

EXECUTIVE DIGEST

MICHIGAN STRATEGIC FUND

INTRODUCTION

This report contains the results of our financial audit* of the Michigan Strategic Fund (MSF) for the period October 1, 1999 through September 30, 2000 and the results of our audit of the provisions of the Single Audit* Act for MSF for the period October 1, 1998 through September 30, 2000.

AUDIT PURPOSE

This financial audit of MSF was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

MSF was created by Act 270, P.A. 1984 (Sections 125.2001 - 125.2093 of the *Michigan Compiled Laws*), to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises in obtaining additional sources of financing. Under the provisions of this Act, MSF succeeded to the rights, properties, obligations, and duties of the Michigan Job Development Authority and the Michigan Economic Development Authority. Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency,

created the Michigan Department of Career Development, and abolished the Michigan Jobs Commission. The Order also transferred several programs and functions of the Michigan Jobs Commission to MSF.

MSF is governed by a nine-member board of directors that consists of the director of the Department of Management and Budget, the State Treasurer, and seven members appointed by the Governor with the advice and consent of the Senate. The MSF Board of Directors is authorized to make grants, loans, and investments of MSF funds to assist both profit and nonprofit businesses.

As of September 30, 2000, MSF had 326 employees that were detailed* to the Michigan Economic Development Corporation.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit MSF's financial statements and to examine the schedule of expenditures of federal awards in relation to MSF's financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion* on MSF's financial statements. In addition, we expressed an unqualified opinion on MSF's schedule of expenditures of federal awards in relation to the financial statements taken as a whole.

Audit Objective: To assess and report on MSF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control* over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified a reportable condition* related to accounts payable estimation (Finding 1).

In addition, our assessment indicated that MSF was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on MSF's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: We issued an unqualified opinion on MSF's compliance with requirements applicable to MSF's major federal program. Also, our assessment of internal control over compliance applicable to MSF's major federal program did not disclose any material weaknesses. However, we identified reportable conditions related to subrecipient monitoring and accounts payable estimation (Findings 2 and 3).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan Strategic Fund for the period October 1, 1999 through September 30, 2000. We also examined the financial and other records related to the federal programs for the period October 1, 1998 through

September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**ENTITY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 2 findings and 2 corresponding recommendations. MSF's corrective action plan indicates that it agrees with both recommendations.

As disclosed in MSF's summary schedule of prior audit findings, MSF fully corrected the one prior audit finding.