund	48,192,405
Michigan Game and Fish Protection Trust Fund	168,625,466
Michigan Natural Resources Trust Fund	493,152,034
Michigan State Parks Endowment Fund	134,743,460
Children's Trust Fund	22,454,318
Michigan Nongame Fish and Wildlife Trust Fund	6,239,142
State Lottery Fund	309,637,318
Michigan Finance Authority - Michigan Guaranty Agency - Federal Fund	1,499,648
Michigan Education Trust Funds	777,326,463
Mackinac Bridge Authority	48,277,536
Legislative Pension and Other Postemployment Benefits Funds	171,854,827
State Police Pension and Other Postemployment Benefits Funds	1,040,508,575
State Employees' Pension and Other Postemployment Benefits Funds	9,375,203,641
Public School Employees' Pension and Other Postemployment	
Benefits Funds	38,429,167,619
Judges' Pension and Other Postemployment Benefits Funds	241,729,399
Gifts, Bequests, and Deposits Investment Fund	<u>19,441,672</u>

Total specific funds' investments \$ 51,289,774,408

*This schedule continued on next page.*

TRANSITION IN THE OFFICE OF STATE TREASURER  
Schedule of Cash and Investments in the  
Possession or Under the Control of the State Treasurer and  
Collateral Pledged to the State Treasurer  
As of December 31, 2010  
*Continued*

Other Cash and Investments

Mackinac Bridge Authority	
Cash and demand deposits	\$ 764,773
Michigan Finance Authority - Healthcare Finance Fund	
Investments	4,041,720
Michigan Education Trust Funds	
Demand deposits	21,947,588
Investments	10,251,590
Unclaimed Property Division - Escheats Fund	
Demand deposits	10,588,214
Investments	2,886,712
Other assets	400,000
	<hr/>
Total other cash and investments	\$ 50,880,597
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Total cash and investments in the possession or under the control of the State Treasurer	\$ 55,218,228,046
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<u>Collateral Pledged to the State Treasurer</u>	
For insurance companies	\$ 379,888,000
For State deposits	1,733,601,000
For Michigan Finance Authority - Healthcare Finance Fund	500,000
For Michigan Education Trust Funds	5,000,000
For Department of Human Services	66,150,000
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Total collateral pledged to the State Treasurer	\$ 2,185,139,000
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The accompanying note is an integral part of the financial schedule.

## Note to the Financial Schedule

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

This report was prepared solely for the purpose of complying with Section 12.10 of the *Michigan Compiled Laws*, which requires an audit of cash and investments when the Office of State Treasurer is vacated and a new State Treasurer is appointed. Robert J. Kleine vacated the office of State Treasurer as of December 31, 2010, and Andy Dillon was appointed State Treasurer as of January 1, 2011.

For financial reporting purposes, this report includes cash and investment balances under the control of the State Treasurer of various funds and component units that are included within the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* reporting entity.

#### b. Basis of Accounting and Financial Schedule Presentation

The schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer reports the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer as of December 31, 2010. This report is a special purpose financial presentation prepared to comply with Section 12.10 of the *Michigan Compiled Laws* and does not constitute a complete presentation of assets, liabilities, revenues, and expenses but is otherwise prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, this schedule does not purport to, and does not, constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan.

Cash and investments on the schedule are accounted for using accounting rules promulgated by the Government Accounting Standards Board.

c. Description of Cash, Investments, and Pledged Collateral

State Treasurer's Common Cash: The State Treasurer, under the authority provided by State statute, manages the State's common cash. The pooling of cash allows the State Treasurer to invest money not needed to pay immediate obligations so that investment earnings on available cash are maximized. Pool investments are not segregated by fund; rather, each contributing fund's balance is treated as equity in the common cash.

Outstanding warrants represent those State warrants issued and outstanding at December 31, 2010. For the purposes of this schedule, these warrants are deducted from the State Treasurer's common cash pool because they represent an obligation of the pool and the amount is not considered available to meet future obligations.

Specific Funds' Investments: Specific funds' investments include both short-term and long-term investments. The State Treasurer, under the authority provided by State statutes, manages most investments for the State of Michigan, which consist of stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, mutual funds, and other investments. In July 2004, the investments of the State retirement funds for public school employees, State employees, State police, and judges were consolidated to an investment pool structure. These retirement funds' investments represent a pro-rata share based on ownership of the investment pools.

Other Cash and Investments: The State Treasurer has various responsibilities that result in the possession or control of cash and investments. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.
2. Performing fiscal agent services for the Michigan Finance Authority - Healthcare Finance Fund and Michigan Education Trust Funds.
3. Serving as administrator for unclaimed property escheated to the Unclaimed Property Division.

Collateral Pledged to the State Treasurer: The State Treasurer manages collateral pledged for the following purposes:

1. Collateral pledged by insurance companies as a condition of conducting business in the State.
2. Collateral pledged by banks to secure deposits of State money.
3. Collateral pledged by banks to secure demand deposits of the Michigan Finance Authority - Healthcare Finance Fund and Michigan Education Trust Funds.
4. Collateral pledged by a bank to secure the Department of Human Services' child support collections.

d. Valuation of Investments

The State's common cash pool investments include prime commercial paper, reported at amortized cost, and special loan programs, reported using cost-based measures.

Long-term investments are reported at fair value and short-term investments are reported at amortized cost, except for the State retirement funds using the investment pool structure, which are reported at the fair value of the various investment pools. The fair value of the investment pools is calculated using the value of the securities and other assets within the pools, which includes appreciation of asset values, accrued income, and amounts owed or due from the sale of securities as of the close of business on December 31, 2010.

The fair value of investments traded on a national or international exchange is calculated using quoted market prices. Investments not traded on a national or international exchange are either valued based on equivalent values of comparable investments with similar yield or risk or at an estimated fair value.

Other assets of the Escheats Fund include coins, currency, jewelry, and personal property reported at estimated fair value.



Collateral pledged to the State Treasurer is reported at par value (the face value of the bonds). On December 31, 2010, collateral pledged by insurance companies included cash in the amount of \$695,000, which was also included in demand deposits of the State Treasurer's common cash.

# GLOSSARY

## Glossary of Acronyms and Terms

financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
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.
unqualified opinion	An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.









