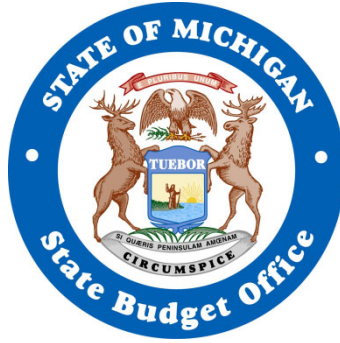


State of Michigan

Comprehensive Annual Financial Report



Fiscal Year Ended September 30, 2019
Governor Gretchen Whitmer
Prepared by the State Budget Office



State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2019

GRETCHEN WHITMER
Governor

CHRIS KOLB
State Budget Director

HEATHER BOYD, CPA
Director
Office of Financial Management

TABLE OF CONTENTS

	<u>Page</u>
Title page	1
Table of Contents	2

INTRODUCTORY SECTION

Letter of Transmittal	6
Certificate of Achievement	9
State Organizational Structure	10
Principal State Officials	11

FINANCIAL SECTION

Independent Auditor's Report	14
Management's Discussion and Analysis	17

Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Position	28
Statement of Activities	30
Governmental Fund Financial Statements	
Balance Sheet	34
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	35
Statement of Revenues, Expenditures, and Changes in Fund Balances	36
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	37

Proprietary Fund Financial Statements	
Statement of Net Position	40
Statement of Revenues, Expenses, and Changes in Fund Net Position	41
Statement of Cash Flows	42

Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position	46
Statement of Changes in Fiduciary Net Position	47

Component Unit Financial Statements	
Statement of Net Position	50
Statement of Activities	54

Index for Notes to Financial Statements	58
Notes to Financial Statements	59

Required Supplementary Information Other Than Management's Discussion and Analysis

Budgetary Comparison Schedule - Major Governmental Funds	142
Budgetary Comparison Schedule - Budget-to-GAAP Reconciliation	144
Notes to Required Supplementary Information - Budgetary Reporting	145
Information About Infrastructure Assets Reported Using the Modified Approach	146
Schedule of Changes in Net Pension Liability and Related Ratios Legislative Retirement System	148
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios Legislative Retirement System	149
Schedule of Changes in Net Pension Liability and Related Ratios State Police Retirement System	150
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios State Police Retirement System	151
Schedule of Changes in Net Pension Liability and Related Ratios State Employees' Retirement System	152
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios State Employees' Retirement System	153
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Judges' Retirement System	154
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios Judges' Retirement System	155
Schedule of Changes in Net Pension Liability and Related Ratios Military Retirement Provisions	156

Schedule of Changes in Total Other Postemployment Benefits (OPEB) Liability and Related Ratios Post Employment Life Insurance Benefits	157
Schedule of Contributions for Pensions Legislative Retirement System	158
Schedule of Contributions for Other Postemployment Benefits Legislative Retirement System.....	160
Schedule of Contributions for Pensions State Police Retirement System	162
Schedule of Contributions for Other Postemployment Benefits State Police Retirement System	164
Schedule of Contributions for Pensions State Employees' Retirement System.....	166
Schedule of Contributions for Other Postemployment Benefits State Employees' Retirement System	168
Schedule of Contributions for Pensions Judges' Retirement System	170
Schedule of Contributions for Other Postemployment Benefits Judges' Retirement System	172
Schedule of Contributions for Pensions Military Retirement Provisions	174

Combining and Individual Fund Statements and Schedules - Non-Major Funds

Governmental Funds	
Balance Sheet - By Fund Type	178
Statement of Revenues, Expenditures, and Changes in Fund Balances - By Fund Type.....	179
Special Revenue Funds – By Classification	
Balance Sheet.....	180
Statement of Revenues, Expenditures, and Changes in Fund Balances	181
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	182
Special Revenue Funds - Transportation Related	
Combining Balance Sheet.....	186
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	187
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	188
Special Revenue Funds - Conservation, Environment, and Recreation Related	
Combining Balance Sheet.....	192
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	194
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	196
Special Revenue Funds - Regulatory and Administrative Related	
Combining Balance Sheet.....	200
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	202
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	204
Special Revenue Funds - Other State Funds	
Combining Balance Sheet.....	210
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	212
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	214
Debt Service Funds	
Combining Balance Sheet.....	218
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	220
Capital Projects Funds	
Combining Balance Sheet.....	224
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	226
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	228
Permanent Funds	
Combining Balance Sheet.....	232
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	233
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	234
Proprietary Funds	
Enterprise Funds	
Combining Statement of Net Position	238
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	239
Combining Statement of Cash Flows	240
Internal Service Funds	
Combining Statement of Net Position	242
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	244
Combining Statement of Cash Flows	246

Fiduciary Funds**Pension (and Other Employee Benefit) Trust Funds**

Combining Statement of Fiduciary Net Position	250
Combining Statement of Changes in Fiduciary Net Position	254

Private Purpose Trust Funds

Combining Statement of Fiduciary Net Position	258
Combining Statement of Changes in Fiduciary Net Position	260

Agency Funds

Combining Statement of Fiduciary Net Position	263
Combining Statement of Changes in Assets and Liabilities	264

Component Units**Authorities**

Combining Statement of Net Position	268
Combining Statement of Activities	270

State Universities

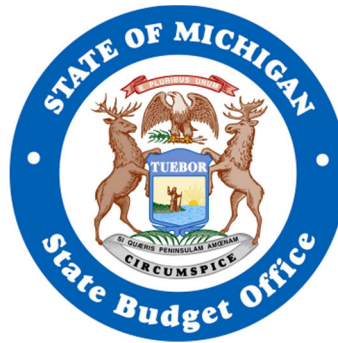
Combining Statement of Net Position	274
Combining Statement of Activities	276

STATISTICAL SECTION

Index to Statistical Section	279
Net Position by Component	280
Changes in Net Position	282
Fund Balances, Governmental Funds	286
Changes in Fund Balances, Governmental Funds	288
Personal Income by Industry	290
Taxable Sales by Industry	292
Personal Income Tax Filers and Liability by Income Level	294
Sales Tax Payers by Industry	295
Ratios of Outstanding Debt by Type	296
Ratios of Net General Obligation Bonded Debt Outstanding	298
Debt Service Coverage - Comprehensive Transportation Fund Related Bonds	300
Debt Service Coverage - State Trunkline Fund Related Bonds	302
Debt Service Coverage - State Building Authority	304
Demographic and Economic Indicators	306
Classified Employees by Function	308
Operating Indicators by Function	310
Capital Assets by Function	314

OTHER INFORMATION

Combined Schedule of Revenue and Other Financing Sources - General and Special Revenue Funds	318
Schedule of Revenue and Other Financing Sources - General Fund	320
Source and Disposition of General Fund Authorizations	322
Source and Disposition of General Fund/General Purpose Authorizations	324
Revenue, Bond Proceeds, Capital Lease and Financed Purchase	
Acquisitions - General and Special Revenue Funds	326
Schedule of Expenditures by Function - General and Special Revenue Funds - State Funds	328
Index of Funds and Component Units	330





GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

CHRIS KOLB
DIRECTOR

March 6, 2020

The Honorable Gretchen Whitmer, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2019.

INTRODUCTION TO THE REPORT

Responsibility: The State Budget Office, Office of Financial Management, prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: As required by State statute, we have prepared the financial statements contained in the SOMCAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Report: The SOMCAFR is divided into four major sections: introductory, financial, statistical, and other information:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A), which provides an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules, pension and other postemployment benefits liability and contribution schedules and information about infrastructure assets; and the supplemental financial data, which includes the combining financial statements and schedules.
- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.
- The other information section includes General Fund and Special Revenue Funds revenue and expenditure schedules and General Fund source and disposition of spending authorization schedules.

Internal Control Structure: The State Budget Office is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. The system of internal control has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State of Michigan 457 Plans, the State of Michigan 401K Plans, Michigan Education Savings Program, and the Michigan Achieving a Better Life Experience Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the State Budget Office relies upon the controls in place at the various State departments and agencies.

Act 431 requires each principal department to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

The discretely presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

Internal Auditors: Pursuant to Executive Order 2007-31, the Office of Internal Audit Services (OIAS) provides internal audit services to executive branch departments and agencies. OIAS performs periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, OIAS also reviews department and agency managements' processes for establishing, monitoring, and reporting on internal controls; advises department and agency management on internal control matters; and assists department and agency management with investigations of alleged fraud or other irregularities.

Independent Auditors: The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and ten of the State's universities) and the Unemployment Compensation Funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2019, are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2019, are fairly presented in accordance with GAAP and issued unmodified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act Amendments of 1996. Pursuant to Michigan Public Act 233 of 2012, an annual statewide single audit will be conducted for applicable State departments, agencies and component unit authorities, and will result in a separately issued audit report.

Management's Discussion and Analysis (MD&A): GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A immediately follows the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Michigan was admitted to the Union as the 26th state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: As of March 6, 2020, the Executive Branch consisted of 17 principal departments. Fourteen principal departments are headed by commissions and/or directors appointed by the elected governor. Elected officials head two principal departments, Attorney General and State, and one, Education, is headed by an elected board.

Judicial Branch: The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the State. The Supreme Court also establishes rules for practice and procedure in all courts.

Legislative Branch: The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of State government operations.

Reporting Entity: The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State's elected officials are financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

Budgetary Reporting and Control: For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue, capital projects, and permanent funds), the State projects revenues and expenditures and calculates fund balances for budgetary purposes in accordance with GAAP. Public Act 431 of 1984, as amended, prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the State to also implement such changes in its budgetary process.

Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget and actual comparative schedules and notes in the SOMCAFR. In addition, subsequent to the publication of the SOMCAFR, the State releases a Statewide Authorization Dispositions report that provides line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

MAJOR INITIATIVES AND FUTURE PROJECTS

Fixing our Roads: Improving the condition of our roads remains one of Governor Whitmer's top priorities. The governor is moving forward with a major bonding initiative to infuse more money into Michigan's transportation system, and she continues to request legislative support for added revenue. Helping to ensure good, safe roads for Michigan's residents and visitors will remain a focus of the Whitmer administration.

Improving Public Schools in Michigan: Governor Whitmer believes that every child, no matter their community, deserves a great education that can get them on a path to success. She understands that making sure our educators have the resources they need to do their job is essential. The governor will continue to advocate for a weighted funding formula in the state budget that prioritizes funding based on science and equity to help at-risk and special education students get ahead. She will remain focused on improving literacy in our state so more kids can read by the end of third grade.

Creating Thousands of Good Paying Jobs: This Whitmer administration will continue to push for economic development opportunities that create and enhance good paying jobs across the state. This will include efforts aimed at keeping Michigan talent in our state where students can find an easier path to higher education and job skills training so that they can find a good paying job. Efforts will also be focused on helping employers and small business provide benefits to employees that will entice them to work in Michigan.

Improving and Expanding Health Care: Every Michigander deserves the right to quality health care. Governor Whitmer will continue to support the Healthy Michigan Program so that every Michigan family has access to needed medical services, with a renewed focus on the start of life and the needs of mothers and babies. Some of the specific aspects of health care needs for women will be targeted. Transparency in the health care system will be a priority, with a focus on fair prescription drug prices for everyone.

Protecting our Environment and Assuring Clean Water: The Whitmer administration is committed to protecting the health and safety of all Michiganders by protecting our environment and assuring access to clean water. The fiscal year 2021 budget will continue to invest in needs across our state, including funding for rapid environmental response as well as funding to address the negative impacts of Michigan's changing climate conditions.

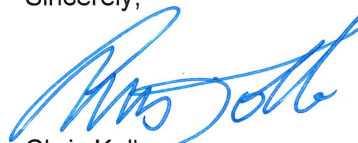
AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2018. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies both generally accepted accounting principles and applicable legal requirements.

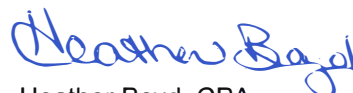
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 32 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of Financial Management; the Office of Internal Audit Services; SIGMA Operations and Support; the chief financial officers, chief accountants, and their staffs from all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed Michigan to maintain its position as a national leader in quality financial reporting.

Sincerely,



Chris Kolb
State Budget Director



Heather Boyd, CPA
Director, Office of Financial Management



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

State of Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

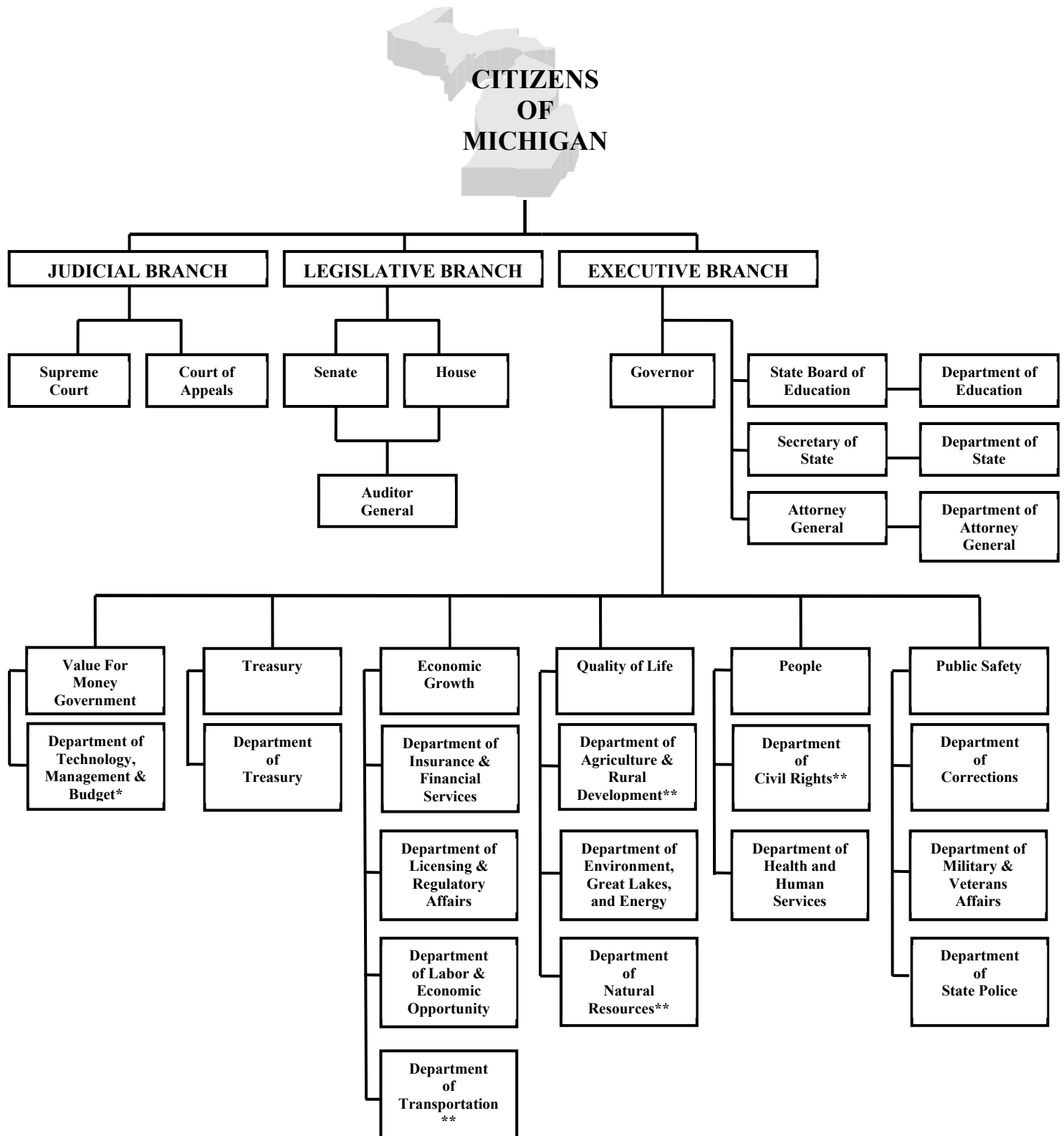
September 30, 2018

Christopher P. Morill

Executive Director/CEO

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE

(As of March 6, 2020)



* Includes Civil Service Commission appointed by Governor
 ** Has Commission appointed by Governor, confirmed by Senate

STATE OF MICHIGAN

PRINCIPAL STATE OFFICIALS

(As of March 6, 2020)

JUDICIAL BRANCH

Supreme Court Justices
Honorable Bridget Mary McCormack, Chief Justice
Honorable Richard Bernstein, Justice
Honorable Megan K. Cavanagh, Justice
Honorable Elizabeth T. Clement, Justice
Honorable Stephen J. Markman, Justice
Honorable David F. Viviano, Justice
Honorable Brian K. Zahra, Justice

LEGISLATIVE BRANCH

Honorable Mike Shirkey
Majority Leader of the Senate

Honorable Lee Chatfield
Speaker of the House of Representatives

Doug Ringler, C.P.A., C.I.A.
Legislative Auditor General

EXECUTIVE BRANCH

Honorable Gretchen Whitmer, Governor
Honorable Garlin Gilchrist II, Lt. Governor
Honorable Dana Nessel, Attorney General
Honorable Jocelyn Benson, Secretary of State

State Board of Education
Casandra E. Ulbrich, President
Pamela Pugh, Vice President
Michelle Fecteau, Secretary
Tom McMillin, Treasurer
Judith Pritchett
Lupe Ramos-Montigny
Nikki Snyder
Tiffany D. Tilley
Marilyn Schneider, State Board Executive
Honorable Gretchen Whitmer (Ex Officio)
Michael F. Rice,
Superintendent of Public Instruction

Michigan Commission of Agriculture & Rural Development
Brian Pridgeon, Chair
Dru Montri, Vice Chair
Charlie Meintz, Secretary
Patti Bergdahl
Tim Boring
Gary McDowell, Director
Department of Agriculture & Rural Development

Civil Rights Commission
Stacie Clayton, Chair
Laura Reyes Kopack, Vice Chair
Jeffrey J. Sakwa, Secretary
Ira Combs
Regina Gasco-Bentley
Denise Grim
Zenna Faraj Elhasan
Portia L. Roberson
Mary Engelman, Interim Director
Department of Civil Rights

Civil Service Commission
Janet McClelland, Chair
James Barrett
Jase Bolger
Jeff Steffel
Janine M. Winters, State Personnel Director

Heidi E. Washington, Director
Department of Corrections

Liesl Eichler Clark, Director
Department of Environment, Great Lakes, and Energy

Robert Gordon, Director
Department of Health and Human Services

Anita G. Fox, Director
Department of Insurance and Financial Services

Orlene Hawks, Director
Department of Licensing and Regulatory Affairs

Major General Paul D. Rogers, Director
Department of Military and Veterans Affairs

Natural Resources Commission
Keith Creagh
Louise Klarr
David Nyberg
Chris Tracy
John W. Walters
Daniel Eichinger, Director
Department of Natural Resources

Colonel Joseph Gasper, Director
Department of State Police

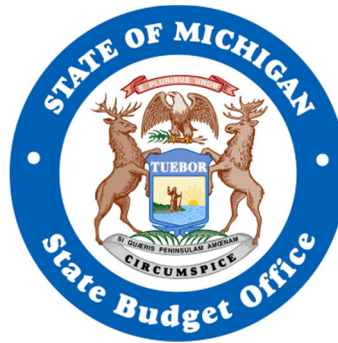
Jeff Donofrio, Director
Department of Labor & Economic Opportunity

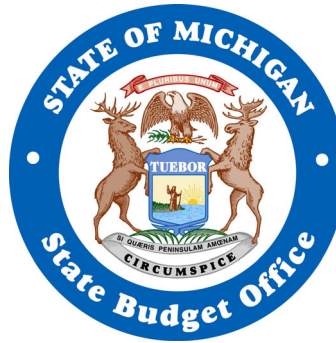
Tricia L. Foster, Director
Department of Technology, Management and Budget

Chris Kolb, State Budget Director

Transportation Commission
Todd Wyatt, Chair
Michael D. Hayes, Vice Chair
Stephen F. Adamini
George K. Heartwell
Chris J. Yatooma
Helen Zeerip
Paul C. Ajegba, Director
Department of Transportation

Rachael Eubanks, State Treasurer





FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT MANAGEMENT'S DISCUSSION AND ANALYSIS



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report

The Honorable Gretchen Whitmer, Governor
Members of the Legislature

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan principally as of and for the fiscal year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the following component units and funds were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included in these component units and funds, are based solely on the reports of the other auditors:

- State Lottery Fund (a major fund)
- Michigan Unemployment Compensation Funds (a major fund)
- Michigan Employment Security Act - Administration Fund
- Unemployment Obligation Trust Fund
- State Building Authority - Debt Service Fund
- State Building Authority - Capital Projects Fund
- Attorney Discipline System
- State Sponsored Group Insurance Fund
- Michigan Education Savings Program
- Michigan Achieving a Better Life Experience Program
- Michigan Finance Authority
- Michigan State Housing Development Authority
- Farm Produce Insurance Authority
- Mackinac Bridge Authority
- Mackinac Island State Park Commission
- Michigan Early Childhood Investment Corporation
- Michigan Education Trust
- State Bar of Michigan
- Venture Michigan Fund
- Central Michigan University
- Eastern Michigan University
- Western Michigan University
- Ferris State University
- Grand Valley State University
- Lake Superior State University
- Michigan Technological University
- Northern Michigan University
- Oakland University
- Saginaw Valley State University

Those financial statements reflect total assets and total revenues or additions to the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Total Revenues/Additions
Governmental activities	1.5%	2.4%
Business-type activities	98.6%	80.7%
Aggregate discretely presented component units	95.0%	87.3%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate remaining fund information	7.2%	11.1%

The Honorable Gretchen Whitmer, Governor
Members of the Legislature
Page 2

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan as of September 30, 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 4 to the financial statements, the State of Michigan:

- Restated beginning net position of the government-wide governmental activities statements to account for pollution remediation obligations related to underground storage tanks which met the liability criteria in Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
- Restated beginning net position of the Gifts, Bequests, and Deposits Investment Fund, a private purpose trust fund, to reflect a change in presentation of the Michigan Achieving a Better Life Experience Program (MiABLE). Beginning in fiscal year 2019, MiABLE is disclosed separately and is no longer included in the Gifts, Bequests, and Deposits Investment Fund.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information other than management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

The Honorable Gretchen Whitmer, Governor
Members of the Legislature
Page 3

considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund statements and schedules - non-major funds and the introductory, statistical, and other information sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules - non-major funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules - non-major funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, statistical, and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Sincerely,

Doug Ringler
Auditor General
March 6, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

HIGHLIGHTS

Government-wide

- At September 30, 2019, the State's net position was \$16.2 billion. This means that total State assets and deferred outflows of resources exceeded total State liabilities and deferred inflows of resources by \$16.2 billion.
- The State's unrestricted net position was negative \$14.7 billion as of the close of the fiscal year. A positive balance in unrestricted net position represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets (e.g., capital assets) to unrestricted assets if all ongoing obligations were immediately due and payable.
- Revenues of \$64.1 billion supported expenses of \$62.7 billion during fiscal year 2019. As a result, the State's total net position increased by \$1.5 billion (10.0 percent). The increase in net position relates mostly to increased tax revenue of \$1.8 billion compared to the prior year. This increase is primarily due to increases in revenues from sales tax; personal income tax; single business, Michigan business, and corporate income tax; and insurance provider assessments.

Fund Level

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$7.8 billion. Governmental fund balances increased \$310.0 million (4.1 percent) from the prior year.
- The State's two major governmental funds, the General Fund and the School Aid Fund, closed the fiscal year with a combined fund balance of \$4.4 billion, an increase of \$293.0 million (7.1 percent) from the prior year. Of the total General Fund balance of \$4.2 billion, \$916.2 million is unassigned and, therefore, available for appropriation in future years. The remaining \$3.2 billion is either non-spendable (e.g., consists of assets not easily converted to cash, such as inventories); restricted for specific purposes by enabling legislation; committed to specific programs or projects by legislative action; or assigned to fulfill contractual obligations. In the School Aid Fund, the entire fund balance of \$275.8 million is restricted for education purposes.
- The State's proprietary funds reported net position at year-end of \$4.5 billion. This represents an increase of \$460.0 million (11.4 percent) compared to the prior year-end balance. Most of the increase results from the Michigan Unemployment Compensation Funds increase in net position which was primarily due to a decrease in unemployment benefit payments and an increase in interest revenue.

Long-term Debt

- The State's total long-term bonded debt as of September 30, 2019 was \$5.4 billion, a decrease of \$380.7 million (6.6 percent) from the prior year. The decrease represents the net difference between new issuances, payments, and refundings of debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 20.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position (pages 28 and 29) presents all of the State's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases and decreases in net position measure whether the State's financial position is improving or declining.

The Statement of Activities (pages 30 and 31) presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 12 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 35 and 37) that reconcile the amounts reported on the governmental fund financial statements, which are prepared using the modified accrual basis of accounting, with the governmental activities in the government-wide statements, which are prepared using the accrual basis of accounting. The following table summarizes the differences between modified accrual and full accrual accounting:

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital assets of the general government (e.g. land, buildings, and infrastructure)	No	Yes
Deferred inflows of unavailable resources	Yes	No
Assets and liabilities of internal service funds that primarily serve governmental funds	No	Yes
Assets for certain debt issuance costs (i.e., prepaid insurance costs)	No	Yes
Unmatured long-term debt (e.g. bonds, notes, capital lease obligations) net of unamortized premiums, discounts, and similar items	No	Yes
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e. claims and adjustments, compensated absences, and net pension liability)	No	Yes
Accrued interest on long-term debt	No	Yes
Liability for unearned revenue	Yes	Yes
Capital outlay spending	Yes	No
Debt service principal payments and refunding payments	Yes	No
Other financing sources, uses, and expenditures resulting from debt issuance	Yes	No

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, gain or loss on the sale
Revenues earned during the period but not yet available	No	Yes
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	No	Yes
Depreciation	No	Yes
Revenues and expenditures related to prior periods	Yes	No
Amortization of issuance costs, premiums, discounts and similar items	No	Yes
Activities of internal service funds properly included within governmental activities	No	Yes

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 59 of this report.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on page 34 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 186 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- **Governmental funds** - Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- **Proprietary funds** - When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (enterprise and internal service) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs-such as risk management and state sponsored group insurance activities. Internal service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary funds** - The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 46. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information (RSI) that further explains and supports the information in the financial statements. The RSI includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end, condition and maintenance data regarding certain portions of the State's infrastructure, and information regarding the State's pension plans, including contributions and changes in the net pension liability.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net position increased \$1.5 billion (10.0 percent) over the course of this fiscal year's operations. The net position of the governmental activities increased by \$985.0 million (9.6 percent), and business-type activities had an increase of \$490.7 million (11.0 percent).

Statement of Net Position
For Fiscal Year Ending September 30
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other non-current assets	\$ 18,039.5	\$ 16,450.9	\$ 5,581.5	\$ 5,056.3	\$ 23,621.1	\$ 21,507.2
Capital assets	24,100.5	23,832.9	2.3	1.7	24,102.8	23,834.6
Total assets	<u>42,140.1</u>	<u>40,283.8</u>	<u>5,583.8</u>	<u>5,058.0</u>	<u>47,723.9</u>	<u>45,341.8</u>
Deferred outflows of resources	<u>2,439.9</u>	<u>1,673.7</u>	<u>13.9</u>	<u>10.0</u>	<u>2,453.8</u>	<u>1,683.7</u>
Liabilities:						
Current liabilities	6,688.4	6,553.3	366.0	311.2	7,054.4	6,864.6
Long-term liabilities	24,822.7	24,479.4	280.0	306.6	25,102.6	24,786.0
Total liabilities	<u>31,511.0</u>	<u>31,032.8</u>	<u>646.0</u>	<u>617.8</u>	<u>32,157.0</u>	<u>31,650.6</u>
Deferred inflows of resources	<u>1,822.9</u>	<u>638.9</u>	<u>14.7</u>	<u>3.9</u>	<u>1,837.6</u>	<u>642.8</u>
Net position:						
Net investment in capital assets	21,599.4	21,014.3	1.1	1.0	21,600.4	21,015.2
Restricted	4,267.9	4,218.4	5,006.0	4,525.8	9,273.9	8,744.2
Unrestricted	(14,621.3)	(14,946.9)	(70.1)	(80.5)	(14,691.4)	(15,027.4)
Total net position	<u>\$ 11,246.0</u>	<u>\$ 10,285.8</u>	<u>\$ 4,937.0</u>	<u>\$ 4,446.3</u>	<u>\$ 16,183.0</u>	<u>\$ 14,732.0</u>

The largest component of the State's net position, at \$21.6 billion, reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net position is the next largest component, comprising \$9.3 billion of the total. This represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation limiting how they can be used. The State's unrestricted net position was negative \$14.7 billion as of the close of the year. A positive balance in unrestricted net position represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net position changed during the fiscal year:

Change in Net Position
For Fiscal Year Ending September 30
(In Millions)

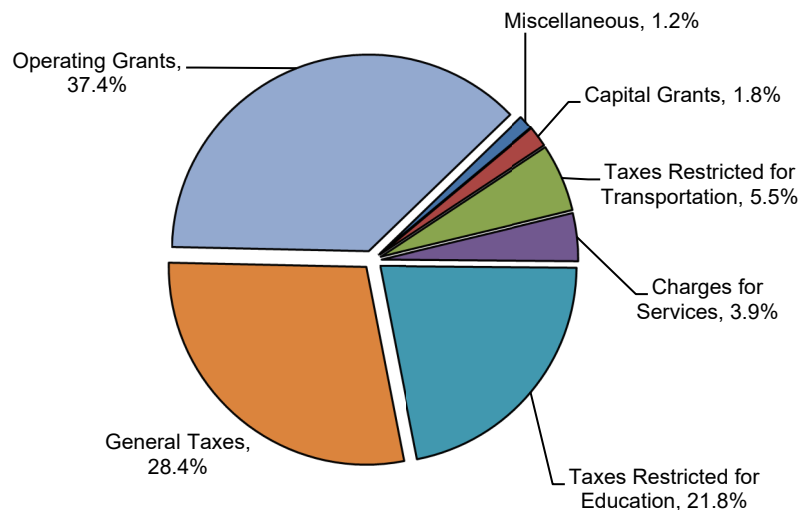
	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Charges for services	\$ 2,243.1	\$ 2,278.3	\$ 6,362.3	\$ 6,054.6	\$ 8,605.4	\$ 8,332.9
Operating grants	21,581.1	20,636.7	132.2	90.4	21,713.3	20,727.1
Capital grants	1,014.7	863.9	-	-	1,014.7	863.9
General revenues						
General taxes	16,380.6	15,175.7	-	-	16,380.6	15,175.7
Taxes restricted for educational purposes	12,562.3	12,315.8	-	-	12,562.3	12,315.8
Taxes restricted for transportation purposes	3,192.3	2,872.3	-	-	3,192.3	2,872.3
Unrestricted investment and interest earnings	40.0	25.3	3.8	-	43.8	25.3
Miscellaneous	614.9	741.0	-	0.1	614.9	741.0
Total Revenues	57,629.0	54,909.0	6,498.3	6,145.0	64,127.3	61,054.0
Expenses						
General government	3,210.1	3,334.9	-	-	3,210.1	3,334.9
Education	17,059.7	16,727.7	-	-	17,059.7	16,727.7
Health and human services	25,613.5	24,071.4	-	-	25,613.5	24,071.4
Public safety and corrections	3,269.5	2,899.8	-	-	3,269.5	2,899.8
Conservation, environment, etc.	990.6	932.3	-	-	990.6	932.3
Labor, commerce and regulatory	951.3	821.0	-	-	951.3	821.0
Transportation	4,460.9	3,891.1	-	-	4,460.9	3,891.1
Tax credits	895.1	696.1	-	-	895.1	696.1
Intergovernmental revenue sharing	1,327.7	1,289.1	-	-	1,327.7	1,289.1
Interest on long-term debt	259.8	287.5	-	-	259.8	287.5
Liquor Purchase Revolving Fund	-	-	1,007.7	953.9	1,007.7	953.9
State Lottery Fund	-	-	2,833.5	2,654.7	2,833.5	2,654.7
Attorney Discipline System	-	-	5.3	5.1	5.3	5.1
Michigan Unemployment Compensation Funds	-	-	785.6	793.5	785.6	793.5
Total Expenses	58,038.2	54,950.8	4,632.1	4,407.1	62,670.3	59,357.9
Excess (deficiency) Before Contributions and Transfers	(409.3)	(41.8)	1,866.3	1,737.9	1,457.0	1,696.1
Contributions to permanent fund principal	18.8	19.7	-	-	18.8	19.7
Transfers	1,375.5	1,222.9	(1,375.5)	(1,222.9)	-	-
Increase (decrease) in net position	985.0	1,200.8	490.7	515.0	1,475.8	1,715.8
Net position - beginning - restated	10,261.0 *	9,085.0	4,446.3	3,931.2	14,707.2 *	13,016.3
Net position - ending	\$ 11,246.0	\$ 10,285.8	\$ 4,937.0	\$ 4,446.3	\$ 16,183.0	\$ 14,732.0

*More information regarding the restatement of beginning net position can be found in Note 4 to the financial statements.

Governmental Activities

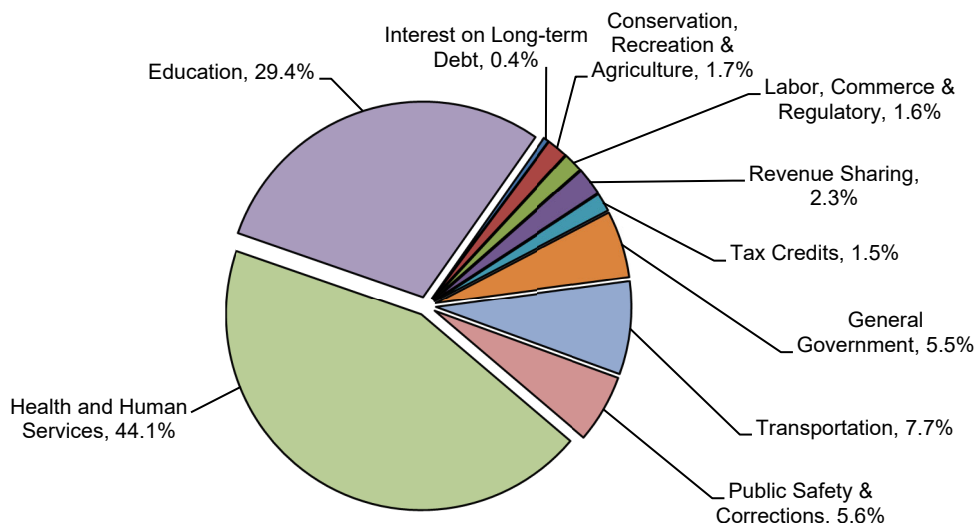
Revenues to fund governmental activities totaled \$57.6 billion for fiscal year 2019. As shown in the accompanying chart, 37.4 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 27.3 percent for educational and transportation purposes. Only 28.4 percent of the revenues were available for general use.

**Revenues - Governmental Activities for
Fiscal Year Ending September 30, 2019**
(\$57.6 billion)



Expenses related to governmental activities totaled \$58.0 billion during fiscal year 2019. The expenses include spending appropriated in prior years, such as capital outlay and work project authorization. As evidenced by the accompanying chart, education and health and human services represent the governmental activities' largest spending categories, accounting for 73.5 percent of the spending.

**Expenses - Governmental Activities for
Fiscal Year Ending September 30, 2019**
(\$58.0 billion)



Business-type Activities

The business-type activities' net position increased \$490.7 million (11.0 percent) during the fiscal year. Factors contributing to these results included:

- The Michigan Unemployment Compensation Funds (MUCF) finished the fiscal year with an increase in net position of \$479.9 million (10.6 percent). In fiscal year 2018, the increase in net position was \$528.3 million. The decrease in the change in net position of these funds is primarily related to a decrease in operating income, which included a reduction in both benefit expenditures and employer contributions.
- The State Lottery Fund's net position increased \$10.5 million (23.9 percent) from the fiscal year 2018 amount. The increase in net position is primarily related to unrealized gains on investments due to changes in market value.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$7.8 billion. Of this amount, \$916.2 million constitutes unassigned fund balance in the General Fund, which is available to appropriate in future years. Of the total governmental fund balances, \$1.1 billion is in nonspendable form made up of amounts legally or contractually required to be maintained intact, including permanent fund endowments and assets that will not be converted to cash in the short-term, including consumable inventories. Another \$3.0 billion of the governmental fund balances are restricted for specific purposes by enabling legislation, the majority of which is legally restricted for capital projects. Committed governmental fund balances totaled \$2.7 billion as of the end of the fiscal year representing funding set aside for multi-year projects and earmarked revenue carried forward with legislative authority for specific ongoing programs. Another \$135.3 million of the governmental fund balances are assigned for encumbered services and goods to be received after the end of the fiscal year. Two capital projects funds reported a negative unassigned fund balance totaling \$104.5 million due to expenditures incurred in advance of bonding proceeds which will be received after the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2019, the General Fund total fund balance was \$4.2 billion, of which \$916.2 million was unassigned and, therefore, available for appropriation. The General Fund total fund balance of \$4.2 billion represents an increase of \$450.7 million (12.2 percent) from the fiscal year 2018 ending total fund balance. Included within the General Fund's committed fund balance is \$1.1 billion in the Counter-Cyclical Budget and Economic Stabilization Fund. This fund, also referred to as the Rainy Day Fund, is used to stabilize government programs in times of economic downturn.

General Fund Budgetary Highlights:

The original enacted fiscal year 2019 general fund budget was \$35.5 billion. During the year, various positive and negative supplemental appropriations and other adjustments resulted in a final enacted budget of \$36.8 billion. The difference between the final enacted budget of \$36.8 billion and actual spending and encumbrances of \$36.6 billion resulted from spending authority net lapses of \$142.7 million and restricted revenue authorized, but not spent, totaling \$71.1 million. At fiscal year-end, excess restricted revenue of \$2.2 billion was carried forward into fiscal year 2020 and is available for appropriation. There were no net overexpenditures or line-item overexpenditures, by State departments, during the year.

School Aid Fund

Fund balance at September 30, 2019, totaled \$275.8 million, a decrease of \$157.7 million (36.4 percent) from the prior year. Revenues and transfers to the fund totaled \$15.3 billion, up \$363.5 million (2.4 percent) from the prior year. In fiscal year 2019, tax revenues deposited in the fund increased \$163.5 million (1.3 percent). Federal funds collected by the School Aid Fund were up \$55.5 million (3.5 percent) over the prior year. Expenditures and transfers to other funds totaled \$15.4 billion, an increase of \$467.5 million (3.1 percent) over the previous year. The School Aid Stabilization Fund ended the year with \$194.7 million in restricted fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2019, the State had invested \$24.1 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$306.2 million.

Capital Assets as of September 30
(Net of Depreciations, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,628.4	\$ 3,605.7	\$ -	\$ -	\$ 3,628.4	\$ 3,605.7
Land improvements and other assets	176.9	200.5	-	-	176.9	200.5
Land rights	72.4	71.9	-	-	72.4	71.9
Buildings and improvements	1,553.6	1,630.6	1.4	1.1	1,555.1	1,631.7
Equipment	354.3	364.9	0.8	0.5	355.1	365.4
Computer software	568.8	628.3	-	-	568.8	628.3
Infrastructure	15,797.6	15,290.6	-	-	15,797.6	15,290.6
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	22,171.7	21,812.3	2.3	1.7	22,174.0	21,813.9
Construction in progress	1,928.8	2,020.6	-	-	1,928.8	2,020.6
Total	<u>\$ 24,100.5</u>	<u>\$ 23,832.9</u>	<u>\$ 2.3</u>	<u>\$ 1.7</u>	<u>\$ 24,102.8</u>	<u>\$ 23,834.5</u>

The most significant impact on capital assets during the year resulted from partially completed road and bridge construction and repair projects which are reported within construction in progress.

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State’s network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 29,711 lane miles of roads and 4,837 bridges (spans in excess of 20 feet).

The State has maintained the assessed condition of roads over the past five years. The State’s goal is to have more than 70.0 percent of roads in fair to excellent condition. The most recent condition assessment, completed for calendar year 2018, indicated that 73.0 percent of roads were considered fair or better.

The State’s bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2019) indicated that the condition of the bridges were the same as the prior year. For fiscal year 2019, 93.7 percent of the bridges were assessed as structurally fair or better.

The Legislature passed capital outlay appropriations of \$315.8 million for fiscal year 2019. More detailed information about the State’s capital assets is presented in Note 9 to the financial statements.

Long-term Debt: The State, along with the State Building Authority (SBA), a blended component unit of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. More detailed information regarding the State's long-term obligations is presented in Notes 13 and 15 to the financial statements.

Outstanding Bonded Debt as of September 30 (In Millions)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
General obligation bonds (backed by the State)	\$ 1,358.4	\$ 1,531.0	\$ -	\$ -	\$ 1,358.4	\$ 1,531.0
Revenue bonds and notes (backed by specific tax and fee revenue)	4,033.6	4,241.6	-	-	4,033.6	4,241.6
Total	<u>\$ 5,391.9</u>	<u>\$ 5,772.6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,391.9</u>	<u>\$ 5,772.6</u>

During the year, the State issued bonds and bond anticipation notes totaling \$67.5 million and refunding bonds totaling \$168.1 million. The proceeds from the new bonds will provide funding for university-owned buildings.

BOND RATINGS

The State's general obligations are rated AA stable outlook by Fitch, AA stable outlook by Standard & Poor's, and Aa1 stable outlook by Moody's.

Limitations on Debt

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15.0 percent of undedicated revenues received in the preceding year. In fiscal year 2019, the State did not issue any general obligation short-term notes.

ECONOMIC CONDITIONS

As measured by real gross domestic product (GDP), the U.S. economy has grown each calendar year beginning with 2010. (All years cited in this section refer to calendar years.) After slowing from 2.9 percent real GDP growth in 2015 to 1.6 percent growth in 2016, real GDP growth accelerated to 2.4 percent in 2017 and 2.9 percent in 2018. Real GDP has slowed in 2019. Through the first three quarters of 2019, average real GDP is up 2.3 percent compared to the first three quarters of 2018.

U.S. employment has increased each year since 2011. Over these eight years (2011-2018), U.S. employment rose by 18.7 million jobs with employment rising to new annual record highs in each of the past five years. Through the first nine months of 2019, average U.S. employment is up 1.6 percent compared to 2018. The U.S. unemployment rate has fallen each year since 2011 with the rate dropping from 9.6 percent in 2010 to 3.9 percent in 2018. Through the first nine months of 2019, the national unemployment rate has averaged 3.7 percent.

The light vehicle sector, which remains a key component of the Michigan economy, recovered markedly from a 27-year low of 10.4 million units in 2009. Light vehicle sales rose each year from 2010 to 2016. In 2016, light vehicle sales rose to a new record high of 17.5 million units. Light vehicle sales declined in 2017 but remained above 17.0 million units. In 2018, light vehicle sales rose slightly. Through September 2019, annualized light vehicle sales were down slightly from 2018.

The U.S. housing market has improved significantly after collapsing during the Great Recession. Housing starts increased each year from 2010 to 2018 – rising from 554,000 units in 2009 to 1.3 million in 2018. Through the first nine months of 2019, annualized starts have averaged 1.3 million units – matching the 2018 annual total. Starts remain below their pre-Great Recession annual average of 1.5 million units.

Michigan payroll employment grew each year between 2011 and 2018 with annual growth rates ranging from a high of 2.3 percent in 2011 to a low of 1.1 percent in both 2017 and 2018. Over the eight-year period, annual State employment rose by 555,000 jobs to a 16-year high. However, 2018 Michigan annual employment remained 5.5 percent below the State's record high annual employment level recorded in 2000. In August 2019, Michigan employment rose to its highest monthly employment level in over 16 years before declining slightly in September. Through September 2019, average Michigan employment was up 0.7 percent from a year ago.

In 2018, Michigan's unemployment rate fell for the ninth straight year and averaged 4.1 percent – an 18-year low and 9.6 percentage points lower than the State's Great Recession peak rate of 13.7 percent. Through the first nine months of 2019, the Michigan unemployment rate has averaged 4.1 percent.

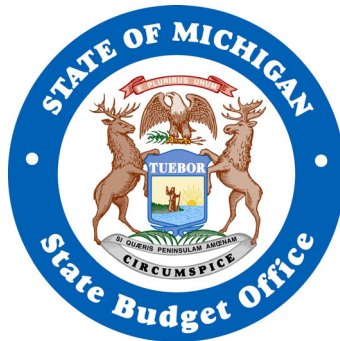
In 2018, Michigan personal income and Michigan real GDP both increased for the ninth straight year. Over the last nine years, Michigan personal income rose 43.6 percent – ranking 22nd among U.S. states. Still more, in the past nine years, Michigan personal income per person increased 42.3 percent – placing seventh among U.S. states. Similarly, over the past nine years, Michigan real GDP rose 23.8 percent – the 11th largest increase among U.S. states.

In 2018, Michigan personal income rose 4.9 percent, up from 3.4 percent growth in 2017. Nationally personal income increased 5.6 percent in 2018, up from 4.7 percent growth in 2017. Michigan real GDP increased 2.5 percent in 2018, up from 1.5 percent growth in 2017. In the first two quarters of 2019, Michigan personal income was up 3.7 percent compared with 4.8 percent national growth. Through the first two quarters of 2019, Michigan real GDP was up 0.6 percent from a year prior.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional financial information can be obtained elsewhere on the Office of Financial Management website. You can also contact the office by phone at (517) 241-4010.

The State's component units prepare their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 241-4010.



FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Current Assets:				
Cash	\$ 12,648	\$ 12,355	\$ 25,003	\$ 1,131,246
Cash on deposit with fiscal agent	-	4,707,122	4,707,122	-
Equity in common cash (Note 5)	4,519,468	220,859	4,740,327	1,449,643
Taxes, interest, and penalties receivable (Note 6)	6,272,184	-	6,272,184	-
Internal balances	27,225	(27,225)	-	-
Amounts due from component units	2,186	294	2,479	28,672
Amounts due from primary government	-	-	-	329,484
Amounts due from federal government	2,222,695	710	2,223,406	37,183
Amounts due from local units	222,593	15,728	238,321	878,004
Inventories	29,461	33,219	62,680	16,823
Investments (Note 8)	175,493	18,591	194,084	2,212,667
Other current assets	1,401,378	410,002	1,811,381	493,480
Total Current Assets	14,885,332	5,391,656	20,276,988	6,577,203
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	-	107,220
Investments	-	-	-	820,343
Mortgages and loans receivable	-	-	-	16,397
Taxes, interest, and penalties receivable (Note 6)	383,189	-	383,189	-
Advances to primary government	-	-	-	1,269,167
Amounts due from federal government	25,450	-	25,450	-
Amounts due from local units	1,350,828	-	1,350,828	6,125,614
Mortgages and loans receivable	-	-	-	3,594,980
Investments (Note 8)	1,321,280	170,670	1,491,951	4,177,129
Land and property held for resale	-	-	-	4,980
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,863,637	-	3,863,637	242,894
Buildings, equipment, and other depreciable assets	6,565,137	7,062	6,572,199	7,483,761
Less accumulated depreciation	(3,811,929)	(4,804)	(3,816,733)	(3,220,802)
Infrastructure	15,554,871	-	15,554,871	102,950
Construction in progress	1,928,807	-	1,928,807	245,420
Total capital assets	24,100,522	2,258	24,102,781	4,854,222
Interest in joint ventures (Note 7)	34,683	-	34,683	-
Other noncurrent assets	38,784	19,200	57,984	737,595
Total Noncurrent Assets	27,254,736	192,129	27,446,865	21,707,649
Total Assets	42,140,068	5,583,785	47,723,853	28,284,852
DEFERRED OUTFLOWS OF RESOURCES (Note 28)	2,439,936	13,866	2,453,802	291,647

The accompanying notes are an integral part of the financial statements.

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 4,117,198	\$ 363,494	\$ 4,480,692	\$ 607,529
Income tax refunds payable (Note 16)	997,869	-	997,869	-
Amounts due to component units	255,127	-	255,127	27,858
Amounts due to primary government	-	-	-	7,759
Bonds and notes payable (Notes 13 and 14)	490,795	-	490,795	1,866,972
Interest payable	98,279	1	98,280	157,332
Unearned revenue	195,734	702	196,436	119,195
Current portion of other long-term obligations (Note 15)	533,389	1,832	535,221	137,872
Total Current Liabilities	6,688,391	366,029	7,054,420	2,924,516
Noncurrent Liabilities:				
Advances from component units	1,156,349	-	1,156,349	-
Prize awards payable (Note 15)	-	149,760	149,760	-
Unearned revenue	382,908	-	382,908	142,624
Bonds and notes payable (Notes 13 and 14)	5,437,409	-	5,437,409	12,554,878
Noncurrent portion of other long-term obligations (Note 15)	17,845,988	130,201	17,976,189	2,806,128
Total Noncurrent Liabilities	24,822,654	279,961	25,102,616	15,503,630
Total Liabilities	31,511,045	645,990	32,157,036	18,428,147
DEFERRED INFLOWS OF RESOURCES (Note 28)	1,822,947	14,667	1,837,615	342,237
NET POSITION				
Net investment in capital assets	21,599,362	1,058	21,600,419	2,835,694
Restricted For (Note 23):				
Education	814,385	-	814,385	186,603
Construction and debt service	-	-	-	4,783,552
Public safety and corrections	30,540	-	30,540	-
Conservation, environment, recreation, and agriculture	449,157	-	449,157	-
Health and human services	73,437	-	73,437	-
Transportation	1,164,154	-	1,164,154	-
Unemployment compensation	-	5,002,767	5,002,767	-
Labor, commerce, and regulatory	234,062	-	234,062	-
Other purposes	132,989	3,244	136,233	1,340,607
Funds Held as Permanent Investments:				
Expendable	292,425	-	292,425	224,082
Nonexpendable	1,076,780	-	1,076,780	524,072
Unrestricted	(14,621,279)	(70,076)	(14,691,355)	(88,494)
Total Net Position	\$ 11,246,012	\$ 4,936,993	\$ 16,183,005	\$ 9,806,116

Michigan

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 3,210,082	\$ 683,878	\$ 145,285	\$ 13,308
Education	17,059,677	11,462	2,048,270	-
Health and human services	25,613,513	166,326	18,109,913	-
Public safety and corrections	3,269,546	167,635	169,078	19,601
Conservation, environment, recreation, and agriculture	990,650	328,642	254,279	6,703
Labor, commerce, and regulatory	951,297	784,214	423,853	-
Transportation	4,460,862	100,933	430,394	975,122
Tax credits (Note 16)	895,100	-	-	-
Intergovernmental-revenue sharing	1,327,717	-	-	-
Interest on long-term debt	259,781	-	-	-
Total governmental activities	58,038,224	2,243,090	21,581,071	1,014,734
Business-type Activities:				
Liquor Purchase Revolving Fund	1,007,701	1,252,065	-	-
State Lottery Fund	2,833,493	3,897,405	23,545	-
Attorney Discipline System	5,307	5,334	282	-
Michigan Unemployment Compensation Funds	785,553	1,207,485	108,420	-
Total business-type activities	4,632,053	6,362,289	132,247	-
Total primary government	\$ 62,670,277	\$ 8,605,379	\$ 21,713,318	\$ 1,014,734
Total component units	\$ 5,317,995	\$ 2,783,659	\$ 1,420,638	\$ 33,733

General Revenues:

Taxes:

General:

Sales and use
 Personal income
 Single business, Michigan business, and corporate income
 Tobacco products
 Beer, wine, and liquor
 Insurance company
 Quality assurance assessment
 Essential services assessment
 Penalties and interest
 Insurance provider assessment
 Other

Restricted For Educational Purposes:

Sales and use
 Personal income
 Education, property, and real estate transfers
 Tobacco products
 Beer, wine, and liquor
 Casino gaming wagering
 Other

Restricted For Transportation Purposes:

Sales and use
 Personal income
 Gasoline and diesel fuel
 Motor vehicle weight
 Other

Unrestricted investment and interest earnings

Miscellaneous

Payments from State of Michigan

Contributions to permanent fund principal

Extraordinary items

Transfers

Total general and other revenue, payments, and transfers

Change in net position

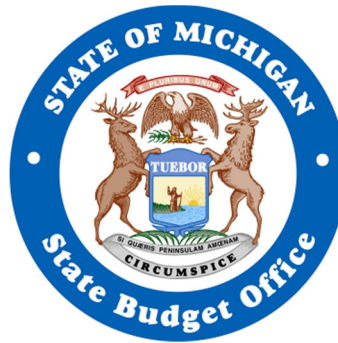
Net position-beginning-restated

Net position-ending

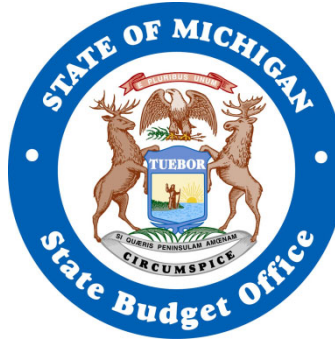
Michigan

NET (EXPENSE) REVENUES AND CHANGES IN NET POSITION

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (2,367,611)	\$ -	\$ (2,367,611)	\$ -
(14,999,946)	-	(14,999,946)	-
(7,337,273)	-	(7,337,273)	-
(2,913,232)	-	(2,913,232)	-
(401,026)	-	(401,026)	-
256,770	-	256,770	-
(2,954,413)	-	(2,954,413)	-
(895,100)	-	(895,100)	-
(1,327,717)	-	(1,327,717)	-
(259,781)	-	(259,781)	-
(33,199,329)	-	(33,199,329)	-
-	244,364	244,364	-
-	1,087,457	1,087,457	-
-	310	310	-
-	530,352	530,352	-
-	1,862,482	1,862,482	-
(33,199,329)	1,862,482	(31,336,847)	-
-	-	-	(1,079,965)
2,898,982	-	2,898,982	-
8,526,451	-	8,526,451	-
1,409,618	-	1,409,618	-
563,157	-	563,157	-
172,133	-	172,133	-
327,420	-	327,420	-
1,410,904	-	1,410,904	-
111,214	-	111,214	-
128,295	-	128,295	-
602,602	-	602,602	-
229,796	-	229,796	-
6,616,765	-	6,616,765	-
2,907,833	-	2,907,833	-
2,466,383	-	2,466,383	-
328,327	-	328,327	-
60,254	-	60,254	-
117,257	-	117,257	-
65,456	-	65,456	-
107,728	-	107,728	-
264,000	-	264,000	-
1,462,292	-	1,462,292	-
1,353,613	-	1,353,613	-
4,702	-	4,702	-
40,019	3,789	43,808	179,837
614,858	-	614,858	307,551
-	-	-	1,059,736
18,759	-	18,759	-
-	-	-	507
1,375,539	(1,375,539)	-	-
34,184,356	(1,371,750)	32,812,606	1,547,631
985,026	490,733	1,475,759	467,666
10,260,985	4,446,260	14,707,246	9,338,450
\$ 11,246,012	\$ 4,936,993	\$ 16,183,005	\$ 9,806,116



GOVERNMENTAL FUND FINANCIAL STATEMENTS



Major Funds

GENERAL FUND

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools, intermediate school districts, higher education and school employees' retirement systems of the State. School aid payments to school districts are based on a statutory formula. Michigan Compiled Laws Section 388.1611a, effective October 1, 2003, created the School Aid Stabilization Fund as a separate account within the School Aid Fund.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated 60 percent of the collections of sales tax imposed at a rate of 4 percent and all of the collections of sales tax imposed at the additional rate of 2 percent; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. General Fund allocations to the School Aid Fund that are not expended by the end of the state fiscal year are also transferred to the School Aid Stabilization Fund.

Non-Major Funds

Non-major governmental funds are presented, by fund type, beginning on page 178.

Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	GENERAL FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS				
Current Assets:				
Cash	\$ 7,658	\$ 308	\$ 4,563	\$ 12,530
Equity in common cash (Note 5)	2,084,260	-	1,998,572	4,082,832
Taxes, interest, and penalties receivable (Note 6)	3,797,505	2,334,393	140,287	6,272,184
Amounts due from other funds (Note 19)	1,653,091	26,822	77,274	1,757,187
Amounts due from component units	154	-	1,726	1,880
Amounts due from federal agencies	1,809,357	102,760	310,578	2,222,695
Amounts due from local units	90,592	33,792	98,210	222,593
Inventories	8,313	-	10,852	19,165
Investments (Note 8)	-	-	175,493	175,493
Other current assets	1,070,127	7,050	275,969	1,353,146
Total Current Assets	10,521,057	2,505,125	3,093,524	16,119,706
Noncurrent Assets:				
Taxes, interest, and penalties receivable (Note 6)	313,900	65,676	3,613	383,189
Advances to other funds (Note 19)	1,044	-	-	1,044
Amounts due from federal agencies	25,450	-	-	25,450
Amounts due from local units	1,269,167	14,505	67,155	1,350,828
Investments (Note 8)	-	-	1,321,280	1,321,280
Other noncurrent assets	6,839	-	896	7,735
Total Noncurrent Assets	1,616,401	80,181	1,392,944	3,089,527
Total Assets	\$ 12,137,458	\$ 2,585,306	\$ 4,486,468	\$ 19,209,233
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities (Note 24)	\$ 3,114,028	\$ 156,159	\$ 664,564	\$ 3,934,752
Income tax refunds payable (Note 16)	997,869	-	-	997,869
Amounts due to other funds (Note 19)	83,592	1,620,392	118,901	1,822,885
Amounts due to component units	5,651	-	52,135	57,786
Bonds and notes payable	-	-	73,580	73,580
Interest payable	-	-	184	184
Unearned revenue	105,561	857	9,188	115,606
Total Current Liabilities	4,306,702	1,777,408	918,553	7,002,663
Long-Term Liabilities:				
Advances from component units	1,156,349	-	-	1,156,349
Unearned revenue	4,214	-	91	4,305
Total Long-Term Liabilities	1,160,563	-	91	1,160,654
Total Liabilities	5,467,265	1,777,408	918,643	8,163,317
DEFERRED INFLOWS OF RESOURCES (Note 28)	2,516,811	532,079	166,584	3,215,474
FUND BALANCES				
Nonspendable	22,306	-	1,087,207	1,109,513
Restricted	653,888	275,819	2,113,121	3,042,829
Committed	2,425,716	-	305,419	2,731,135
Assigned	135,304	-	-	135,304
Unassigned (Note 22)	916,168	-	(104,507)	811,661
Total Fund Balances (Note 23)	4,153,382	275,819	3,401,240	7,830,442
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 12,137,458	\$ 2,585,306	\$ 4,486,468	\$ 19,209,233

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2019

(In Thousands)

Total fund balances for governmental funds \$ 7,830,442

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Note 9)

Land and other non-depreciable assets	3,734,334	
Buildings, equipment, and other depreciable assets	5,131,187	
Infrastructure	15,554,871	
Construction in progress	1,927,533	
Interest in joint ventures	34,683	
Accumulated depreciation	(2,866,189)	23,516,420

Certain tax revenues are earned but not available and therefore are reported as deferred inflows of resources in the funds. 2,930,576

Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds. 284,898

Amounts due to component units for long-term loans. (197,341)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. (424,047)

Pension related assets are not available in the current period and therefore are not reported in the funds. 8,073

Deferred outflows of resources not reported in the funds:

Refunding of debt	17,537
Pension related	847,276
OPEB related	1,460,549

Debt issuance costs are reported as current expenditures in the funds. However, certain debt issuance costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position. 75

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 15)

Capital lease and financed purchase obligations	(413,553)	
Compensated absences	(341,191)	
Workers' compensation	(46,769)	
Net pension liability	(6,473,777)	
Net OPEB liability	(9,280,988)	
Pollution remediation	(199,654)	
Other long-term liabilities	(593,704)	(17,349,635)

Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, unamortized discounts, and accrued interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Position. This is the net effect of these balances on the statement. (Note 13)

Bonds and notes payable	(5,391,928)	
Unamortized premiums	(466,190)	
Unamortized discounts	3,494	
Accrued interest payable	(91,398)	(5,946,022)

Deferred inflows of resources not reported in the funds:

Refunding of debt	(8,771)
Pension related	(562,790)
OPEB related	(1,161,228)

Net position of governmental activities \$ 11,246,012

The accompanying notes are an integral part of the financial statements.

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	GENERAL FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES				
Taxes	\$ 15,840,821	\$ 12,487,185	\$ 3,191,306	\$ 31,519,313
From federal agencies	18,999,959	1,658,331	1,406,311	22,064,601
From local agencies	99,633	-	17,453	117,086
From services	356,782	-	8,152	364,935
From licenses and permits	378,519	-	240,933	619,452
Special Medicaid reimbursements	175,942	-	-	175,942
Miscellaneous	823,176	43,313	1,147,412	2,013,900
Total Revenues	36,674,832	14,188,829	6,011,568	56,875,229
EXPENDITURES				
Current:				
General government	2,478,710	5	276,545	2,755,260
Education	1,629,833	15,293,483	136,374	17,059,690
Health and human services	25,214,594	-	55,180	25,269,773
Public safety and corrections	2,798,110	-	2,542	2,800,651
Conservation, environment, recreation, and agriculture	577,297	-	314,769	892,066
Labor, commerce, and regulatory	697,808	-	645,835	1,343,644
Transportation	255,725	-	3,055,619	3,311,343
Tax credits (Note 16)	895,100	-	-	895,100
Capital outlay	177,764	-	1,442,129	1,619,894
Intergovernmental-revenue sharing	1,327,717	-	-	1,327,717
Debt service:				
Bond principal retirement	-	-	432,071	432,071
Bond interest and fiscal charges	-	-	259,750	259,750
Capital lease and financed purchase payments	71,793	-	2,540	74,334
Total Expenditures	36,124,451	15,293,488	6,623,355	58,041,294
Excess of Revenues over (under) Expenditures	550,381	(1,104,659)	(611,787)	(1,166,065)
OTHER FINANCING SOURCES (USES)				
Bonds and bond anticipation notes issued	-	-	67,478	67,478
Refunding bonds issued	-	-	168,102	168,102
Premium on bond issuance	-	-	29,111	29,111
Payment to refunded bond escrow agent	-	-	(185,167)	(185,167)
Capital lease and financed purchase acquisitions	7,271	-	3,518	10,788
Proceeds from sale of capital assets	5,053	-	671	5,724
Transfers from other funds (Note 21)	326,400	1,072,363	2,415,824	3,814,588
Transfers to other funds (Note 21)	(438,383)	(125,389)	(1,870,822)	(2,434,594)
Total Other Financing Sources (Uses)	(99,659)	946,974	628,715	1,476,030
Net changes in fund balances	450,722	(157,685)	16,928	309,965
Fund Balances - Beginning of fiscal year	3,702,660	433,505	3,384,312	7,520,477
Fund Balances - End of fiscal year	\$ 4,153,382	\$ 275,819	\$ 3,401,240	\$ 7,830,442

The accompanying notes are an integral part of the financial statements.

Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

Net change in fund balance - total governmental funds	\$	309,965
---	----	---------

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.
(Note 9)

Land and other non-depreciable assets	23,851	
Buildings, equipment, and other depreciable assets	45,996	
Infrastructure	(197,115)	
Construction in progress	631,286	
Disposal of capital assets	(9,396)	
Depreciation expense	<u>(181,871)</u>	312,751

Change in deferred inflows of resources from the prior year. Revenues recognized in the Statement of Activities are reported as deferred inflows of resources in the funds when they are not yet available. These amounts are related to:

Tax revenues	615,869	
Other revenues	<u>(5,154)</u>	610,715

Increase (decrease) in equity interest in joint ventures. (Note 7)		(3,117)
--	--	---------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

(30,689)

Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Position. This is the amount repayments exceed proceeds. (Note 13)

Bond proceeds and premiums received	(264,691)	
Repayment of bond principal	432,071	
Payment to refunded bond escrow agent	185,167	
Accrued interest and amortization	<u>46,377</u>	398,924

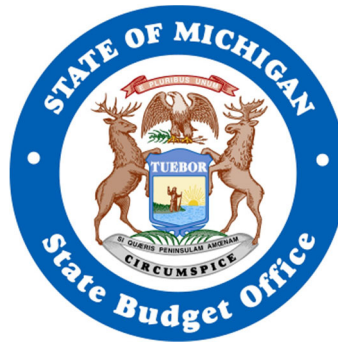
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. Some expenditures reported in the funds either increase or decrease long-term obligations reported in the Statement of Net Position.

In the current year, these amounts related to:

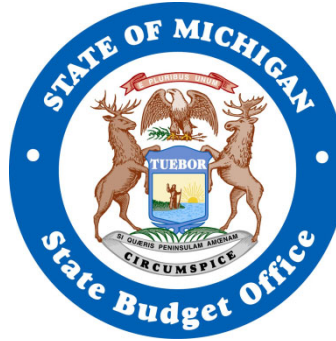
Pension costs, net	(1,049,686)	
OPEB costs, net	188,274	
Advances from component units	430,636	
Capital leases and financed purchases	21,080	
Compensated absences payments	32,796	
Litigation recoveries, settlements and payments	(228,519)	
Pollution remediation obligations	(6,931)	
Workers' compensation	2,788	
Other	<u>(3,961)</u>	<u>(613,523)</u>

Change in net position of governmental activities	\$	<u><u>985,026</u></u>
---	----	-----------------------

The accompanying notes are an integral part of the financial statements.



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Michigan Compiled Laws (MCL) Section 432.41 established the State Lottery Fund and MCL Section 432.5 created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Technology, Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1991. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net position balance represents the unrealized cumulative gain or loss on investments held to fund future Lottery prizes that are annuities, the change in net other postemployment benefits (OPEB) liability, capital assets (leasehold improvements and equipment less capital lease obligations), and the change in net pension liability and deferred inflows and outflows related to pensions and OPEB. These are required by Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.

In general, revenues and related expenses are recognized in the period during which the related drawings are held. Because draw games may be played on an advance wager basis, an associated liability is recognized for all wagers received for drawings to be conducted after the end of the reporting period. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Unemployment Insurance Agency: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund. Executive Order 2014-12, established the Department of Talent and Economic Development (TED) and transferred the Unemployment Insurance Agency from the Department of Licensing and Regulatory Affairs to TED.

The Michigan Employment Security Act Contingent Fund was created by Michigan Compiled Laws (MCL) Section 421.10 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on unemployment insurance benefit overpayments and late contributions. MCL Section 421.10 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 238.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 242.

Michigan

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 11,253	\$ 1,100	\$ 12,355	\$ 118
Cash on deposit with fiscal agent	-	4,707,122	-	4,707,122	-
Equity in common cash (Note 5)	5,878	140,224	74,757	220,859	436,636
Amounts due from other funds (Note 19)	-	592	-	592	9,925
Amounts due from component units	-	294	-	294	306
Amounts due from federal agencies	-	710	-	710	-
Amounts due from local units	-	15,728	-	15,728	-
Inventories	19,935	-	13,284	33,219	10,296
Investments (Note 8)	16,181	-	2,410	18,591	-
Other current assets	219,687	170,606	19,709	410,002	48,204
Total Current Assets	261,683	5,046,529	111,260	5,419,472	505,485
Noncurrent Assets:					
Investments (Note 8)	166,286	-	4,385	170,670	-
Capital Assets (Note 9):					
Land and other non-depreciable assets	-	-	-	-	129,303
Buildings and equipment	5,807	-	1,255	7,062	1,433,949
Allowance for depreciation	(4,225)	-	(578)	(4,804)	(945,740)
Construction in progress	-	-	-	-	1,274
Total capital assets	1,582	-	677	2,258	618,786
Other noncurrent assets	-	19,200	-	19,200	22,901
Total Noncurrent Assets	167,867	19,200	5,062	192,129	641,686
Total Assets	429,550	5,065,729	116,322	5,611,601	1,147,171
DEFERRED OUTFLOWS OF RESOURCES	9,447	-	4,419	13,866	114,575
LIABILITIES					
Current Liabilities:					
Accounts payable and other liabilities (Note 24)	219,321	33,357	110,232	362,909	95,208
Amounts due to other funds (Note 19)	27,226	948	228	28,402	4,212
Interest payable	-	-	1	1	3,448
Unearned revenue	-	-	702	702	80,128
Current portion of other long-term obligations (Note 15)	992	-	840	1,832	65,630
Total Current Liabilities	247,538	34,305	112,002	393,846	248,625
Long-Term Liabilities:					
Advances from other funds (Note 19)	-	-	-	-	1,044
Prize awards payable	149,760	-	-	149,760	-
Unearned revenue	-	-	-	-	378,604
Noncurrent portion of other long-term obligations (Note 15)	67,770	28,656	33,775	130,201	967,362
Total Long-Term Liabilities	217,530	28,656	33,775	279,961	1,347,010
Total Liabilities	465,068	62,962	145,778	673,807	1,595,635
DEFERRED INFLOWS OF RESOURCES	7,387	-	7,280	14,667	90,158
NET POSITION					
Net investment in capital assets	1,108	-	(51)	1,058	526,990
Restricted For:					
Unemployment compensation	-	5,002,767	-	5,002,767	-
Other purposes	-	-	3,244	3,244	-
Unrestricted	(34,566)	-	(35,510)	(70,076)	(951,037)
Total Net Position	\$ (33,458)	\$ 5,002,767	\$ (32,316)	\$ 4,936,993	\$ (424,047)

The accompanying notes are an integral part of the financial statements.

Michigan

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
OPERATING REVENUES					
Operating revenues	\$ 3,897,405	\$ 1,207,485	\$ 1,257,349	\$ 6,362,239	\$ 1,941,174
Total Operating Revenues	3,897,405	1,207,485	1,257,349	6,362,239	1,941,174
OPERATING EXPENSES					
Salaries, wages, and other administrative	461,823	4,642	98,258	564,724	956,870
Interest expense	27	-	-	27	-
Depreciation	564	-	41	605	123,701
Purchases for resale	-	-	913,791	913,791	70,886
Purchases for prison industries	-	-	-	-	6,121
Lottery prize awards	2,364,658	-	-	2,364,658	-
Premiums and claims	-	-	13	13	741,006
Unemployment benefits	-	775,109	-	775,109	-
Other operating expenses	71	5,802	874	6,747	68,189
Total Operating Expenses	2,827,144	785,553	1,012,978	4,625,674	1,966,772
Operating Income (Loss)	1,070,261	421,933	244,371	1,736,565	(25,598)
NONOPERATING REVENUES (EXPENSES)					
Interest revenue	1,618	108,411	3,789	113,818	7,484
Investment revenue (expense) - net	21,927	-	282	22,209	-
Other nonoperating revenues	-	9	50	58	5,912
Amortization of prize award obligation discount	(6,299)	-	-	(6,299)	-
Interest expense	(46)	-	(30)	(76)	(3,251)
Other nonoperating expense	(5)	-	-	(5)	(11,032)
Total Nonoperating Revenues (Expenses)	17,195	108,420	4,091	129,706	(886)
Income (Loss) Before Transfers	1,087,457	530,352	248,462	1,866,271	(26,484)
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Transfers To:					
School Aid Fund	(1,070,650)	-	-	(1,070,650)	-
Other funds	(6,316)	(50,475)	(248,099)	(304,889)	(4,205)
Total transfers to other funds	(1,076,965)	(50,475)	(248,099)	(1,375,539)	(4,205)
Change in net position	10,491	479,877	364	490,733	(30,689)
Total net position - Beginning of fiscal year	(43,949)	4,522,890	(32,680)	4,446,260	(393,357)
Total net position - End of fiscal year	\$ (33,458)	\$ 5,002,767	\$ (32,316)	\$ 4,936,993	\$ (424,047)

The accompanying notes are an integral part of the financial statements.

Michigan

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

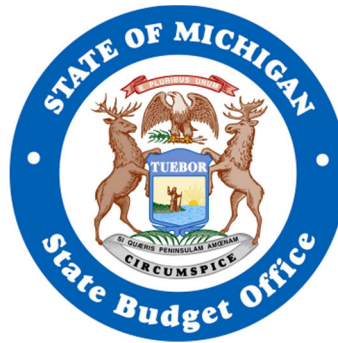
(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies	\$ -	\$ 6,084	\$ -	\$ 6,084	\$ -
Receipts from customers	3,827,928	1,194,221	1,246,653	6,268,802	1,952,655
Membership dues	-	-	5,589	5,589	-
Payments to employees	(24,900)	-	(15,940)	(40,840)	(297,841)
Payments to suppliers	(75,704)	-	(1,002,192)	(1,077,896)	(836,641)
Payments to prize winners	(2,327,335)	-	-	(2,327,335)	-
Payments for commissions to retailers	(357,777)	-	-	(357,777)	-
Claims paid	-	(776,898)	(13)	(776,911)	(767,580)
Other receipts	-	20,152	146	20,298	5,214
Other payments	-	(4,642)	(1,064)	(5,706)	(223)
Net cash provided (used) by operating activities	1,042,213	438,917	233,178	1,714,308	55,584
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances from federal government	-	9	-	9	-
Loans or loan repayments from other funds	-	-	-	-	26,367
Loans or loan repayments to other funds	-	-	-	-	(26,367)
Transfers to other funds	(1,055,143)	(50,798)	(282,615)	(1,388,555)	(4,205)
Net cash provided (used) by noncapital financing activities	(1,055,143)	(50,789)	(282,615)	(1,388,547)	(4,205)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(646)	-	-	(646)	(36,452)
Interest paid	-	-	-	-	(20)
Capital lease payments (including imputed interest expense)	(71)	-	(12)	(83)	(24,362)
Net cash provided (used) by capital and related financing activities	(717)	-	(12)	(729)	(60,834)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities	(3,057)	-	(79)	(3,136)	-
Sale of investment securities	-	-	523	523	-
Proceeds from sales and maturities of investment securities	16,859	-	-	16,859	-
Interest and dividends on investments	1,618	108,411	3,789	113,818	7,484
Expenses from securities lending activities	(3)	-	-	(3)	-
Net cash provided (used) by investing activities	15,418	108,411	4,233	128,062	7,484
Net cash provided (used) - all activities	1,770	496,539	(45,215)	453,094	(1,972)
Cash and cash equivalents at beginning of year	4,110	4,362,060	121,073	4,487,242	438,726
Cash and cash equivalents at end of year	\$ 5,880	\$ 4,858,599	\$ 75,857	\$ 4,940,336	\$ 436,755

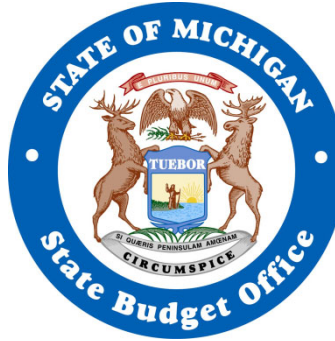
The accompanying notes are an integral part of the financial statements.

Michigan

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR					GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS		
RECONCILIATION OF CASH AND CASH EQUIVALENTS						
Per Statement of Net Position Classifications:						
Cash	\$ 2	\$ 11,253	\$ 1,100	\$ 12,355	\$	118
Cash on deposit with fiscal agent	-	4,707,122	-	4,707,122		-
Equity in common cash	5,878	140,224	74,757	220,859		436,636
Cash and cash equivalents at end of year	<u>\$ 5,880</u>	<u>\$ 4,858,599</u>	<u>\$ 75,857</u>	<u>\$ 4,940,336</u>	<u>\$</u>	<u>436,755</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 1,070,261	\$ 421,933	\$ 244,371	\$ 1,736,565	\$	(25,598)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)						
by Operating Activities:						
Depreciation expense	564	-	41	605		123,701
Pension expense	7,898	-	1,304	9,202		94,580
OPEB expense	2,892	-	556	3,448		34,646
Deferred outflows - contributions subsequent to measurement date	(6,136)	-	(3,000)	(9,136)		(69,531)
Amortization of prize award obligation discount	(6,299)	-	-	(6,299)		-
Other nonoperating revenues	-	-	50	50		5,912
Other nonoperating expenses	(43)	-	-	(43)		(760)
Other reconciling items	383	-	686	1,068		(371)
Net Changes in Assets and Liabilities:						
Inventories	(555)	-	(5,095)	(5,650)		261
Other assets (net)	(68,773)	27,014	(6,239)	(47,999)		(62,058)
Accounts payable and other liabilities	(1,601)	(10,029)	(163)	(11,793)		(40,467)
Prize awards payable	43,623	-	-	43,623		-
Unearned revenue	-	-	667	667		(4,732)
Net cash provided (used) by operating activities	<u>\$ 1,042,213</u>	<u>\$ 438,917</u>	<u>\$ 233,178</u>	<u>\$ 1,714,308</u>	<u>\$</u>	<u>55,584</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES						
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ 547	\$ 547	\$	6,370
Capital lease liabilities entered into during the year	71	-	(547)	(477)		(6,370)
Increase (decrease) in fair value of investments	15,148	-	-	15,148		-
Transfers to other funds (accrual)	(26,822)	(9)	-	(26,831)		-
Gain (loss) on disposal of capital assets	(5)	-	-	(5)		(10,272)
Total noncash investing, capital, and financing activities	<u>\$ (11,609)</u>	<u>\$ (9)</u>	<u>\$ -</u>	<u>\$ (11,617)</u>	<u>\$</u>	<u>(10,272)</u>



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 250.
Private Purpose Trust Funds, page 258.
Agency Funds, page 263.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash	\$ -	\$ 6,848	\$ 40,908
Equity in common cash (Note 5)	257,161	156,902	16,318
Receivables:			
From participants	165,658	-	-
From employers	363,049	-	-
Other	160,131	-	-
Interest and dividends	824	5,720	-
Due from other funds (Note 19)	18,762	-	-
Due from component unit	715	-	-
Due from other governmental	22,038	-	-
Investments at Fair Value (Note 8):			
Short-term investments	2,454,482	-	-
Fixed income	10,169,934	9,813	-
Domestic equities	16,831,748	-	-
Real estate	7,112,781	1,133	-
Alternative investments	15,174	4,466	-
Private equity pools	13,892,812	-	-
International equities	11,928,956	-	-
Absolute return	12,180,223	-	-
Mutual funds	810,113	5,628,073	-
Pooled investment funds	5,689,464	-	-
Separate accounts	2,540,731	-	-
Guaranteed funding agreements	-	957,276	-
Securities lending collateral (Note 8)	2,956,495	-	-
Other current assets	-	9,756	9
Other noncurrent assets	-	425	277,157
Total Assets	<u>87,571,251</u>	<u>6,780,415</u>	<u>334,393</u>
LIABILITIES			
Accounts payable and other liabilities	252,159	21,022	57,236
Amounts due to other funds (Note 19)	404	27	-
Obligations under security lending	2,956,154	-	-
Unearned revenue	3,648	-	-
Other long-term liabilities	-	-	277,157
Total Liabilities	<u>3,212,366</u>	<u>21,049</u>	<u>\$ 334,393</u>
NET POSITION			
Restricted for pension, postemployment health-care, deferred compensation participants, and other purposes	<u>\$ 84,358,886</u>	<u>\$ 6,759,366</u>	

The accompanying notes are an integral part of the financial statements.

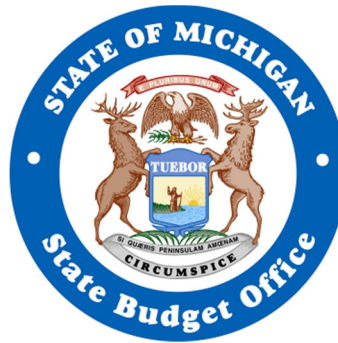
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

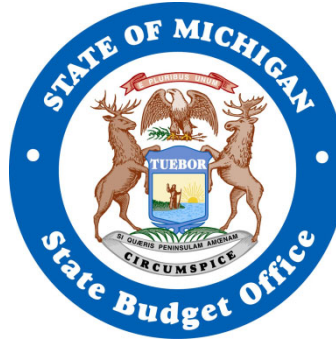
(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS		
Contributions:		
From participants	\$ 1,072,226	\$ 668,910
From employers	5,288,396	-
From clients	-	53,948
From gifts, bequests, and endowments	-	16,534
From other governmental	304,699	-
From other systems	15,924	-
Investment Income:		
Net increase (decrease) in the fair value of investments	3,033,739	126,072
Interest, dividends, and other	1,184,609	155,771
Securities lending income	85,226	-
Less Investment Expense:		
Investment activity expense	339,981	-
Securities lending expense	75,669	-
Net investment income (loss)	3,887,924	281,844
Escheated property	-	119,267
Miscellaneous income	7,474	571
Total Additions	10,576,645	1,141,074
DEDUCTIONS		
Benefits paid to participants or beneficiaries	6,890,106	526,130
Medical, dental, and life insurance for retirants	1,048,612	-
Refunds and transfers to other systems	367,893	-
Amounts distributed to clients, claimants, or third parties	-	155,285
Administrative and other expenses	255,735	18,513
Total Deductions	8,562,346	699,928
Change in net position	2,014,299	441,146
Net position - Beginning of fiscal year	82,344,587	6,318,219
Net position - End of fiscal year	\$ 84,358,886	\$ 6,759,366

The accompanying notes are an integral part of the financial statements.



COMPONENT UNIT FINANCIAL STATEMENTS



Major Component Units

MICHIGAN FINANCE AUTHORITY

Executive Order 2010-2 created the Michigan Finance Authority (MFA) to consolidate 10 different public finance authorities. In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the Land Bank Fast Track Authority was transferred to MFA. A seven-member Board of Directors, consisting of the State Treasurer and six appointees of the Governor with advice and consent of the State Senate, governs MFA.

MFA provides sources of funding for loans to governmental units, school districts, nonpublic nonprofit institutions of higher education, and healthcare corporations and facilities. MFA assists governmental units in financing and marketing municipal debt and tax-exempt bonds. MFA also enhances Michigan's student loan efforts by overseeing the collection of federal and state issued loans as well as through the administration of the Michigan Guaranty Agency. MFA may not create debt or liabilities on behalf of the State or pledge the full faith and credit of the State.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Michigan Compiled Laws Section 125.1421 created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

MICHIGAN STRATEGIC FUND

The Michigan Strategic Fund (MSF) is a public body corporate and politic created by Section 5 of the Michigan Strategic Fund Act, Michigan Compiled Laws Section 125.2005 to help diversify the economy of the State and to provide for economic development, through the administration of financial support for business development, community development, and state marketing activities, including the promotion of tourism and arts and cultural affairs.

MSF is governed by a board of 11 members, including the State Treasurer or her designee from within the Department of Treasury, the Chief Executive Officer of the Michigan Economic Development Corporation, a person in the position of Vice President or higher at either the MEDC or the Department of Talent and Economic Development, appointed by the Governor, and eight residents of the State appointed by the Governor.

CENTRAL MICHIGAN UNIVERSITY, EASTERN MICHIGAN UNIVERSITY, AND WESTERN MICHIGAN UNIVERSITY

Of the 10 universities included in this report, Central Michigan University, Eastern Michigan University, and Western Michigan University are reported as major component units. The universities are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University, and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

Non-Major Component Units

The non-major component unit - authorities are presented beginning on page 268.

The non-major component unit - State universities are presented beginning on page 274.

STATEMENT OF NET POSITION

COMPONENT UNITS

SEPTEMBER 30, 2019

(In Thousands)

	AUTHORITIES			
	MICHIGAN FINANCE AUTHORITY	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN STRATEGIC FUND	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 77,982	\$ 325,651	\$ 96,211	\$ 182,577
Equity in common cash (Note 5)	1,118,379	-	268,162	63,102
Amounts due from component units	-	-	-	28,672
Amounts due from primary government	86,526	-	150	5,724
Amounts due from federal government	788	-	13,526	-
Amounts due from local units	871,041	-	-	-
Inventories	-	-	-	695
Investments (Note 8)	1,922,177	148,092	-	16,940
Other current assets	208,219	58,145	62,590	16,779
Total Current Assets	4,285,112	531,887	440,640	314,490
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	46,776	27,574
Investments	-	-	-	5,713
Mortgages and loans receivable	-	-	-	-
Advances to primary government	1,269,167	-	-	-
Amounts due from local units	6,125,614	-	-	-
Mortgages and loans receivable	375,636	3,064,810	112,272	10,079
Investments (Note 8)	492,413	697,212	-	1,450,990
Land and property held for resale	-	-	-	4,980
Capital Assets (Note 9):				
Land and other non-depreciable assets	-	-	-	1,217
Buildings, equipment, and other depreciable assets	-	21,000	-	60,314
Less accumulated depreciation	-	(569)	-	(39,937)
Infrastructure	-	-	-	102,950
Construction in progress	-	-	-	-
Total capital assets	-	20,431	-	124,544
Other noncurrent assets	-	56,058	576,291	34,858
Total Noncurrent Assets	8,262,830	3,838,511	735,338	1,658,738
Total Assets	12,547,942	4,370,398	1,175,978	1,973,228
DEFERRED OUTFLOWS OF RESOURCES (Note 28)	39,884	93,660	6,074	21,719

This statement continues on next page.

Michigan

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	EASTERN MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 29,470	\$ 14,451	\$ 111,129	\$ 293,775	\$ 1,131,246
-	-	-	-	1,449,643
-	-	-	-	28,672
61,646	22,729	20,614	132,095	329,484
2,239	2,237	3,480	14,912	37,183
-	-	4	6,959	878,004
3,696	1,049	2,524	8,859	16,823
-	-	21,136	104,323	2,212,667
27,939	14,292	29,716	75,798	493,480
124,990	54,758	188,603	636,721	6,577,203
1	2,000	-	30,869	107,220
-	131,760	416,656	266,213	820,343
-	-	-	16,397	16,397
-	-	-	-	1,269,167
-	-	-	-	6,125,614
-	4,774	6,465	20,945	3,594,980
406,901	71,208	186,820	871,586	4,177,129
-	-	-	-	4,980
13,776	11,330	18,220	198,351	242,894
973,109	918,334	1,464,586	4,046,418	7,483,761
(461,822)	(377,169)	(632,193)	(1,709,113)	(3,220,802)
-	-	-	-	102,950
37,104	41,292	59,083	107,941	245,420
562,166	593,787	909,697	2,643,596	4,854,222
6,763	-	10,514	53,111	737,595
975,832	803,529	1,530,152	3,902,717	21,707,649
1,100,822	858,288	1,718,756	4,539,439	28,284,852
21,001	28,537	17,852	62,920	291,647

STATEMENT OF NET POSITION
COMPONENT UNITS (Continued)

SEPTEMBER 30, 2019

(In Thousands)

	AUTHORITIES			
	MICHIGAN FINANCE AUTHORITY	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN STRATEGIC FUND	NON-MAJOR
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 55,303	\$ 39,768	\$ 62,516	\$ 24,091
Amounts due to component units	-	-	27,858	-
Amounts due to primary government	-	-	96	2,362
Bonds and notes payable (Note 14)	1,669,412	91,595	21,030	65
Interest payable	116,163	15,021	4,631	4,443
Unearned revenue	5,000	-	10,439	2,891
Current portion of other long-term obligations	949	41,372	628	69,166
Total Current Liabilities	<u>1,846,827</u>	<u>187,756</u>	<u>127,198</u>	<u>103,017</u>
Long-Term Liabilities:				
Unearned revenue	-	-	114,825	809
Bonds and notes payable (Note 14)	7,395,746	2,745,809	300,769	251,390
Noncurrent portion of other long-term obligations	44,201	659,373	21,991	851,864
Total Long-Term Liabilities	<u>7,439,947</u>	<u>3,405,182</u>	<u>437,585</u>	<u>1,104,063</u>
Total Liabilities	<u>9,286,774</u>	<u>3,592,938</u>	<u>564,783</u>	<u>1,207,080</u>
DEFERRED INFLOWS OF RESOURCES (Note 28)	<u>4,203</u>	<u>30,038</u>	<u>1,746</u>	<u>11,218</u>
NET POSITION				
Net investment in capital assets	-	20,431	-	122,680
Restricted For:				
Education	-	-	-	-
Construction and debt service	4,272,913	474,964	-	3,445
Other purposes	-	119,750	758,376	290,632
Funds Held as Permanent Investments:				
Expendable	-	-	-	25,553
Nonexpendable	-	-	-	-
Unrestricted	(976,063)	225,938	(142,853)	334,339
Total Net Position	<u>\$ 3,296,850</u>	<u>\$ 841,083</u>	<u>\$ 615,523</u>	<u>\$ 776,649</u>

The accompanying notes are an integral part of the financial statements.

Michigan

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	EASTERN MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 74,659	\$ 60,689	\$ 81,659	\$ 208,845	\$ 607,529
-	-	-	-	27,858
2,999	509	-	1,794	7,759
6,213	4,568	21,288	52,802	1,866,972
1,462	5,367	2,188	8,057	157,332
11,987	17,485	11,259	60,134	119,195
210	646	6,378	18,522	137,872
97,529	89,264	122,771	350,153	2,924,516
-	13,648	-	13,342	142,624
146,429	347,252	350,856	1,016,626	12,554,878
198,019	172,627	379,272	478,783	2,806,128
344,448	533,527	730,128	1,508,751	15,503,630
441,978	622,791	852,899	1,858,904	18,428,147
14,537	63,228	122,492	94,774	342,237
407,670	266,531	486,880	1,531,501	2,835,694
22,781	-	5,843	157,979	186,603
8,740	-	-	23,490	4,783,552
-	43,267	122,711	5,871	1,340,607
40,667	-	-	157,862	224,082
62,860	52,365	86,528	322,320	524,072
122,592	(161,357)	59,254	449,658	(88,494)
\$ 665,308	\$ 200,805	\$ 761,216	\$ 2,648,681	\$ 9,806,116

Michigan

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

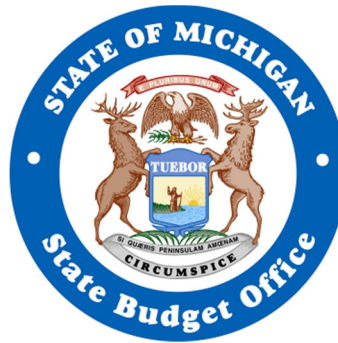
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Authorities:					
Michigan Finance Authority	\$ 468,028	\$ 415,594	\$ 174,767	\$ -	\$ 122,333
Michigan State Housing Development Authority	843,540	188,564	676,728	-	21,752
Michigan Strategic Fund	448,041	1,241	35,796	-	(411,004)
Non-Major	300,310	41,196	259,760	178	824
State Universities:					
Central Michigan University	515,372	349,232	33,033	4,052	(129,056)
Eastern Michigan University	369,970	218,947	21,597	1,000	(128,426)
Western Michigan University	643,503	435,103	53,886	5,589	(148,925)
Non-Major	1,729,230	1,133,782	165,070	22,915	(407,463)
Total	<u>\$ 5,317,995</u>	<u>\$ 2,783,659</u>	<u>\$ 1,420,638</u>	<u>\$ 33,733</u>	<u>\$ (1,079,965)</u>

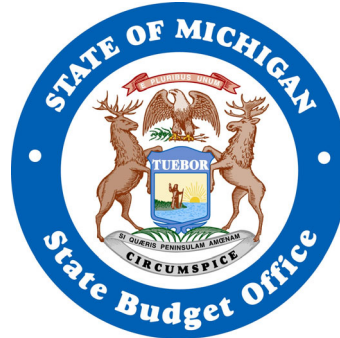
The accompanying notes are an integral part of the financial statements.

Michigan

GENERAL REVENUES

INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	EXTRAORDINARY ITEMS	CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR RESTATED	NET POSITION END OF YEAR
\$ -	\$ -	\$ -	\$ -	\$ 122,333	\$ 3,174,517	\$ 3,296,850
28,832	-	-	-	50,584	790,499	841,083
22,757	403,280	62,910	-	77,944	537,578	615,523
50,262	9,977	7,514	-	68,577	708,073	776,649
10,392	96,577	24,814	-	2,727	662,582	665,308
(2,136)	107,481	31,518	-	8,437	192,369	200,805
12,560	112,517	50,626	-	26,778	734,438	761,216
57,169	329,904	130,168	507	110,286	2,538,395	2,648,681
<u>\$ 179,837</u>	<u>\$ 1,059,736</u>	<u>\$ 307,551</u>	<u>\$ 507</u>	<u>\$ 467,666</u>	<u>\$ 9,338,450</u>	<u>\$ 9,806,116</u>





FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Michigan
Notes to the Financial Statements

INDEX

	<u>Page</u>
NOTE 1 - Summary of Significant Accounting Policies	59
NOTE 2 - Funds and Component Units by Classification	67
NOTE 3 - Budgeting, Budgetary Control, and Legal Compliance	68
NOTE 4 - Accounting Changes and Restatements.....	69
NOTE 5 - Treasurer's Common Cash.....	70
NOTE 6 - Taxes Receivable	72
NOTE 7 - Joint Ventures.....	73
NOTE 8 - Deposits and Investments	74
NOTE 9 - Capital Assets.....	87
NOTE 10 - Pension Benefits.....	90
NOTE 11 - Other Postemployment Benefits	99
NOTE 12 - Leases	110
NOTE 13 - Bonds and Notes Payable – Primary Government	112
NOTE 14 - Bonds and Notes Payable - Discretely Presented Component Units	116
NOTE 15 - Other Long-Term Obligations	117
NOTE 16 - Income Tax Credits and Refunds	119
NOTE 17 – Tax Abatements.....	120
NOTE 18 - Deferred Compensation Plans	126
NOTE 19 - Interfund Receivables and Payables	127
NOTE 20 - Interfund Commitments	127
NOTE 21 - Transfers	128
NOTE 22 - Fund Deficits	128
NOTE 23 - Fund Balances and Net Position	129
NOTE 24 - Disaggregation of Payables.....	131
NOTE 25 - Contingencies and Commitments.....	131
NOTE 26 - Risk Management.....	136
NOTE 27 - Pledged Revenues	137
NOTE 28 – Deferred Outflows of Resources and Deferred Inflows of Resources.....	138
NOTE 29 - Subsequent Events	139

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the State conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards. Following is a summary of the significant policies:

Reporting Entity

Michigan was admitted to the Union as the twenty-sixth state in 1837. The State of Michigan is governed under the Constitution of 1963, as amended. The legislative power is vested in a 38-member senate and a 110-member house of representatives; executive power is vested in a governor; and the judicial power is vested exclusively in one court of justice.

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 61. The State is financially accountable for those entities in which the State appoints a voting majority of an organization's governing authority, and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the State. For those entities in which the State does not appoint a voting majority of the governing authority, GASB standards require inclusion in the reporting entity if they are fiscally dependent on the State and there exists a financial benefit or burden relationship with the State.

GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, most of the university component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units

The State Building Authority (SBA) is a legally separate organization that has a board appointed by the primary government and provides services primarily to benefit the State. Therefore, SBA is reported as though it was part of the primary government, using the blending method.

Discretely Presented Component Units

These types of component units are reported in separate columns or rows in the government-wide financial statements to emphasize that they are legally separate from the government.

The State has the ability to appoint a voting majority of each governing board and is able to impose its will upon these discretely presented component units:

The Michigan Finance Authority provides sources of funding for loans to governmental units, school districts, and nonpublic nonprofit institutions of higher education, healthcare corporations and facilities. The Authority also makes loans and acquires loans made to students and their parents.

The Michigan State Housing Development Authority (MSHDA) finances loans for the construction of single and multi-family housing and home improvement projects.

The Farm Produce Insurance Authority provides reimbursements to participating producers for losses suffered in the event of a grain dealer's financial failure.

The Land Bank Fast Track Authority receives tax reverted properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

The Mackinac Bridge Authority accounts for the operation of the Mackinac Bridge.

The Mackinac Island State Park Commission operates the Mackinac Island and Michilimackinac State Parks.

The Michigan Early Childhood Investment Corporation participates with intermediate school districts to establish standards and guidelines for early childhood development activities.

The Michigan Education Trust offers contracts, which, for actuarially determined amounts, provide plan participants with future tuition at institutions of higher education.

The State has the ability to appoint a voting majority of each governing board and there is a financial burden/benefit relationship between these entities and the State:

The Michigan Strategic Fund provides business enterprises with additional sources of financing.

The Michigan Economic Development Corporation manages programs to stimulate, coordinate, and advance economic development in the State.

The Venture Michigan Fund is a nonprofit corporation that raises capital and invests that capital in venture capital firms with the intent of benefiting Michigan's seed or early stage businesses in order to promote the economic health of the State of Michigan.

The following entity's relationship with the State would be misleading if it were omitted from the State's reporting entity:

The State Bar of Michigan is a public body corporation whose membership consists of persons licensed to practice law.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government and there is a financial burden/benefit relationship with the State. Their balances and operating results are included with the other discretely presented component units on the government-wide financial statements. The 10 universities included in these statements are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under GASB criteria, they are considered fiscally independent, special-purpose governments.

Included in the balances and operating results for most of the university component units is financial activity for fund-raising foundations that contribute to these universities. Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources or income thereon that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements.

Significant Transactions

The State had significant transactions with its major discretely presented component units. The significant transactions consist of appropriations to public universities, including \$112.5 million to Western Michigan University, \$96.6 million to Central Michigan University and \$107.5 million to Eastern Michigan University. The financial statements also reflect a \$1.3 billion liability related to loans to school districts that have been assigned to Michigan Finance Authority (MFA) and a \$84.5 million liability related to amounts owed to MFA from the transfer of bond proceeds to the State that were used to repay federal advances to the State's unemployment trust account. The bonds were secured by an unemployment obligation assessment, which is collected by the State from employers and transferred to MFA to be used for debt service.

Availability of Financial Statements

The State's component units prepare their own separately issued audited financial statements. These statements may be obtained by directly contacting the various component units. To obtain their phone numbers, you may contact the State Budget Office, Office of Financial Management at (517) 241-4010.

Related Organizations

The State's Insurance Commissioner is responsible for appointing the members of the boards of the Michigan Catastrophic Claims Association and the Michigan Property and Casualty Guaranty Association, but the State's accountability for these organizations does not extend beyond making the appointments.

The State's Governor is responsible for appointing the members of the board of the Michigan Health Endowment Fund, but the State's accountability does not extend beyond making the appointments.

The State's Governor is responsible for appointing members of the council of the Local Community Stabilization Authority, but the State's accountability does not extend beyond making the appointments.

Joint Ventures

As discussed in more detail in Note 7, the State participates in two joint ventures. Their financial activities are not included in the State's fund financial statements, but the State's equity interest is recorded as an asset in the Statement of Net Position.

Jointly Governed Organizations

The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of the Michigan Public Health Institute (MPHI), a nonprofit corporation. MPHI was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPHI. Therefore, the State's accountability for MPHI does not extend beyond making the appointments. During fiscal year 2019, the State awarded contracts totaling \$105.4 million to MPHI.

The City of Detroit, Charter County of Wayne, and the Department of Health and Human Services of the State of Michigan appoint members of the board of Authority Health, a public agency. Authority Health was established to plan, promote, and coordinate health services for at-risk population in the City of Detroit and Wayne County. The State does not appoint a majority of the board, has no right to the assets, and is not responsible for debts of Authority Health; therefore, the State's accountability for Authority Health does not extend beyond making the appointments. During fiscal year 2019, the State awarded contracts totaling \$1.2 million to Authority Health.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Position** presents the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on the use of net position are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Significant revenues susceptible to accrual include tax revenues and federal grants. Revenues that the State earns by incurring obligations are recognized in the period when all applicable eligibility requirements have been met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

Financial Statement Presentation

The State reports the following major governmental funds:

The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The School Aid Fund's purpose is to aid in the support of the public schools, intermediate school districts, higher education and school employees' retirement systems of the State. The fund receives state revenues restricted to local school programs, including the State Education (property) Tax, portions of the sales and personal income taxes, State Lottery Fund earnings, and a percentage of the adjusted gross receipts from casino gaming. The fund also receives General Fund allocations that are not expended by the end of the State fiscal year.

The State reports the following major enterprise funds:

The State Lottery Fund accounts for the operations of the State's lottery, bingo, and charitable game operations.

The Michigan Unemployment Compensation Funds receive contributions from employers and provide benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – account for specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds – account for resources used for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude capital-related outflows financed by proprietary or trust funds.

Permanent Funds – report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry.

Proprietary Fund Types:

Enterprise Funds – report the activities for which fees are charged to external users for goods or services, such as the State's liquor sales. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

Internal Service Funds – provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include prisoner-built office furnishings; motor pool services; printing, reproduction and mailing services; information technology; risk management; and health-related fringe benefits. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Types:

Pension (and Other Employee Benefit) Trust Funds – report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plans, and other postemployment benefit plans.

Private Purpose Trust Funds – report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include the State's Escheats fund, gifts to the State, and others.

Agency Funds – report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

Fiscal Year-Ends

All funds and discretely presented component units are reported using fiscal years which end on September 30, except for MSHDA and the 10 state universities, which utilize June 30 year-ends, and the Farm Produce Insurance Authority and the Venture Michigan Fund, which have December 31 year-ends.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as "Cash and cash equivalents" is equal to the total of the amounts reported on the Statement of Net Position as "Cash," "Cash on deposit with fiscal agent," and "Equity in common cash."

Cash

Cash reported on the Statement of Net Position and the Balance Sheet consists of petty cash, undeposited receipts, deposits in transit to the Common Cash pool, and cash equivalents such as short-term investments with original maturities of less than three months that are used for cash management, rather than investing activities.

Equity in Common Cash

The State Treasurer maintains centralized management of most state cash resources (not including component units). From the perspective of the various state funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the Common Cash pool are described in Note 5.

Taxes Receivable

Taxes receivable represent amounts due to the State at September 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered "available" (i.e., received by the State within approximately 60 days after year-end) is recorded as revenue; the remainder is recorded as deferred inflows of resources. Application of the measurability and availability criteria regarding taxes is described in Note 6.

Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education, understates both assets and liabilities, and expenditures and revenues; however, there is no impact on net position or fund balance.

Inventories

Inventories are valued at cost, primarily using the first-in, first-out flow method. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Investments

Generally, investments are reported at fair value, consistent with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB Statement No. 72, Fair Value Measurement and Application. Short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury obligations are reported at amortized cost. Additional disclosures describing investments are provided in Note 8.

Security Lending Collateral

Securities on loan for cash collateral are reported in the Statement of Net Position. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security lending transactions are provided in Note 8.

Other Assets

Other assets include receivables, amounts held in escrow, and other types of assets not reported on other lines.

Mortgages and Loans Receivable

Mortgages and loans receivable are reported net of unamortized premiums, discounts, and allowances for possible losses.

Capital Assets

Capital assets, which include land, buildings, equipment, intangibles, and infrastructure assets (e.g., roads, bridges, ramps, and similar items), are reported in the government-wide financial statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide financial statements. Capital assets are reported at historical cost or, if donated, at acquisition value. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

Interest incurred during construction is only capitalized in proprietary funds. Most capital assets are depreciated over their useful lives, using the straight-line depreciation method. However, the State's significant infrastructure assets utilize an alternative accounting treatment in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 9 and 12, respectively.

Deferred Outflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period; they increase net position, similar to assets. Note 28 provides further detail on the components of deferred outflows of resources.

Income Tax Refunds Payable

The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note 16 more fully describes this liability.

Prize Awards Payable

The State Lottery Fund makes long-term prize awards for certain games, most notable the lotto games. At September 30, 2019, long-term prize awards of \$212.9 million were reported at a present value of \$149.8 million, using discount rates ranging from 2.3 to 6.5 percent.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling \$200.5 million, are included with "Accounts payable and other liabilities" on the Statement of Net Position.

Unearned Revenue

Unearned revenue is recognized when cash, receivables, or other assets are received prior to their being earned.

Long-Term Liabilities

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Long-term liabilities are more fully described in Notes 13, 14, and 15.

Compensated Absences

In the government-wide financial statements and proprietary fund financial statements, compensated absences are reported as liabilities as required by GASB.

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive a 100 percent termination payment upon separation based upon their final rate of pay. The liability for annual leave is recorded at the maximum accumulation amounts in accordance with GAAP, as it is probable that the State will compensate employees through paid time off, for the hours earned in excess of the total that may be paid off. The liability for annual leave is valued at 100 percent of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50.0 percent of the employee's sick leave accumulation, times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0.0 to 50.0 percent, depending upon the balance of their sick leave hours. Sick leave is valued at 0.0 to 50.0 percent plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2019.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was utilized in fiscal years 2005, 2006, and 2010.

The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State of Michigan 401K Plans, and if applicable, to the State of Michigan 457 Plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2019.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end.

Deferred Inflows of Resources

Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future period; they decrease net position, similar to liabilities. Note 28 provides further detail on the components of deferred inflows of resources.

Net Position/Fund Balance

The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources is "Net Position" on the government-wide, proprietary, and fiduciary fund financial statements, and "Fund Balance" on governmental fund financial statements.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form, such as inventories, prepaids, and long-term receivables, or legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law.

Assigned fund balance includes amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of fund balance are created by the executive branch when criteria established by the State Budget Office are met. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance also includes negative residual balances in other funds.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the intent is to use committed resources first, then assigned. Unassigned amounts are generally used only after the other resources have been used.

Revenues and Expenditures/Expenses

Government-Wide Financial Statements

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., general government, education, transportation, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

Interest on Long-Term Debt

Interest charges on the State's general long-term liabilities do not qualify as a direct expense of a function and are reported on this line unless the borrowing is essential to the creation or continuing existence of a program. During fiscal year 2019, interest charges on general long-term liabilities totaling \$29.9 million were reported as functional expenses.

Fund Financial Statements

In the governmental fund financial statements, revenues are reported by sources. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by state law or by outside restriction (e.g., federal grants), available only for specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note 16.

Capital outlay includes expenditures for capital assets. Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (i.e., salaries, depreciation, and purchases for resale). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources

These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, financed purchases, and transfers.

Reimbursements

Reimbursements result when a fund originally making a disbursement receives resources from another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension (and other employee benefit) trust funds are appropriated in the General Fund.

Interfund Services Provided and Used

When a sale or purchase of program-related goods and/or services between funds occurs for a price approximating their external exchange value, the seller reports revenue and the purchaser expenditure or expense, depending upon the fund type.

Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses unless they represent repayments of loans or similar activities.

Other Financing Uses

These reductions of governmental fund resources in fund financial statements normally result from transfers to other funds.

Interfund Activity and Balances**Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities (examples include the transfers of profits from the Liquor Purchase Revolving Fund to the General Fund and the State Lottery Fund to the School Aid Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column (examples include activities between the Department of Treasury [general government line] and the Department of Education [education line]). Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. An example is gas taxes collected by the Department of Transportation but expended by the Department of Natural Resources.

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

The following table lists all funds and component units whose balances are reflected in this financial report.

Operating funds which are subject to annual appropriation and for which budget and actual schedules are included in this report are identified by an “*”. For each fund or component unit listed, the page number of the first financial statement for that fund or component unit is shown in parenthesis.

Major Funds:

Governmental:

General Fund* (p. 34)
School Aid Fund* (p. 34)

Proprietary:

State Lottery Fund (p. 40)
Michigan Unemployment Compensation Funds (p. 40)

Non-Major Funds:

Governmental:

Special Revenue Funds:

Transportation Related:

Michigan Transportation Fund* (p. 186)
Comprehensive Transportation Fund* (p. 186)

Regulatory and Administrative Related:

Homeowner Construction Lien Recovery Fund* (p. 200)
Michigan Employment Security Act – Administration Fund* (p. 200)
Safety Education and Training Fund* (p. 200)
Second Injury Fund (p. 200)
Self-Insurers’ Security Fund (p. 200)
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 201)
State Construction Code Fund* (p. 201)
Utility Consumer Representation Fund (p. 201)
Unemployment Obligation Trust Fund (p. 201)
State Casino Gaming Fund* (p. 201)

Debt Service Funds:

Combined State Trunkline Bond and Interest Redemption Fund (p. 218)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 218)
Recreation and Environmental Protection Bond Redemption Fund (p. 218)
School Loan Bond Redemption Fund (p. 219)
State Building Authority (p. 219)

Proprietary:

Enterprise Funds:

Attorney Discipline System (p. 238)
Liquor Purchase Revolving Fund (p. 238)

Conservation, Environment, and Recreation Related:

Michigan Conservation and Recreation Legacy Fund* (p. 192)
Michigan Game and Fish Protection Trust Fund (p. 192)
Michigan Nongame Fish and Wildlife Trust Fund* (p. 193)
Forest Development Fund* (p. 193)
Bottle Deposits Fund (p. 193)

Other State Funds:

21st Century Jobs Trust Fund* (p. 210)
Michigan Merit Award Trust Fund* (p. 210)
Children’s Trust Fund* (p. 210)
Military Family Relief Fund* (p. 211)
Community District Education Trust Fund* (p. 211)
Miscellaneous Special Revenue Funds (p. 211)

Capital Projects Funds:

State Trunkline Fund* (p. 224)
State Aeronautics Fund* (p. 224)
Combined State Trunkline Bond Proceeds Fund (p. 224)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 224)
Transportation Related Trust Funds (p. 225)
State Building Authority (p. 225)
Advance Financing Funds (p. 225)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 232)
Michigan State Parks Endowment Fund* (p. 232)
Michigan Veterans’ Trust Fund* (p. 232)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 242)
State Sponsored Group Insurance Fund (p. 242)
Information Technology Fund (p. 242)
Office Services Revolving Fund (p. 243)
Motor Transport Fund (p. 243)
Risk Management Fund (p. 243)

Fiduciary:

Pension (and other employee benefit) Trust Funds:

State of Michigan 457 Plans (p. 250)
Legislative Pension Benefits Fund (p. 250)
Legislative Other Postemployment Benefits Fund (p. 250)
State Police Pension Benefits Fund (p. 250)
State Police Other Postemployment Benefits Fund (p. 251)
State Employees' Pension Benefits Fund (p. 251)
State Employees' Other Postemployment Benefits Fund (p. 251)
Public School Employees' Pension Benefits Fund (p. 251)
Public School Employees' Other Postemployment Benefits Fund (p. 251)
Judges' Pension Benefits Fund (p. 251)
Judges' Other Postemployment Benefits Fund (p. 252)
Military Pension Benefits Fund (p. 252)
State of Michigan 401K Plans (p. 252)

Private Purpose Trust Funds:

Michigan Education Savings Program (p. 258)
Escheats Fund (p. 258)
Gifts, Bequests, and Deposits Investment Fund (p. 258)
Hospital Patients' Trust Fund (p. 259)
Michigan Achieving a Better Life Experience (p. 259)

Agency Funds:

Environmental Quality Deposits Fund (p. 263)
Insurance Carrier Deposits Fund (p. 263)
City Income Tax – Trust Fund (p. 263)
Child Support Collection Fund (p. 263)
Social Welfare Fund (p. 263)

Discretely Presented Component Units:

Authorities:

Major Component Units:

Michigan Finance Authority (p. 50)
Michigan State Housing Development Authority (p. 50)
Michigan Strategic Fund (p. 50)

Non-Major Component Units:

Farm Produce Insurance Authority (p. 268)
Land Bank Fast Track Authority (p. 268)
Mackinac Bridge Authority (p. 268)
Mackinac Island State Park Commission (p. 268)
Michigan Early Childhood Investment Corporation (p. 269)
Michigan Economic Development Corporation (p. 269)
Michigan Education Trust (p. 269)
State Bar of Michigan (p. 269)
Venture Michigan Fund (p. 269)

State Universities (1):

Major Component Units:

Central Michigan University (p. 51)
Eastern Michigan University (p. 51)
Western Michigan University (p. 51)

Non-Major Component Units:

Ferris State University (p. 274)
Grand Valley State University (p. 274)
Lake Superior State University (p. 274)
Michigan Technological University (p. 275)
Northern Michigan University (p. 275)
Oakland University (p. 275)
Saginaw Valley State University (p. 275)

- (1) Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State. The State provides significant funding to support these institutions; however, under GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 61, criteria, they are considered fiscally independent special-purpose governments.

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Major Constitutional and Statutory Provisions

Balanced Budget Requirements

Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that do not exceed that fund's revenue estimates, including beginning fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements

Article 9, Section 30, of the State Constitution requires that state spending to, or on behalf of, local units of government shall not fall below a specified percentage of total state spending. The percentage, recalculated effective with fiscal year 1993, is 48.97 percent.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2019 are not yet complete. For fiscal year 2018, the most recent year for which final calculations are available, the proportion of total state spending paid to local units of government was determined to be 55.25 percent, reflecting payments that exceeded the

minimum required by \$2.1 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2019. See Note 25 for information regarding current litigation related to whether certain categories of State spending should be counted toward, or excluded from, the calculation.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts state revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1979, in relation to calendar year 1977 personal income, is 9.49 percent. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1.0 percent or more, the amount in excess must be refunded to personal income tax payers and payers of the State's Corporate Income Tax. If the limit is exceeded by an amount less than 1.0 percent, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2019 are not final. For fiscal year 2018, the most recent year for which final calculations are available, total state revenues subject to this limitation were beneath the constitutional limit by \$8.7 billion. The State expects that total state revenues subject to the limitation will not exceed the limit for fiscal year 2019.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund" or "Rainy Day Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Sections 18.1351 - 18.1359 of the Michigan Compiled Laws, as amended. In general, the law requires payments into the fund when real economic growth exceeds 2.0 percent and allows withdrawals from the fund when real economic growth is less than 0.0 percent. Funds can also be withdrawn when the State's unemployment rate exceeds 8.0 percent or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature. The Counter-Cyclical Budget and Economic Stabilization Fund is accounted for as a subfund of the General Fund where its fund balance is committed.

The following table summarizes the transactions for the fund at September 30 (in millions):

Beginning committed fund balance	\$ 1,006.0
Interest income	25.1
Tobacco settlement proceeds	17.5
Deposits	100.0
Withdrawals	-
Ending committed fund balance	<u>\$ 1,148.6</u>

During fiscal year 2014, \$194.8 million was transferred to the Michigan Settlement Administration Authority to support the Detroit bankruptcy settlement. That withdrawal is being repaid to the fund in the amount of \$17.5 million annually from tobacco settlement funds, beginning in fiscal year 2015. The remaining balance due from the tobacco settlement funds as of September 30, 2019, is \$107.3 million.

School Aid Fund Budgetary Provisions

The School Aid Stabilization Fund is a separate account within the School Aid Fund created under Section 388.1611a of the Michigan Compiled Laws. Any unexpended or unencumbered state school aid fund revenue is deposited into this fund at the end of each fiscal year. The amounts accumulated in this fund are carried forward and shall be expended only for purposes for which state school aid money may be expended. The School Aid Stabilization Fund ending restricted fund balance is \$194.7 million for fiscal year 2019.

Budgetary Overexpenditures

In the event that expenditures exceed authorization during a year, the State department must request a supplemental appropriation for the amount overspent, if that amount exceeds their lapses or if they expect to make payments from prior year authorization in the next fiscal year. There were no net overexpenditures or line-item overexpenditures, by State departments, during the year.

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

Pollution Remediation Obligations

Beginning net position for governmental activities in the government-wide statements was decreased by \$24.8 million to account for pollution remediation obligations related to underground storage tanks. The pollution remediation obligations met the criteria of Governmental Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, for accruing a liability in the government-wide statements.

Private Purpose Trust Funds

The Gifts, Bequests, and Deposits Investment Fund, a private purpose trust fund, decreased its beginning net position by \$6.2 million to reflect a change in presentation of the Michigan Achieving a Better Life Experience Program (MiABLE). Prior to fiscal

year 2019, MiABLE was included in the Gifts, Bequests, and Deposits Investment Fund. Beginning in fiscal year 2019, MiABLE is reported separately as a private purpose trust fund within the fiduciary fund statements.

Michigan Early Childhood Investment Corporation

The Michigan Early Childhood Investment Corporation, a discretely presented component unit, increased its beginning net position by \$1.7 million to correct an error in revenue recognized for a certain grant agreement made in a prior year.

NOTE 5 – TREASURER’S COMMON CASH

General Accounting Policies

The State Treasurer (Treasurer) manages the State’s Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund’s balance is treated as equity in the pool and presented in this report as “Equity in common cash.” Many funds, including pension (and other employee benefit) trust funds, use their equity in the pool as a short-term investment vehicle.

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Statute or administrative policy determines whether a fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. The Treasurer has placed a “cap,” or limit, on the amount of interest that can be earned by some State funds. These “capped” funds are limited to a maximum rate determined by the Treasurer. For the remaining “uncapped” funds, earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds’ equity in the pool.

Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds.

Investments and Deposits

The investment authority for the Common Cash pool is found in Sections 21.141 - 21.147 of the Michigan Compiled Laws (MCL). The Treasurer may invest surplus funds belonging to the State in bonds, notes, and other evidences of indebtedness of the United States Government and its agencies and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State.

The Treasurer invests excess cash in short-term investments or cash equivalents. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2019.

Statutes provide for certain special state investment programs for which the General Fund is credited (charged) for earnings in excess of (under) those achieved by regular pool investments. To date, these programs have not resulted in any principal losses.

Emergency Financial Assistance Loan Program: This program provides for emergency loans to local units of government and is the most significant of the special investment programs. The Emergency Financial Assistance Loan Board, established by MCL Section 141.932, administers the program.

Loan authorization limits are established in MCL Section 141.933. For fiscal years beginning after September 30, 2018, the board may authorize loans to municipalities that total up to \$10.0 million in a fiscal year, but a loan to a single municipality shall not exceed \$4.0 million in that fiscal year.

In fiscal year 2000, the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to \$159.9 million to Wayne County (County) to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2019 was \$53.1 million. The interest rate is reset July 1 of each year in accordance with the loan agreement. Effective November 1, 2009, the Wayne County emergency loan was reclassified from an interest-bearing loan to a zero percent loan.

The change in interest terms for the loan will be in effect until the debt obligations for the Detroit Regional Convention Facility Authority are retired, or 2039, whichever comes first. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County’s share of a portion of the state taxes collected on cigarette sales. No principal repayments were made on the loan in fiscal year 2019.

In fiscal year 2016 the Emergency Financial Assistance Loan Board authorized the lending of \$150.0 million to the School District of the City of Detroit to finance the transitional operating cost of the School District of the City of Detroit to the new district, the Detroit Public Schools Community District in accordance with Public Acts 192 and 197 of 2016. The note bears a

Michigan
Notes to the Financial Statements

1.3 percent per annum interest rate that may be adjusted by the local Emergency Financial Assistance Loan Board. Interest payments are due every six months starting in September 2016 with principal payments starting September 2022. The note will be paid off by 2026.

Assets and equities of the Common Cash pool as of September 30 were as follows (in millions):

Assets	
Cash on hand	\$ -
Demand deposits	727.9
Time deposits - regular	-
Prime commercial paper - at cost	5,600.6
Interest receivable	11.9
Emergency loans to local units - at cost	280.0
Total Assets	<u>\$ 6,620.4</u>
Equities	
Fund equities (net) in common cash:	
Governmental activities	\$ 4,519.5
Business-type activities	220.9
Fiduciary funds	430.4
Discretely presented component units	1,449.6
Net Fund Equities	<u>\$ 6,620.4</u>

Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 19 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by Governmental Accounting Standards Board (GASB) Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements as amended by GASB Statement No. 40, Deposit and Investment Risk Disclosures. Please see Note 8 for information about deposits and investments that are not part of the Common Cash pool.

Common Cash Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

Uncollateralized

Collateralized with securities held by the pledging financial institution, or

Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The Treasurer's policy requires the following criteria to lessen custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds; a bank, savings and loan association, or credit union holding state funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; no deposit in any financial organization may be in excess of 50.0 percent of the net worth of the organization.

At September 30, 2019, the carrying amount of deposits, including time and demand deposits, was \$727.9 million. The demand deposit carrying amount includes checks outstanding of \$150.4 million. The deposits were reflected in the accounts of the banks at \$879.2 million. Of the bank balance, \$4.8 million was covered by federal depository insurance and \$869.3 million was collateralized with securities held by the State's agent in the State's name. There were demand deposits of \$5.1 million exposed to custodial credit risk that were uninsured and uncollateralized. Compensating balances kept in demand deposit accounts to avoid service charges totaled \$840.2 million at September 30, 2019.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

MCL Section 487.714 requires state deposits be held in a financial institution which maintains a principal office or branch office located in the State. The State had no Common Cash deposits subject to foreign currency risk at September 30, 2019.

Common Cash Investments

Types of Investments

Common Cash investments include prime commercial paper, certificates of deposit, and emergency municipal loans.

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk, and interest rate risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either:

The counterparty, or

The counterparty's trust department or agent but not in the government's name.

The Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2019, Common Cash investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

Prime commercial paper investments must be rated within one of the two highest ratings classifications ("1" or "2") at the time of purchase from not less than two of the nationally recognized ratings organizations specified in MCL 38.1132d. Borrowers must have at least \$400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10.0 percent of the borrower's outstanding debt.

Emergency municipal loans are evidenced by unrated notes held by the State in the State's name. At September 30, 2019 prime commercial paper investments were rated at A-1 or P-1.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2019, the fair value of cash equivalents was \$5.6 billion; the weighted average maturity was 37 days.

The Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash special loan programs described earlier. These loan programs are investments created through legislation. Although some interest rate risk exposure exists, this risk is not a consideration when entering into these loan programs.

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, 2019, for revenues earned during the fiscal year that will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectibles.

Sales, use, Michigan business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes are accrued if the levy date occurred prior to October 1.

Local units of government, as agents for the State, assess the State Education Tax (SET), which is a statewide property tax. The SET is levied on July 1 and is due and payable at the same time as local unit taxes levied on July 1. The State accrues SET revenue received by the State or the local units, on its behalf, during October and November. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time.

In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting for amounts due to the State at September 30 (as stated above), that are considered "available" (i.e. received by the State within approximately 60 days after that date). Delinquent taxes are recognized to the extent that they are collected within 12 months. The remainder is recorded as a deferred inflow of resources.

Michigan
Notes to the Financial Statements

Effective January 1, 2008, the State replaced the Single Business Tax (SBT) with the Michigan Business Tax (MBT). Effective January 1, 2012, MBT was replaced by the Corporate Income Tax (CIT). A small number of taxpayers with certificated credits may continue to file under the MBT provisions until their credits expire.

Taxes receivable as of September 30 consisted of the following (in millions):

Tax	General Fund	Other Governmental Funds	Total
Sales and use	\$ 549.1	\$ 1,014.1	\$ 1,563.2
Individual income	3,217.7	491.6	3,709.3
SBT/MBT/CIT	1,149.8	-	1,149.8
State education (property)	-	1,516.3	1,516.3
Telephone & telegraph	11.7	-	11.7
Motor fuel	-	199.5	199.5
Insurance - retaliatory	90.4	-	90.4
Tobacco products	57.4	29.8	87.3
Quality assurance assessment	334.2	-	334.2
Insurance provider assessment	150.8	-	150.8
Other	44.1	12.9	57.0
Penalties and interest	1,322.7	-	1,322.7
Gross taxes receivable	6,927.9	3,264.2	10,192.2
Less allowances for uncollectibles	2,816.5	720.2	3,536.8
Total taxes receivable (net)	<u>\$ 4,111.4</u>	<u>\$ 2,544.0</u>	<u>\$ 6,655.4</u>
<u>As reported on the Statement of Net Position</u>			
Current taxes, interest, and penalties receivable	\$ 3,797.5	\$ 2,474.7	\$ 6,272.2
Noncurrent taxes, interest, and penalties receivable	313.9	69.3	383.2
Total taxes, interest, and penalties receivable	<u>\$ 4,111.4</u>	<u>\$ 2,544.0</u>	<u>\$ 6,655.4</u>

NOTE 7 – JOINT VENTURES

The State participates in two joint ventures as described below. Joint ventures are not reflected as component units within this report because they do not meet the generally accepted accounting principles criteria for inclusion. Their separately issued financial statements may be obtained by directly contacting the applicable organizations. To obtain their phone numbers, you may contact the State Budget Office, Office of Financial Management, at (517) 241-4010.

Great Lakes Protection Fund

The Great Lakes Protection Fund (GLPF) is a not-for-profit corporation located in Evanston, Illinois. Its mission is to identify, demonstrate, and promote regional action to enhance the health of the Great Lakes basin ecosystem. Seven of the states bordering the Great Lakes became members by making a required contribution to the GLPF endowment.

Contribution requirements were established in 1989 based upon water consumption and usage. State contributions to the endowment are permanently restricted and cannot be disbursed. Of the seven states, Michigan is the largest contributor at \$25.0 million, or 30.9 percent, of the total \$81.0 million endowment. Michigan made its required contribution by issuing GLPF a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

The governor of each of the seven member states appoints two representatives to GLPF's board of directors. Directors control the investment of the endowment, finance and budgeting operations (within the requirements of the Articles of Incorporation), and they determine how to use net earnings to support GLPF's mission. Two-thirds of the net earnings of the endowment (after operating expenses) are available for grants. One-third of the net earnings is returned to the seven member states, proportional to their original contributions, to support local projects. The State's equity interest in GLPF of \$25.0 million is reflected as an asset in the government-wide financial statements.

Sault Ste. Marie Bridge Authority

The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. Sault Ste. Marie Bridge Authority (SSMBA) consists of eight people, four appointed by each government. SSMBA oversees the operations and maintenance of the Bridge. The International Bridge Administration, an administrative entity within the Michigan Department of

Transportation, is responsible for the day-to-day operations of the Bridge. SSMBA reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2018 (SSMBA's most recently audited financial statements), its net position decreased by approximately \$6.0 million, \$5.5 million of which was a result of the restatement of the beginning net position for GASB 75. The Bridge and one-half of the ancillary assets on Michigan's side of the Bridge, and in addition one-half of the joint funds not required to pay liabilities, and all funds reserved for capital projects on the Michigan half of the Bridge, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by SSMBA that are not covered by insurance or existing resources. The State's equity interest of \$9.7 million is reflected as an asset in the government-wide financial statements.

NOTE 8 – DEPOSITS AND INVESTMENTS

This note provides information for all deposits and investments except those of the Common Cash pool, which are described in Note 5.

Deposits – Primary Government

Custodial Credit Risk

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At present, only the Michigan Unemployment Compensation Funds (MUCF), the Attorney Discipline System (ADS), the Michigan Education Savings Program (MESP) and the Michigan Achieving a Better Life Experience (MiABLE) maintain these deposits and are potentially exposed to custodial credit risk.

The Unemployment Insurance Agency administers, under the auspices of the federal government, the deposits of the MUCF. Tax collections are deposited in a clearing account as required by the Michigan Employment Security Act. Refunds are paid from that account; after the clearance of vouchers for refunds, all other money remaining in the fund, less amounts needed for refunds and judgments, must be deposited with the Secretary of the Treasury of the United States of America to the credit of the State in the Unemployment Trust Fund, established and maintained pursuant to Section 904 of the Social Security Act, 42 USC 1104. These deposits are maintained in the Federal Reserve Bank. At year-end, the carrying amount of these deposits, reported as cash in the Statement of Net Position, was \$11.2 million. The bank balance of the deposits was \$22.0 million; these deposits were either covered by federal depository insurance or were collateralized. Amounts reported as Cash on Deposit with Fiscal Agent, totaling \$4.7 billion, represent MUCF's interest in a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. MUCF is credited quarterly with trust fund investment earnings, as computed on a daily basis.

The bank deposits of the ADS were \$3.3 million; these deposits were covered by Federal Deposit Insurance Corporation insurance or were collateralized. ADS has no policy to address custodial credit risk. It assesses financial institutions' risk levels; only those with acceptable levels of risk are used as depositories.

The deposits of the MESP were reflected in bank accounts at \$19.8 thousand. These deposits were covered by depository insurance. The level of risk for each financial institution is evaluated and assessed; only those with an acceptable estimated risk level are used as depositories. MESP has no other policy for controlling this risk.

The deposits of the MiABLE program were reflected in bank savings accounts at \$5.5 million. Of the bank balance, \$0.5 million was covered by depository insurance, and \$5.0 million was uninsured and uncollateralized. The active investments of the program were reflected in various portfolio options, as disclosed in the MiABLE participant disclosure statement, at a fair value of \$6.1 million. The MiABLE custodian invests in mutual funds that are not rated by a nationally recognized statistical rating organization. The custodian has no specific investment policies with regards to credit risk, custodial credit risk, interest risk, or foreign currency risk. All of MiABLE investment portfolios, as outlined by the custodian, are uninsured and unregistered. A given MiABLE account owner has an investment in a shared portfolio, not a direct investment in the underlying mutual fund or vehicle to which funds may be allocated; this ownership structure mitigates some inherent custodial credit risk.

Michigan
Notes to the Financial Statements

Investments – Primary Government

The following table shows the carrying amounts and fair values of investments of the primary government by investment type and in total at September 30:

Primary Government Total Investments (In millions)				
Investment Types	Retirement Systems	Deferred Compensation/ Defined Contribution Funds	Other Funds	Total
Commercial paper	\$ 2,318.1	\$ -	\$ -	\$ 2,318.1
Money market funds	-	-	175.5	175.5
Other short-term	1,484.8	-	2.4	1,487.2
Separate accounts	-	2,540.7	-	2,540.7
Absolute return	12,045.2	-	-	12,045.2
Fixed income	10,121.3	-	725.4	10,846.7
Mutual funds	92.6	717.5	6,031.1	6,841.2
Pooled investment funds	-	5,689.5	-	5,689.5
Equities	16,162.9	-	0.7	16,163.6
Funding agreements	-	-	961.7	961.7
International	11,822.1	-	-	11,822.1
Real estate	7,028.5	-	60.0	7,088.5
Private equity	13,541.3	-	330.1	13,871.5
Accrued income	63.5	-	-	63.5
Unsettled investments	(1.7)	-	-	(1.7)
Total	<u>\$ 74,678.7</u>	<u>\$ 8,947.7</u>	<u>\$ 8,286.8</u>	<u>\$ 91,913.2</u>

As reported on the Statement of Net Position

Current investments	\$ 194.1
Noncurrent investments	1,492.0
Total investments	<u>\$ 1,686.0</u>

As reported on the Statement of Net Position and Statement of Fiduciary Net Position

	Current Investments	Noncurrent Investments	Total
Governmental activities	\$ 175.5	\$ 1,321.3	\$ 1,496.8
Business-type activities	18.6	170.7	189.3
Fiduciary funds	2,454.5	87,772.7	90,227.2
Total Investments	<u>\$ 2,648.6</u>	<u>\$ 89,264.6</u>	<u>\$ 91,913.2</u>

Authority

Investment authority for the State's pension (and other employee benefit) trust funds is found in Michigan Compiled Laws (MCL) Section 38.1133. This law allows the State of Michigan Investment Board, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The law has prudence standards and requires that the assets of a retirement system shall: be invested solely in the interest of the participants and beneficiaries; be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries; and defray reasonable expenses of investing the assets of the state system.

The investment authority for other state funds is found in their enabling statutes and/or their bond resolutions where applicable. Except as noted below, the investments of the non-pension (and other employee benefit) trust funds are comprised mostly of United States government securities.

The State Building Authority makes diverse investments as allowed by state statute and/or bond resolutions.

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 2019, the deferred compensation plans' investment activities were managed by a private investment firm, which invests as directed by members of the plan.

Derivatives

The State of Michigan Investment Board is also authorized to invest a limited amount of pension (and other employee benefit) trust funds in derivatives to provide additional diversification. Derivatives are used in managing the trust fund portfolios, but uses do not include speculation or leverage of investments. State investment statutes limit total derivative exposure to 15.0 percent of a fund's total asset value and restrict uses to replication of returns and hedging of assets. Option and future contracts traded daily on an exchange and settling in cash daily or having a limited and fully defined risk profile at an identified fixed cost are not subject to the derivative exposure limitation. Less than 15.0 percent of the total trust funds' portfolio has been invested from time to time in future contracts, swap agreements, and option contracts.

The State of Michigan Investment Board entered into swap agreements with investment grade counterparties with maturity dates ranging from October 2019 to June 2020. Generally, the notional amount of equity swaps tied to foreign stock market indices is executed via a net total return U.S. Dollar (USD) index. The swap agreements provide that the System will pay quarterly, over the term of the agreements, interest indexed to the three-month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At maturity the trust funds will receive either the increase in the value of the equity indices from the level at the inception of the agreements or pay the decrease in the value of the indices. U.S. Domestic LIBOR based floating rate notes and other income earning investments are held to correspond with the notional amount of the swap agreements. The State of Michigan Investment Board maintains custody and control of these dedicated notes and other investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and other investments. The book value represents the cost of the notes and other investments. The current value represents the current value of the notes and other investments and the change in the value of the underlying indices from the inception of the swap agreements. Current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity.

To reduce the risk in the fixed income and international equity portfolios, the State of Michigan Investment Board has entered into foreign exchange (FX) swap agreements, interest rate swap agreements and credit default swap agreements with investment grade counterparties. The FX swap agreements are tied to foreign currency forward exchange rates and are used to reduce the currency risk with the fixed income portfolio. The swap agreements are entered into on an as-needed basis and are generally tied to the maturity of a foreign government bond indenture denominated in a foreign currency. The purpose of the FX swap agreement that has a final maturity date of less than three months is to reduce or eliminate the currency risk on foreign bond transactions. U.S. Domestic LIBOR-based floating rate notes, U.S. Treasury securities, and portfolio cash are held to correspond with the notional amount of FX swap agreements within the fixed income portfolio. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions that receive fixed rate, increase exposure to long-term interest rates; short swap positions that pay fixed rate, decrease exposure. Credit default swaps (CDS) are used to manage credit exposure without buying or selling securities outright. Written CDS increase credit exposure, selling protection, obligating the portfolio to buy bonds from counterparties in the event of a default. Purchased CDS decrease exposure, buying protection, providing the right to "Put" bonds to the counterparty in the event of a default.

Counterparty credit risk is the maximum loss amount that would be incurred if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangement. For the Over-The-Counter (OTC) derivative investments, the system held collateral of \$48.4 million in cash deposits and \$77.4 million in securities on behalf of counterparties. Collateral securities in the amount of \$0.4 million were held on our behalf by counterparties.

Michigan
Notes to the Financial Statements

Additional details about derivative investments are included in the following table:

Pension (and Other Employee Benefit) Trust Funds Derivative Investments (In millions)							
Investment & Investment Type	Objective	% of Market Value	Notional Value	Investments At Fair Value*	Net Increase (Decrease) In Fair Value**	Investment Income Gain (Loss)	Fair Value Subject to Credit Risk
Future contracts - fixed income and international	Enhance management flexibility, manage duration, yield curve and credit exposure.	- %	\$ 303.2	\$ 1.8	\$ (2.5)	\$ -	\$ -
Options - equity, international and fixed income	Use on single securities to provide downside protection, enhance current income, and to manage interest rate and volatility exposures.	0.6	30,252.8	413.9	(141.1)	-	-
Swap agreements - international equity investments and fixed income	Diversify the trust funds' portfolio by entering into swap agreements that are tied to stock market indices in 48 foreign countries, manage credit exposure, and adjust interest rate and yield exposure.	2.5	4,245.9	1,856.3	46.4	(24.7)	171.5
Totals			\$ 34,801.9	\$ 2,272.0	\$ (97.3)	\$ (24.7)	\$ 171.5

* Located in Statement of Fiduciary Net Position - Investments at Fair Value

** Located in Net increase (decrease) in fair value of investments - Statement of Changes in Fiduciary Net Position

Investment Pools

In July 2004, five State retirement systems' (i.e., State Employees', State Police, Public School Employees', Judges' and Military) investments were contributed to an investment pool structure. A pro rata share of the entire pool represents each system's ownership of a portion of the investments in the State's pool.

Repurchase Agreements

As a matter of administrative policy, the State Treasurer makes only limited use of investments in repurchase agreements. No such investments were outstanding at year-end.

Risk

Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, requires certain disclosures regarding policies and practices with respect to the risks associated with investments. The custodial credit risk, credit risk, interest rate risk, foreign currency risk and concentration of credit risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty, or the counterparty's trust department or agent, but not in the government's name. The State Treasurer does not have a policy for limiting custodial credit risk. As of September 30, 2019, there were no securities exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Short-term investments for the pension funds are in prime commercial paper and follow the same policy described in Note 5 for this type of investment. The ratings at September 30, 2019, are included in the debt investments table.

Investment grade and noninvestment grade securities may be acquired in compliance with parameters set forth in MCL Sections 38.1132 – 38.1141, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2019, the system was in compliance with the policy in all material aspects. The primary government's debt investments as of September 30, 2019, are presented in the following table. Note that securities backed by the full faith and credit of the United States government are excluded.

Michigan
Notes to the Financial Statements

Debt Investments (In millions)				
Investment Type	Fair Value	Rating S & P	Fair Value	Rating Moody's
Pension (and Other Employee Benefit) Trust Funds:				
Retirement Systems:				
Commercial paper	\$ 2,240.1	A-1	\$ 2,240.5	P-1
	141.3	A-2	141.3	P-2
	20.3	Unrated	19.9	Unrated
Government securities	2.7	AAA	1,460.4	Aaa
	1,457.7	AA	-	Aa
Fixed Income	631.9	AAA	886.6	Aaa
	273.8	AA	390.8	Aa
	730.0	A	1,125.4	A
	2,062.7	BBB	1,394.0	Baa
	349.3	BB	561.3	Ba
	268.0	B	319.5	B
	167.5	CCC	164.3	Caa
	81.8	CC	115.4	Ca
	-	C	0.5	C
	39.7	D	-	D
	2,063.0	Unrated	1,709.8	Unrated
Mutual Funds *	-	AAA	46.6	Aaa
	33.3	BBB	48.5	Baa
	9.4	BB	9.4	Ba
	112.7	B	97.5	B
	61.9	Unrated	15.2	Unrated
Total	<u>10,747.0</u>		<u>10,747.0</u>	
Deferred Compensation/Defined Contribution:				
Common trust funds	841.4	Unavailable	841.4	Baa - Aaa
	228.7	A-1+	228.7	Unavailable
	34.9	CCC - AAA	34.9	Unavailable
Stable Value funds	1,160.1	A - AAA	1,160.1	Unavailable
Mutual funds	118.3	B - A1+	118.3	Unavailable
	113.3	Unrated	113.3	Unrated
Total	<u>2,496.6</u>		<u>2,496.6</u>	
Other Primary Government Funds:				
Government securities				
U.S. agencies - sponsored	9.9	Unrated	9.9	Unrated
Municipal Bonds	32.9	AA	32.9	Aa
Corporate bonds & notes	13.5	AAA	2.3	Aaa
	4.4	AA	22.5	Aa
	68.8	A	85.4	A
	172.0	BBB	140.4	Baa
	-	BB	10.0	Ba
	48.1	Unrated	46.0	Unrated
Fixed Income Exchange Traded Funds	0.3	Unrated	0.3	Unrated
Mutual Funds*	43.7	Unrated	43.7	Unrated
Total	<u>393.4</u>		<u>393.4</u>	
Total Primary Government	<u>\$ 13,637.0</u>		<u>\$ 13,637.0</u>	

*Average rating

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2019, the fair value of prime commercial paper was \$2.3 billion; the weighted average maturity was 44 days.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the pension trust funds are invested with a long-term strategy with no investments with a maturity of less than one year at the time of purchase. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to those of the U.S. Treasury determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration; higher interest rates result in longer duration.

As of September 30, the pension trust funds had the following long-term debt securities:

Pension (and Other Employee Benefit) Trust Funds Debt Securities (In millions)		
	Fair Value	Duration In Years
Retirement Systems:		
Government securities		
U.S. Treasury bonds	\$ 3,831.9	7.0
U.S. agencies - backed	596.8	2.3
U.S. agencies - sponsored	1,460.4	2.3
Total Governmental	5,889.1	
Corporate bonds & notes	5,998.2	2.9
International - corporate bonds & notes *		
U.S. Treasury	764.1	1.1
Corporate	939.7	0.4
Total International	1,703.8	
Mutual funds - fixed income	30.4	3.9
Total	13,621.6	
Deferred Compensation/Defined Contribution:		
Common trust funds		
SSgA Bond Market Index Fund	841.4	7.9
BlackRock Government Short-Term Investment fund	228.7	0.1
Prudential High Yield Fund	34.9	4.7
Total Common Trust Funds	1,104.9	
Stable value funds		
Synthetic guaranteed investment contracts	1,160.1	3.8
Total Stable Value Funds	1,160.1	
Mutual funds		
PIMCO Total Return Fund	118.3	7.7
Oakpark Equity and Income Fund	113.3	2.9
Total Mutual Funds	231.6	
Total	2,496.6	
Total Pension (and Other Employee Benefit) Trust Funds	\$ 16,118.2	

* International debt securities contain domestic government and corporate securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

Fair Value of Investments

The State of Michigan (SOM) categorizes their fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Not all investments held by SOM are recorded at fair value. GASB Statement No. 72, Fair Value of Measurement and Application, allows for certain investments to be recorded at cost (or amortized cost or any other valuation method), and therefore, they are not presented in the fair value hierarchy table. Equity and fixed income securities classified in Level 1 of the

Michigan
Notes to the Financial Statements

fair value hierarchy are valued using prices quoted in active markets for those securities. Equity swaps and fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique and other significant observable inputs. Equity and fixed income securities classified as Level 3 of the fair value hierarchy are valued using third party data and reports that are unobservable. Securities reported at Net Asset Value (NAV) are valued using the most recent third party statements adjusted for cash flows as of September 30, 2019. Investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

The Pension (and Other Employee Benefit) Trust Funds have the following recurring fair value measurements as of September 30 (in millions):

	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 96.1	\$ 7.6	\$ 88.5	\$ -
Equity				
Depository Receipts	98.3	98.3	-	-
Common Stocks	13,093.9	13,092.1	-	1.8
Options	414.2	419.4	(5.3)	-
Swaps	65.4	-	67.7	(2.3)
Commingled Funds, Exchange Traded Funds and Publicly Traded Partnerships	9,037.7	9,037.7	-	-
Real Estate Investment Trusts	1,437.6	1,437.6	-	-
Equity Total	24,147.0	24,085.2	62.4	(0.6)
Fixed Income				
Asset Backed	2,234.5	-	2,215.3	19.2
Corporate Bonds	3,199.0	-	3,175.0	24.0
Commercial Mortgage-backed	1,876.5	-	1,876.0	0.5
Government Issues	4,889.2	4,595.9	290.3	3.0
Swaps	(2.7)	-	(2.7)	-
U.S. Agency Issues	1,196.0	-	1,196.0	-
Commingled Funds, Exchange Traded Funds and Publicly Traded Partnerships	175.2	175.2	-	-
Options on Fixed Income	(0.2)	-	(0.2)	-
Fixed Income Total	13,567.5	4,771.2	8,749.7	46.6
Total Investments Measured at Fair Value	37,810.6	\$ 28,864.0	\$ 8,900.6	\$ 46.0
Investments Measured at NAV:				
Absolute Return Total	4,090.0			
Real Return Total	7,937.4			
Private Equity Total	13,513.4			
Real Estate and Infrastructure Total	6,923.7			
Other Limited Partnerships Total	1,986.8			
Total Investments Measured at NAV	34,451.3			
Total Pension (and Other Employee Benefit) Trust Funds	\$ 72,262.0			

Michigan
Notes to the Financial Statements

The Other Primary Government Funds have the following recurring fair value measurements as of September 30 (in millions):

	Total	Level 1	Level 2
Equity			
Commingled Funds, Exchange Traded Funds and Publicly Traded Partnerships	\$ 6,013.3	\$ 6,013.3	\$ -
Equity Total	<u>6,013.3</u>	<u>6,013.3</u>	<u>-</u>
Fixed Income			
Asset Backed	8.0	-	8.0
Corporate Bonds	249.9	-	249.9
Commercial Mortgage-backed	90.2	-	90.2
Government Issues	333.0	150.5	182.5
U.S. Agency Issues	0.2	-	0.2
Commingled Funds, Exchange Traded Funds and Publicly Traded Partnerships	44.1	44.1	-
Fixed Income Total	<u>725.4</u>	<u>194.6</u>	<u>530.8</u>
Total Investments Measured at Fair Value	<u>6,738.7</u>	<u>\$ 6,207.9</u>	<u>\$ 530.8</u>
Investments Measured at NAV:			
Private Equity Total	210.1		
Real Estate Total	60.0		
Event Driven Hedge Funds	48.5		
Multi-Strategy Hedge Funds	71.5		
Total Investments Measured at NAV	<u>390.1</u>		
Total Other Primary Government Funds	<u>\$ 7,128.8</u>		

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. SOM's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

Additional disclosures for fair value measurements of investments in certain entities that calculate the NAV per share (or its equivalent):

Pension (and Other Postemployment Benefit) Trust Funds:

Absolute Return Portfolio: This type invests in hedge funds and hedge funds of funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this portfolio have been determined using the NAV per share (or its equivalent) of the investments. For 74.3 percent of the investments, investors may redeem at various dates between October 1, 2019, and January 1, 2021; 13.9 percent of the investments are redeemable between January 1, 2021 through April 1, 2025. The remaining 11.8 percent is not redeemable on demand.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$4.1 billion and \$60.1 million, respectively.

Real Return and Opportunistic Portfolio: This type includes 90 funds that invest in private credit, tangible and intangible real assets, or other real return and opportunistic strategies. The fair values of the investments in this portfolio have been determined using the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 5 to 10 years.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$7.9 billion and \$3.9 billion, respectively.

Private Equity Portfolio: This type of investment includes investments in approximately 271 partnerships that invest in leveraged buyouts, venture capital, mezzanine debt, distressed debt, secondary funds and other investments. These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of five to eight years.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$13.5 billion and \$8.0 billion, respectively. However, it is probable that all of the investments in this group will be sold at an amount different from the NAV per share (or its equivalent). Therefore, the fair values of the investments in this type have been determined using recent

observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments. As of September 30, 2019, a buyer for these investments has not been identified.

Real Estate and Infrastructure Portfolio: These funds include approximately 111 accounts (limited partnerships, limited liability companies, etc.) that invest in real estate or infrastructure related assets. The fair value has been determined in accordance with GAAP using the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. These types of investments cannot be redeemed with the funds. Distributions from these funds will be received as the underlying investments are sold and liquidated over time. It is expected that the underlying assets will be sold over the next five to 15 years. However, buyers have not been determined so the fair value has been determined using the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$6.9 billion and \$1.5 billion, respectively.

Other Limited Partnerships:

The balance of plan assets reported at NAV includes:

- A limited partnership that invests in the equity of Japanese companies. The limited partnership permits partners to withdraw funds quarterly with 180 days of advanced notice.
- Limited partnerships that invest in fixed income investments such as residential rehabilitation, middle market business loans and senior secured debt financing. These investments cannot be redeemed by limited partners. Distributions are received through the liquidation of the underlying assets of the fund.
- Limited partnerships that invest in fixed income type investments permitting partners to request redemption monthly or quarterly, after initial lock up period of one year or less, requiring 45 to 65 days' advance notice.
- Global investments permitting partners to request partial redemptions quarterly or monthly, with advanced notice, subject to the sole discretion of the general partner.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$2.0 billion and \$37.8 million, respectively.

Other Primary Government Funds:

Private Equity Portfolio: This type of investment includes investments in 75 partnerships that invest in various credit strategies, real assets, and other investments. These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of five to eight years.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$210.1 million and \$59.1 million, respectively. However, it is probable that all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

Real Estate and Infrastructure Portfolio: This type of investment includes investment in 19 partnerships that invest primarily in multi-family preferred equity structure in the U.S. This type of investment can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of 10 to 12 years.

The total market value and unfunded commitments of these investments as of September 30, 2019, are \$60.0 million and \$3.9 million, respectively. However, it is probable that all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

Event-Driven Hedge Funds: This type includes five investments specializing in event-driven investing. It typically applies a fundamental value discipline to identify undervalued companies that have one or more specific catalysts to unlock the value. It focuses on "active shareholder engagement" and invests both long and short and across the capital structure including equity and debt.

These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. Distribution proceeds from the sale of partnership investments, dividends, or interest must be returned to the limited partners within 90 days following receipt by the partnership. Such distributable amounts shall increase the unfunded portion of the limited partnership commitment and may be called again for contribution to the partnership by the general partner.

Michigan
Notes to the Financial Statements

It is expected that the underlying assets of the fund are liquidated over a period of three to six years. The total market value and unfunded commitments of these investments as of September 30, 2019, are \$48.5 million and \$13.5 million, respectively. Market price observability is impacted by a number of factors, including the type of investment and characteristics specific to the investment.

Multi-Strategy Hedge Funds: This type includes investments in six funds that pursue multiple strategies to diversify risks and reduce volatility. It is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers. This is an open-ended fund that invests in equities, credit-driven, global macro, relative value, interest rate-driven, commodities, managed-futures and event-driven, with redemption restriction terms ranging from zero to 96 months.

These types of investments offer limited partnership "Class A" interests. Generally, the limited partner may withdraw all or any portion of its Class A interests capital account at any time upon not less than 95 days' prior written notice to the fund. The general partner will submit withdrawal requests with respect to the fund's investments. Payment of the withdrawal proceeds will be made promptly after the fund receives withdrawal proceeds from such investments.

The fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds ("investee funds") is generally determined using the reported net asset value per share of the investee fund, or its equivalent, as a practical expedient for fair value. The total market value of these investments as of September 30, 2019 is \$71.5 million.

State of Michigan 457 Plans and State of Michigan 401K Plans:

The plans have the following recurring fair value measurements as of September 30 (in millions):

State of Michigan 457 Plans:

	Total	Level 1	Level 2
Investments by fair value level:			
Mutual Funds	\$ 150.8	\$ 150.8	\$ -
Common Trust Funds	1,281.1	895.4	385.7
Tier III Investments*	38.6	-	38.6
Stable Value Fund	534.6	-	534.6
Voya Small Cap Growth Strategy Fund	27.6	-	27.6
Jennison Large Cap Growth Equity Fund	80.4	80.4	-
Artisan Mid Cap Fund	26.8	-	26.8
Dodge & Cox Stock Fund	119.6	-	119.6
Total Investments Measured at Fair Value	<u>\$ 2,259.5</u>	<u>\$ 1,126.6</u>	<u>\$ 1,132.9</u>

* Tier III investments exclude cash held in participant accounts totaling approximately \$7.2 million.

State of Michigan 401K Plans:

	Total	Level 1	Level 2
Investments by fair value level:			
Mutual Funds	\$ 566.6	\$ 566.6	\$ -
Common Trust Funds	4,408.3	2,821.0	1,587.3
Tier III Investments*	122.8	-	122.8
Stable Value Fund	625.5	-	625.5
Voya Small Cap Growth Strategy Fund	111.7	-	111.7
Jennison Large Cap Growth Equity Fund	301.6	301.6	-
Artisan Mid Cap Fund	91.9	-	91.9
Dodge & Cox Stock Fund	434.5	-	434.5
Total Investments Measured at Fair Value	<u>\$ 6,663.0</u>	<u>\$ 3,689.2</u>	<u>\$ 2,973.7</u>

* Tier III investments exclude cash held in participant accounts totaling approximately \$18.0 million.

Synthetic Guaranteed Investment Contract (SGIC)

SGIC investment derivatives within the Stable Value Fund contain a portfolio of underlying securities and a benefit responsive wrap contract. The wrap contract produces a floating rate of return that is adjusted periodically, but not below zero, to reflect the underlying investment portfolio and generally provide for participant withdrawals at contract value (principal plus accrued interest). As of September 30, 2019, the fair value of SGIC's underlying investments was \$1.2 billion. The wrap contract did not have a value because the market value of SGIC's underlying investments was higher than SGIC's contract value; therefore, the wrap contract does not have a value.

Michigan
Notes to the Financial Statements

As of September 30, the primary government, excluding pension trust funds, had the following debt securities:

		Other Funds			
		Debt Securities (In millions)			
Investment Type	Fair Value	Investment Maturities (In years)			
		Less Than 1	1 To 5	6 To 10	More Than 10
U.S. Treasury bonds	\$ 300.1	\$ 26.6	\$ 120.5	\$ 104.1	\$ 48.9
Municipal bonds	32.9	4.5	15.3	13.0	-
U.S. bonds - backed	34.2	-	-	-	34.2
U.S. agency bonds - sponsored	9.9	-	-	2.7	7.2
Corporate bonds	304.3	5.1	58.7	185.7	54.8
Mutual funds	2,185.1	24.0	-	2,152.6	8.5
Total	<u>\$ 2,866.4</u>	<u>\$ 60.3</u>	<u>\$ 194.5</u>	<u>\$ 2,458.1</u>	<u>\$ 153.5</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. The State invests in various global foreign securities. These investments are limited to 30.0 percent of the total assets of the system and are additionally limited to 5.0 percent of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism.

Michigan
Notes to the Financial Statements

These limits are set forth in MCL Sections 38.1133 and 38.1140. The types of foreign securities include fixed income, equities, mutual funds, real estate, and limited partnerships. At September 30, 2019, total foreign investments were \$12.0 billion. As of September 30, 2019, the State held the following investments subject to foreign currency risk:

Pension (and Other Employee Benefit) Trust Funds Foreign Currency Risk (In millions)					
Currency	Country	Fair Value (In U.S. Dollars)			
		Private Equity, Real Estate, and Infrastructure	Fixed Income	Equity	International and Absolute Return Derivatives *
Retirement Systems:					
Americas					
Dollar	Canada	\$ 36.0	\$ 8.2	\$ -	\$ 40.9
Peso	Argentina	-	-	-	1.5
Peso	Mexico	120.5	18.1	0.6	-
Peso	Uruguay	-	0.6	-	-
Real	Brazil	29.1	10.3	-	8.3
Sol	Peru	-	1.2	-	-
Peso	Colombia	-	0.5	-	-
Peso	Chile	-	2.4	-	-
Europe					
Euro	European Union	564.6	149.9	141.9	127.1
Franc	Switzerland	-	-	22.0	22.7
Krona	Sweden	-	3.2	0.6	45.9
Krone	Denmark	-	-	-	13.2
Sterling	United Kingdom	66.9	9.8	84.8	63.6
Zloty	Poland	-	0.1	-	-
Leu	Romania	-	4.0	-	-
Asia/Pacific					
Dollar	Australia	-	2.0	1.6	34.3
Renminbi	China	6.0	-	19.7	6.6
Dollar	Hong Kong	-	-	0.6	34.7
Rupee	India	132.3	1.5	-	-
Yen	Japan	-	8.4	-	115.4
Dollar	Singapore	-	-	0.6	2.0
Won	South Korea	-	17.5	-	-
Rupiah	Indonesia	-	1.4	-	-
Ringgit	Malaysia	-	3.7	-	-
Dollar	New Taiwan	-	-	-	11.9
Baht	Thailand	-	4.8	-	-
Rupee	Sri Lanka	-	1.1	-	-
Middle East					
Shekel	Israel	-	7.6	-	-
Africa					
Pound	Egypt	-	2.6	-	-
Rand	South Africa	-	6.5	1.5	-
Dollar	Liberia	-	-	5.2	-
World-wide					
Various	Various	2,201.2	104.7	42.1	7,517.8
Total		3,156.5	370.2	321.1	8,045.8
Deferred Compensation/Defined Contribution:					
Various	Various	-	-	2,425.9	-
Total		\$ 3,156.5	\$ 370.2	\$ 2,747.0	\$ 8,045.8

*International debt securities include derivatives whose market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2019 through June 2020, with an average maturity of .5 years.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer. Other than obligations issued that are assumed or guaranteed by the United States, its agencies, or United States government-sponsored enterprises, the pension systems are prohibited by MCL Section 38.1137 from investing in more than 5.0 percent of

the outstanding obligations of any one issuer or investing more than 5.0 percent of a system's assets in the obligations of any one issuer.

At September 30, 2019, there were no investments in any single issuer that accounted for more than 5.0 percent of the system's assets.

Pension trust fund investments represent 91.0 percent of the total investments of the primary government. Other large holders of investments were the State Lottery Fund (SLF), MESP, and the Michigan Natural Resources Trust Fund.

SLF investments, \$182.5 million, are all in the form of zero coupon U.S. Treasury bonds and State of Michigan Municipal bonds. These investments are held to provide funding for deferred prize awards.

Securities Lending Transactions

The State of Michigan, pursuant to a Securities Lending Authorization Agreement, has authorized State Street Bank and Trust Company ("State Street") to act as agent in lending the State's securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the State, certain securities of the State held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. The types of securities lent were equity, and fixed income, which includes government and corporate bonds and notes. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify the State in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the State and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2019, the investment pool had an average duration of 6 days and an average weighted final maturity of 124 days for USD. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2019, the State had no credit risk exposure to borrowers. The market value of collateral held and the market value (USD) of securities on loan for the client as of September 30, 2019, was \$3.0 billion and \$2.9 billion, respectively.

At September 30, the pension trust funds had the following debt investments made from cash received as collateral for securities lent:

Investment Type	Debt Investments (In millions)			
	Fair Value	Rating S & P	Fair Value	Rating Moody's
Securities Lending Collateral				
Short-term	\$ 456.1	A-1	\$ 506.1	P-1
	591.5	Unrated	990.5	Unrated
Corporate	208.0	AA	655.8	Aa
	1,681.9	A	804.1	A
	19.0	BBB	-	Baa
Total	<u>\$ 2,956.5</u>		<u>\$ 2,956.5</u>	

Deposits and Investments – Discretely Presented Component Units

Deposits

At year-end, the carrying amount of discretely presented component unit deposits, excluding those classified as investments, was \$799.1 million. The deposits were reflected in the accounts of the banks at \$740.9 million. Of the bank balance, \$561.3 million was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Investments

The investment authority for most discretely presented component units is typically found in their enabling statutes and/or their bond resolutions where applicable. Those component units that are financing authorities generally may invest in government or government-backed securities and deposits. Investment policies for the State universities are typically set forth by their governing boards and include a broad range of investment types. The Michigan Education Trust's (MET) investments are subject to an investment agreement with the State of Michigan Investment Board that allows the Treasurer, acting as agent, to make diverse investments including stocks, bonds, notes, and other investments.

Michigan
Notes to the Financial Statements

Each discretely presented component unit separately issues a publicly available financial report that includes its financial statements and notes to financial statements. GASB Statement No. 72 related disclosures for the investments of discretely presented component units are available within those reports and may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 241-4010.

Restricted Assets

Restricted investments on the government-wide Statement of Net Position, totaling \$820.3 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

The following table summarizes the investment maturities reported by the discretely presented component units (in millions):

	Fair Value	Investment Maturities (In years)				N/A
		Less Than 1	1 To 5	6 To 10	More Than 10	
Time deposits	\$ 267.4	\$ 263.4	\$ 4.0	\$ -	\$ -	\$ -
Money market accounts	2,048.1	2,042.1	-	-	5.4	0.6
Commercial paper	42.9	42.9	-	-	-	-
Repurchase agreements	321.9	-	133.8	188.2	-	-
Government securities	391.8	175.4	122.4	88.4	5.7	-
Insured mortgage backed securities	1,124.1	502.1	114.6	6.1	501.3	-
Government backed securities	363.5	103.7	83.1	83.2	93.5	-
Investment agreements	5.0	-	-	-	-	5.0
Corporate bonds and notes	253.9	78.8	108.7	46.5	19.9	-
Equities	273.1	167.0	-	-	6.5	99.5
Real estate	27.0	0.1	4.6	-	22.3	-
Venture capital & leveraged buyouts	36.2	-	-	-	36.2	-
Mutual bond/equity funds	1,873.4	190.8	456.0	131.1	493.4	602.0
Pooled investment funds	63.3	63.3	-	-	-	-
Other Investments	1,083.8	27.9	71.9	28.6	159.4	796.1
Total Investments	8,175.3	\$ 3,657.4	\$ 1,099.1	\$ 572.1	\$ 1,343.7	\$ 1,503.2
Less Investments Reported as "Cash" on Statement of Net Position	965.2					
Total Investments	\$ 7,210.1					

As reported on the Statement of Net Position

Current investments	\$ 2,212.7
Noncurrent restricted investments	820.3
Noncurrent investments	4,177.1
Total Investments	\$ 7,210.1

NOTE 9 – CAPITAL ASSETS

Primary Government

Summary of Significant Accounting Policies

Methods used to value capital assets

Capital assets, which include property, plant, equipment, intangible items (e.g., mineral rights, land rights, and computer software) and infrastructure items (e.g., roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capitalization policies

All land and non-depreciable land improvements are capitalized, regardless of cost. Equipment is capitalized when the cost of individual items exceeds \$5.0 thousand, computer software is capitalized when the cost exceeds \$5.0 million, and all other capital assets are capitalized when the cost of individual items or projects exceed \$100.0 thousand.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Michigan
Notes to the Financial Statements

Items not capitalized and depreciated

The State possesses certain capital assets that have not been capitalized and depreciated because the assets are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. These assets include works of art and historical treasures such as statues, monuments, historical documents, paintings, forts and lighthouses, rare library books, miscellaneous capitol-related artifacts and furnishings, and the like.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method. Capital assets that were put into service prior to October 1, 2017 had a half-year's depreciation charged in the year of acquisition. Depreciation expense for capital assets put into service after September 30, 2017 is calculated on a daily basis. Agencies assigned useful lives that were most suitable for the particular assets. Estimated useful lives generally were assigned as follows:

Asset	Years
Buildings	5-50
Equipment	2-25
Infrastructure	3-40
Intangibles	6-12
Land Improvements	5-40

Modified approach for infrastructure

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Under this process, the State does not record depreciation expense nor are amounts capitalized regarding improvements to these assets unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

Roads, bridges and ramps maintained by the Department of Transportation are accounted for using the modified approach.

Capital asset activities for the fiscal year ended September 30 were as follows (in millions):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 3,605.7	\$ 25.5	\$ (2.7)	\$ 3,628.4
Land improvements and other assets	16.2	-	-	16.2
Computer software projects in progress	91.0	116.6	(80.8)	126.9
Land rights	71.9	0.4	-	72.4
Mineral rights	19.8	-	-	19.8
Construction in progress (buildings)	111.7	78.4	(17.2)	172.9
Construction in progress (infrastructure)	1,908.9	588.8	(741.7)	1,756.0
Infrastructure	15,057.1	715.2	(217.4)	15,554.9
Total capital assets, not being depreciated	20,882.4	1,524.8	(1,059.9)	21,347.3
Capital assets, being depreciated:				
Land improvements and other assets	298.6	16.2	(35.9)	278.9
Equipment and vehicles	1,097.7	42.3	(29.0)	1,111.0
Computer software	1,106.3	259.5	(307.0)	1,058.8
Buildings	3,734.1	37.1	(32.1)	3,739.1
Infrastructure	356.5	20.8	-	377.3
Total capital assets, being depreciated	6,593.3	376.0	(404.1)	6,565.1
Less accumulated depreciation for:				
Land improvements and other assets	(114.3)	(6.4)	2.5	(118.2)
Equipment and vehicles	(732.8)	(83.4)	59.5	(756.8)
Computer software	(569.1)	(93.0)	45.2	(616.9)
Buildings	(2,103.5)	(111.2)	29.2	(2,185.5)
Infrastructure	(123.1)	(11.6)	-	(134.6)
Total accumulated depreciation	(3,642.7)	(305.6)	136.4	(3,811.9)
Total capital assets, being depreciated, net	2,950.5	70.4	(267.7)	2,753.2
Governmental activity capital assets, net	\$ 23,832.9	\$ 1,595.2	\$ (1,327.6)	\$ 24,100.5

Michigan
Notes to the Financial Statements

	Beginning Balance	Additions	Deletions	Ending Balance
Business - Type Activities				
Capital assets, being depreciated:				
Buildings	\$ 1.5	\$ 0.5	\$ -	\$ 2.0
Computer software	0.2	-	-	0.2
Equipment and vehicles	5.5	0.6	(1.3)	4.8
Total capital assets, being depreciated	7.2	1.2	(1.3)	7.1
Less accumulated depreciation for:				
Buildings	(0.4)	(0.2)	-	(0.6)
Computer software	(0.2)	-	-	(0.2)
Equipment and vehicles	(4.9)	(0.4)	1.3	(4.0)
Total accumulated depreciation	(5.5)	(0.6)	1.3	(4.8)
Total capital assets, being depreciated, net	1.7	0.6	-	2.3
Business-type activity capital assets, net	<u>\$ 1.7</u>	<u>\$ 0.6</u>	<u>\$ -</u>	<u>\$ 2.3</u>

Depreciation expense was charged to functions of the primary government as follows (in millions):

	Amount
Governmental Activities:	
General government	\$ 35.3
Education	0.3
Health and human services	42.9
Public safety and corrections	59.4
Conservation, environment, recreation and agriculture	21.3
Labor, commerce, and regulatory	3.1
Transportation	19.7
Depreciation on capital assets held by the State's internal service funds charged to the various functions based on their use of the assets	123.7
Total Depreciation Expense - Governmental Activities	<u>\$ 305.6</u>
Business-type Activities:	
Enterprise	\$ 0.6
Total Depreciation Expense - Business-type Activities	<u>\$ 0.6</u>

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in millions):

	Amount
State Universities and Authorities:	
Land and other non-depreciable assets	\$ 242.9
Buildings, equipment, and other depreciable assets	7,483.8
Infrastructure	102.9
Construction in progress	245.4
Total	8,075.0
Less accumulated depreciation	(3,220.8)
Capital Assets, Net - Discretely Presented Component Units	<u>\$ 4,854.2</u>

Service Concession Agreements

Northern Michigan University entered an agreement on July 22, 2016 with a third party developer, Education Realty Trust (EdR), to construct and manage the premises of six resident living-learning community buildings with connectors, housing 1,229 beds, multipurpose meeting spaces, tutoring center, and classrooms. On September 20, 2018 EdR was acquired by Greystar. The project, known as the Woods, has a cost of \$79.6 million and is being built on land owned by the University and leased to Greystar for a 75-year term. Under the terms of the Lease Agreement and the Operating Agreement, Greystar will control, manage, maintain and operate the project and will receive the gross revenue of the project, which consists of substantially all of the revenue and other income received from the operation of the project. Greystar is currently making rental payments to the University for the duration of the lease term based on a percentage of the gross revenue of the project. The University will account for the Lease Agreement as a concession arrangement in accordance with GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.

Under the phase-in approach, Phase I consisted of two buildings that opened in August 2017 and two buildings that opened in January 2018. Phase II consisted of two buildings that opened in August 2018. The residence halls are reported as a capital asset with a carrying value of \$75.9 million as of June 30, 2019, and deferred inflows of resources in the amount of \$66.1 million as of June 30, 2019 pursuant to the service concession agreement. The University is responsible for the trash removal and insurance coverage for the term of the contract. As such, the University recorded a liability at June 30, 2019 and 2018 at present value for trash removal and insurance in the amount of \$4.60 million and \$4.65 million, respectively. The 75-year term lease with Greystar includes maintenance standards for the facilities and parameters for the room rental rates for the contract duration. The University will receive a percentage of the total revenues and a share of the net income after Greystar achieves a minimum internal rate of return. The amount of deferred inflow of resources is included in Note 28.

On January 4, 2018, Eastern Michigan University entered into a 35-year lease and concession agreement with Provident Resources. Operations of the agreement began on April 23, 2018. ParkEMU operates the University's parking concession on the concessionaire's behalf. Under the agreement, ParkEMU operates, maintains and retains parking revenues from the University's parking lots and structures. This agreement also regulates the parking rates that may be charged and future increases in these rates. The University received a lump sum payment of \$55.0 million from this agreement and will use the proceeds for University reserves and operations, as necessary.

The lump-sum payment under this service concession agreement is reported as a deferred inflow of resources and is being amortized to operating revenue over the life of the agreement. Deferred inflows related to the parking agreement were \$53.1 million at June 30, 2019. The University reported the parking lots and structures as capital assets with a carrying value of \$14.2 million at June 30, 2019. The amount of deferred inflow of resources is included in Note 28.

NOTE 10 – PENSION BENEFITS

Defined Benefit Pension Plans

The component unit information required to be disclosed in this note is related to the State Employees' Retirement System (SERS) only. All other component units of the State participate in pension plans where the State is not an employer.

The defined benefit pension plans are administered through a trust and follow the disclosure requirements set forth in Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Plan Description

The State of Michigan administers the following defined benefit pension plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single employer	1
State Police Retirement System (SPRS)	Single employer	1
State Employees' Retirement System (SERS)	Single employer	1
Public School Employees' Retirement System (PSERS) ⁽¹⁾	Cost sharing multiple employer	685
Judges' Retirement System (JRS)	Single employer	1
Military Retirement Provisions (MRP)	Single employer	1

(1) The State of Michigan is not an employer within PSERS; therefore, pension plan information is not disclosed in this note.

Each plan is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements, notes to financial statements, and required supplementary information for that plan. Those reports, except LRS, may be obtained by visiting www.michigan.gov/ors or by calling the Customer Contact Center at (517) 284-4400 or 1-800-381-5111. The LRS report may be obtained by visiting <https://audgen.michigan.gov/completed-projects/> or by calling (517) 373-0575.

As mandated by legislation, all new State of Michigan employees (except Michigan State Police officers) hired on or after March 31, 1997, are members of the State of Michigan Defined Contribution Retirement Plan (Plan) as opposed to the LRS, SERS, and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS, and JRS defined benefit plans became closed systems. Michigan State Police troopers and sergeants who become a member of SPRS on or after June 10, 2012, are part of the hybrid defined benefit and defined contribution plan. MRP is open to new National Guard members.

Michigan
Notes to the Financial Statements

At September 30, 2018, the measurement date, the following employees were covered by the benefit terms.

	SERS ⁽²⁾	LRS	SPRS	JRS	MRP
Inactive employees or beneficiaries currently receiving benefits ⁽³⁾	60,010	262	3,117	544	4,453
Inactive employees entitled to but not yet receiving benefits	3,472	6	43	-	922
Active employees	9,473	1	1,787	95	10,558
DROP program participants ⁽⁴⁾	-	-	213	-	-
Total	<u>72,955</u>	<u>269</u>	<u>5,160</u>	<u>639</u>	<u>15,933</u>

- (2) The component unit employee membership is included within the SERS pension plan. A breakout of the component unit employee membership is unavailable.
- (3) LRS employee count includes 10 domestic relations orders (DRO) alternate payees for 2018. Sometimes a retiree must share their pension benefit when they retire because of a DRO or the DRO could still receive benefits after the retiree associated with the DRO dies, so the DRO is accounted for a separate employee.
- (4) SPRS employee count includes Deferred Retirement Option Plan (DROP) employees. Public Act 83 of 2004 amended the State Police Retirement Act to create a DROP for SPRS members with 25 years of service. This benefit program allows state police who are eligible to retire to defer their retirement and keep working for up to six years.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Benefit Payments

State statutes require that the State plans provide certain retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. The LRS life insurance benefits are provided through the defined benefit pension plan and are accounted for as pension benefits. The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan.

Valuation of Plan Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net assets value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary. For fiscal year 2019, the contribution rates for SERS were 22.0 to 25.9 percent of the defined benefit employee wages and 17.7 percent of the defined contribution employee wages. The contribution rates for SPRS were 60.3 percent and 62.0 percent of the defined benefit employee wages for non-command and command officers, respectively, and 50.8 percent of the hybrid defined benefit and defined contribution employee wages. The Actuarially Determined Contribution was \$2.8 million for JRS, \$4.4 million for MRP, and \$9.3 million for LRS. The employer contribution to SERS, SPRS, JRS, MRP, and LRS for the fiscal year ending September 30, 2019, was \$722.6 million from the primary government and \$8.0 million from its component units (SERS only).

Net Pension Liability

The net pension liability for SERS, SPRS, JRS, MRP, and LRS was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the Actuarially Determined Contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the pension plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Michigan
Notes to the Financial Statements

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and assumptions in the table below are used to calculate the total pension liability.

	LRS	SPRS	SERS	JRS	MRP
Latest actuarial valuation date	9/30/2017	9/30/2017	9/30/2017	9/30/2017	9/30/2017
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar open	Level percent of payroll closed	Level dollar closed	Level dollar closed	Level dollar closed
Remaining amortization period as of October 1, 2017	10 years	19 years	19 years	19 years	21 years
Asset valuation method	Fair value	Fair value	Fair value	Fair value	Fair value
Actuarial assumption:					
Investment rate of return	4.8%	7.1% Non-hybrid 7.0% Hybrid	7.0%	6.8%	6.8%
Projected salary increases	4.0%	3.3 – 87.8%	2.8 – 11.8%	3.3%	2.8%
Includes wage inflation at	4.0%	2.8%	2.8%	2.8%	2.8%
Cost-of-living adjustments	4.0% annual compounded (non-compounded for legislators who first became members after 1/1/1995)	2.0% annual non-compounded max. annual increase \$500	3.0% annual non-compounded with max. annual increase \$300	Assumed 3.3% compounded for those eligible	Assumed 2.8% compounded for those eligible

Actuarial Assumptions Changes

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted for use in the annual pension valuations beginning with the September 30, 2018, valuations for SERS, SPRS, and JRS. Assumption changes as a result of an experience study for the period 2015 through 2017 have been adopted for use in the annual pension valuations beginning with the September 30, 2018, valuation for MRP. The mortality tables, which are used to measure the probabilities of each benefit payment being made after retirement, changed for SERS, SPRS, MRP, LRS and JRS. The rates of early retirement, used to measure the probability of eligible members retiring with reduced retirement benefits during the next year, decreased for SERS. The rates of regular retirement table, which is used to measure the probability of eligible members retiring during the next year, changed for SERS, SPRS, JRS and MRP. The rates of separation from active membership table, which is used to measure the probabilities of members remaining in employment, changed for SERS, SPRS and MRP. The rates of pay increase table, used to project a member's current pay to the pay upon which System benefits will be based, changed for SERS, SPRS, MRP and JRS.

The investment return assumption was lowered from 7.0 percent to 6.7 for SERS, 7.1 percent to 6.8 for SPRS Non-Hybrid plan, 7.0 percent to 6.9 percent for SPRS Hybrid plan, 7.5 percent to 6.8 percent for MRP, and 6.8 percent to 6.3 for JRS for use in the annual funding valuations beginning with the September 30, 2018, valuations. The September 30, 2018, funding valuation will establish the actuarially determined contribution amounts for fiscal year 2021 for SERS, SPRS, and MRP and fiscal year 2019 for JRS and LRS.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Allocation for SERS, SPRS, JRS, and MRP

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate & Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	-
Total	100.0 %	

*Long-term Rate of Returns are net of administrative expenses and 2.3 percent inflation.

Asset Allocation for LRS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return**
Large Cap Equity	27.0 %	4.5 %
Small Cap Equity	13.0	5.5
International Developed Equity	11.0	7.0
International Small Cap Equity	5.0	7.0
Emerging Markets	9.0	9.0
Fixed Income	18.0	2.2
Hedge Fund	5.0	5.2
Public Natural Resources	10.0	7.0
Cash	2.0	1.6
Total	100.0 %	

**Real rate of return is based on investment manager inflation assumption of 2.2 percent.

Rate of Return

For the year ended September 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.1 percent for SERS, SPRS, and JRS, 9.5 percent for MRP, and 6.6 percent for LRS. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

For SERS, a discount rate of 7.0 percent, compared to a prior year rate of 7.5 percent, was used to measure the total pension liability. This discount rate was based on the long-term expected rate of return on pension plan investments of 7.0 percent. For SPRS, a discount rate of 7.1 percent, compared to a prior year rate of 7.5 percent, was used to measure the total pension liability (7.0 percent for the Pension Plus Plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.1 percent (7.0 percent for the Pension Plus Plan). For MRP and JRS, a discount rate of 6.8 percent, compared to a prior year rate of 7.5 percent and 8.0 percent, respectively, was used to measure the total pension liability. This discount rate was based on the long-term expected rate of return on pension plan investments of 6.8 percent. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For LRS, the single discount rate used to measure the total pension liability increased to 4.8 percent, compared to the prior year's rate of 4.4 percent. This single discount rate was based on an expected rate of return on pension plan investments of 7.0 percent and a municipal bond rate of 3.8 percent (the municipal bond rate is based on an index of twenty-year general obligation bonds with average AA credit ratings, which is published by the Federal Reserve). The projection of cash flows used to determine this single discount rate assumes that plan member contributions will be made at the current contribution rate and that employer

contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2031. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2031, and the municipal bond rate was applied to all benefit payments after 2031.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents SERS's net pension liability, calculated using a discount rate of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 6.0%	Current Discount 7.0%	1% Increase 8.0%
SERS Net Pension Liability/(Asset)	\$ 7,909,239.3	\$ 6,046,885.9	\$ 4,460,823.0

The following presents SPRS's net pension liability, calculated using a discount rate of 7.1 percent (7.0 percent for Pension Plus Plan), as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 6.1%/6.0%	Current Discount 7.1%/7.0%	1% Increase 8.1%/8.0%
SPRS Net Pension Liability/(Asset)	\$ 953,795.1	\$ 704,753.5	\$ 498,185.2

The following presents JRS and MRP's net pension liability, calculated using a discount rate of 6.8 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 5.8%	Current Discount 6.8%	1% Increase 7.8%
MRP Net Pension Liability/(Asset)	\$ 41,683.3	\$ 35,523.9	\$ 30,449.6
JRS Net Pension Liability/(Asset)	22,443.7	707.2	(18,129.2)

The following presents LRS's net pension liability, calculated using a discount rate of 4.8 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 3.8%	Current Discount 4.8%	1% Increase 5.8%
LRS Net Pension Liability/(Asset)	\$ 143,998.4	\$ 114,239.5	\$ 89,674.6

Michigan
Notes to the Financial Statements

Changes in the Net Pension Liability/Asset

The amounts included for the primary government and component units in the table below are related to SERS (in millions):

	Primary Government			Component Units		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability (Assets)	Liability	Net Position	Liability (Assets)
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Balances at 9/30/2018	\$ 16,773.8	\$ 11,650.1	\$ 5,123.8	\$ 226.1	\$ 157.0	\$ 69.1
Changes for the year:						
Service cost	71.0	-	71.0	0.9	-	0.9
Interest	1,210.5	-	1,210.5	16.1	-	16.1
Differences between expected/actual	114.2	-	114.2	1.5	-	1.5
Changes of assumptions	1,375.0	-	1,375.0	18.3	-	18.3
Contributions - employer	-	642.2	(642.2)	-	8.5	(8.5)
Contributions - member	-	35.1	(35.1)	-	0.5	(0.5)
Net investment income	-	1,256.8	(1,256.8)	-	16.7	(16.7)
Benefit payments, including refunds						
of member contributions	(1,344.6)	(1,344.6)	-	(17.9)	(17.9)	-
Administrative expenses	-	(6.4)	6.4	-	(0.1)	0.1
Other changes	2.9	2.1	0.8	(2.9)	(2.0)	(0.9)
Net changes	1,429.0	585.2	843.8	16.1	5.7	10.3
Balances at 9/30/2019	\$ 18,202.8	\$ 12,235.3	\$ 5,967.5	\$ 242.1	\$ 162.7	\$ 79.4

The amounts included in the table below are related to SPRS (in millions):

	Primary Government		
	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability (Assets)
	(a)	(b)	(a) - (b)
Balances at 9/30/2018	\$ 2,046.6	\$ 1,390.6	\$ 656.1
Changes for the year:			
Service cost	24.1	-	24.1
Interest	149.2	-	149.2
Differences between expected/actual	8.0	-	8.0
Changes of assumptions	106.7	-	106.7
Contributions - employer	-	84.9	(84.9)
Contributions - member	-	3.5	(3.5)
Net investment income	-	151.5	(151.5)
Benefit payments, including refunds			
of member contributions	(137.4)	(137.4)	-
Administrative and other expenses	-	(0.7)	0.7
Net changes	150.5	101.8	48.7
Balances at 9/30/2019	\$ 2,197.2	\$ 1,492.4	\$ 704.8

Michigan
Notes to the Financial Statements

The amounts included in the table below are related to MRP (in millions):

	Primary Government Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Assets)
	(a)	(b)	(a) - (b)
Balances at 9/30/2018	\$ 49.3	\$ 4.3	\$ 44.9
Changes for the year:			
Service cost	0.1	-	0.1
Interest	3.6	-	3.6
Differences between expected/actual	0.7	-	0.7
Changes of assumptions	2.7	-	2.7
Contributions - employer	-	16.2	(16.2)
Net investment income	-	0.6	(0.6)
Benefit payments, including refunds of member contributions	(3.9)	(3.9)	-
Administrative and other expenses	-	(0.3)	0.3
Net changes	3.2	12.6	(9.4)
Balances at 9/30/2019	\$ 52.5	\$ 17.0	\$ 35.5

The amounts included in the table below are related to LRS (in millions):

	Primary Government Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Assets)
	(a)	(b)	(a) - (b)
Balances at 9/30/2018	\$ 246.6	\$ 131.7	\$ 114.8
Changes for the year:			
Service cost	0.1	-	0.1
Interest	10.6	-	10.6
Differences between expected/actual	0.1	-	0.1
Changes of assumptions	(3.1)	-	(3.1)
Net investment income	-	8.6	(8.6)
Benefit payments, including refunds of member contributions	(14.5)	(14.5)	-
Administrative and other expenses	-	(0.4)	0.4
Net changes	(6.9)	(6.3)	(0.6)
Balances at 9/30/2019	\$ 239.7	\$ 125.4	\$ 114.2

Michigan
Notes to the Financial Statements

The amounts included in the table below are related to JRS (in millions):

	Primary Government Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Assets) (a) - (b)
Balances at 9/30/2018	\$ 249.9	\$ 264.8	\$ (14.9)
Changes for the year:			
Service cost	1.6	-	1.6
Interest	19.1	-	19.1
Differences between expected/actual	(1.5)	-	(1.5)
Changes of assumptions	26.7	-	26.7
Contributions - employer	-	1.7	(1.7)
Contributions - member	-	0.7	(0.7)
Net investment income	-	28.3	(28.3)
Benefit payments, including refunds of member contributions	(24.0)	(24.0)	-
Administrative and other expenses	-	(0.4)	0.4
Net changes	21.9	6.3	15.6
Balances at 9/30/2019	\$ 271.8	\$ 271.1	\$ 0.7

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2019, the State recognized pension expense related to the primary government and its component units of \$1,844.3 million and \$22.1 million, respectively. Pension expense by plan is listed in the table below (in millions):

Plan	Primary Government	Component Unit
SERS	\$ 1,734.8	\$ 22.1
SPRS	93.9	-
MRP	(5.1)	-
LRS	(0.1)	-
JRS	20.9	-
Total	\$ 1,844.3	\$ 22.1

The total reported deferred outflows of resources and deferred inflows of resources related to pensions, including component units, are identified in Note 28. For each plan, the deferred outflows of resources and deferred inflows of resources related to pensions are in the table below (in millions):

	Primary Government					Component Unit	
	SERS	SPRS	MRP	LRS	JRS	SERS Only	Total
Deferred Outflows of Resources:							
Difference between expected and actual experience	\$ -	\$ 18.1	\$ 0.6	\$ -	\$ -	\$ -	\$ 18.7
Changes of assumptions	-	135.7	3.5	-	-	-	139.2
Net difference between projected and actual earnings on pension plan investments	-	-	0.4	-	-	-	0.4
Contributions subsequent to the measurement date	592.1	78.5	41.0	8.1	2.8	8.0	730.5
Total Deferred Outflows of Resources:	\$ 592.1	\$ 232.4	\$ 45.5	\$ 8.1	\$ 2.8	\$ 8.0	\$ 888.8
Deferred Inflows of Resources:							
Difference between expected and actual experience	\$ -	\$ -	\$ 0.5	\$ -	\$ -	\$ -	\$ 0.5
Changes of assumptions	-	-	8.1	-	-	-	8.1
Net difference between projected and actual earnings on pension plan investments	509.8	61.8	-	1.9	10.5	6.8	590.8
Total Deferred Inflows of Resources:	\$ 509.8	\$ 61.8	\$ 8.6	\$ 1.9	\$ 10.5	\$ 6.8	\$ 599.4

Michigan
Notes to the Financial Statements

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows (amounts in millions):

Year Ended September 30	Primary Government Pension Expense Amount					Component Unit Pension Expense Amount	Total
	SERS	SPRS	MRP	LRS	JRS	SERS Only	
2020	\$ (56.6)	\$ 44.3	\$ (6.0)	\$ 1.5	\$ (0.9)	\$ (0.8)	\$ (18.5)
2021	(180.3)	28.1	0.8	(1.9)	(3.9)	(2.4)	(159.6)
2022	(191.3)	12.5	1.0	(1.4)	(4.1)	(2.5)	(186.0)
2023	(81.6)	7.2	0.1	0.0	(1.6)	(1.1)	(76.9)

Currently, deferred outflows and inflows of resources related to pensions that will be recognized in pension expense do not extend beyond the four years identified in the table above.

Defined Contribution Pension Plans

State of Michigan Defined Contribution Retirement Plan

The Plan, now within the State of Michigan 401K Plans Fund, was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, Michigan State Police officers hired on or after June 10, 2012, Public School Reporting Units members hired after July 1, 2010, and to those members of SERS (defined benefit) and eligible members of the Education Achievement Authority (EAA), JRS, and LRS who elected to transfer to this Plan. The Plan is administered by the Department of Technology, Management and Budget. Michigan Compiled Laws Section 38.686 created the State of Michigan Personal Healthcare Fund for State employees hired after January 1, 2012, and those who elected to transfer to this plan.

The State is required to contribute 4.0 percent of annual covered payroll. The State is also required to match employee contributions up to 3.0 percent of annual covered payroll. The Plan provides for eligible public school reporting units and the Michigan State Police to make a mandatory contribution of 50.0 percent of participants' voluntary contributions up to 1.0 percent of compensation. The Plan also provides for the EAA to make a mandatory contribution of 100 percent of participants' voluntary contributions up to 7.5 percent of compensation. In addition, the Plan provides a Personal Healthcare Fund for State of Michigan employees hired on or after January 1, 2012, Michigan State Police officers hired on or after June 10, 2012, and Public School employees hired on or after September 4, 2012, with an employer match of up to 2.0 percent of compensation. State of Michigan employees hired prior to January 1, 2012, who elected to transfer to this plan received an employer match up to 2.0 percent of future compensation plus a monetized amount for existing years of service distributed on termination. Plan provisions and contribution requirements are established and may be amended by the Legislature. The reports may be obtained by visiting www.michigan.gov/ors or by calling (517) 284-4400.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in the State contributions and earnings on State contributions after completion of 48 months of credited service with the State. Nonvested contributions are forfeited upon termination of employment. Forfeitures are used to offset future State contributions and pay administrative expenses of the Plan. For the year ended September 30, 2019, the State recognized pension expense of \$215.2 million. For the year ended September 30, 2019, forfeitures reduced the State's pension expense by \$11.8 million.

Component Units

In addition to the PSERS, the state university component units participate in a defined contribution multiple-employer pension plan primarily administered by the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) and also, in some cases, Fidelity Investments. The state university component units are required to contribute between 4.0 percent and 15.0 percent of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF and Fidelity Investments for all state university component units was \$114.6 million for the year ending June 30, 2019.

Additional plan information may be found in the separately issued financial reports of the state university component units.

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the Plan. All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and the 457(b) retirement plan. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was \$0.3 million for the year ending September 30, 2019.

Additional information for the retirement plan can be obtained by contacting the State Bar at (517) 346-6300.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Other Postemployment Benefit Plans

The component unit information required to be disclosed in this note is related to the State Employees' Retirement System (SERS) and Postemployment Life Insurance Benefit (PELIB) plan. All other component units of the State participate in Other Postemployment Benefit plans (OPEB) where the State is not an employer.

The other postemployment benefit plans are administered through a trust and follow the disclosure requirements set forth in Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Plan Description

The State of Michigan administers the following OPEB plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single employer	1
State Police Retirement System (SPRS)	Single employer	1
State Employees' Retirement System	Single employer	1
Public School Employees' Retirement System (PSERS) ⁽¹⁾	Cost sharing multiple employer	685
Judges' Retirement System (JRS)	Single employer	1
Postemployment Life Insurance Benefit ⁽²⁾	Single employer	1

- (1) The State of Michigan is not an employer within PSERS; therefore, OPEB plan information is not disclosed in this note.
 (2) Postemployment Life Insurance Benefit plan is not administered through a trust but follows the disclosure requirements set forth in GASB Statement No. 75.

Each plan, except for PELIB, is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements, notes to financial statements, and required supplementary information for that plan. Those reports, except LRS, may be obtained by visiting www.michigan.gov/ors or by calling the Customer Contact Center at (517) 284-4400 or 1-800-381-5111. The LRS report may be obtained by visiting <https://audgen.michigan.gov/completed-projects/> or by calling (517) 373-0575. The PELIB information is included in a separate section at the end of this note.

Pursuant to Michigan Public Act 200 of 2011, the LRS OPEB plan became closed. All qualified participants must have completed six years of service before January 1, 2013, to qualify for health insurance in the plan.

At September 30, 2018, the measurement date, the following employees were covered by the benefit terms:

	SERS ⁽³⁾	LRS	SPRS	JRS
Eligible participants ⁽⁴⁾	60,090	380	2,901	54
Participants receiving benefits:				
Health ⁽⁴⁾	52,305	355	2,779	39
Dental	53,408	-	2,772	-
Vision	53,213	-	2,773	-
Active members	49,453	24	1,787	38
Inactive vested members ⁽⁵⁾	7,185	-	256	5
Deferred participants	-	59	-	-

- (3) The component unit employee membership is included within the SERS OPEB plan. A breakout of the component unit employee membership is unavailable.
 (4) LRS employee count includes 103 defined contribution participants at September 30, 2018 who are receiving health care insurance through the System in accordance with state statute. At September 30, 2018, the number of defined contribution participants who were eligible for health care insurance but declined to receive the benefits were 24.
 (5) SPRS employee count includes Deferred Retirement Option Plan (DROP) employees. Public Act 83 of 2004 amended the State Police Retirement Act to create a DROP for SPRS members with 25 years of service. This benefit program allows state police who are eligible to retire to defer their retirement and keep working for up to six years.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Benefit Payments

State statutes require that the State provide certain OPEB benefits to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees. SERS no longer gives health, medical, and dental benefits to employees hired on or after January 1, 2012, or to those employees that elected the Personal Healthcare Fund. SPRS no longer gives health, medical, and dental benefits to employees hired on or after June 10, 2012, or to those employees that elected the Personal Healthcare Fund. These employees receive contributions to the Personal Healthcare Fund (as described in Note 10).

Valuation of Plan Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net assets value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary. For fiscal year 2019, the contribution rates for SERS were 23.8 percent of the defined benefit employee wages and the defined contribution employee wages. The contribution rate for SPRS was 43.6 percent of wages for defined benefit non-command and command officers and for hybrid defined benefit and defined contribution employees. The actuarially determined contribution was \$0.8 million for JRS and \$10.2 million for LRS. The employer contribution to SERS, SPRS, JRS, and LRS for the fiscal year ending September 30, 2019, was \$832.9 million from the primary government and \$9.4 million from its component units (SERS only).

Net OPEB Liability

The net OPEB liability for SERS, SPRS, JRS, and LRS was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Michigan
Notes to the Financial Statements

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and assumptions in the table below are used to determine the net OPEB liability.

	LRS	SPRS	SERS	JRS
Latest actuarial valuation date	9/30/2017	9/30/2017	9/30/2017	9/30/2017
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar closed	Level percent of payroll closed	Level percent of payroll closed	Level percent of payroll closed
Remaining amortization period as of October 1, 2017	23 years	19 years	19 years	19 years
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value
Actuarial assumption:				
Investment rate of return	4.0%	7.0%	7.0%	7.0%
Projected salary increases	4.0%	3.3 - 87.8%	2.8 - 11.8%	3.3%
Includes wage inflation at	4.0%	2.8%	2.8%	2.8%
Healthcare cost trend rate	8.8% Year 1 grading to 4.0% Year 10	8.3 % Year 1 graded to 3.0% Year 10	8.3% Year 1 graded to 3.0% Year 10	9.0% Year 1 graded to 3.0% Year 11

Actuarial Assumptions Changes

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted for use in the annual OPEB valuations beginning with the September 30, 2018, valuations for SERS, SPRS, and JRS. The mortality tables, which are used to measure the probabilities of each benefit payment being made after retirement, changed for SERS, SPRS, LRS and JRS. The rates of early retirement, used to measure the probability of eligible members retiring with reduced retirement benefits during the next year, decreased for SERS. The rates of regular retirement table, which is used to measure the probability of eligible members retiring during the next year, changed for SERS, SPRS, and JRS. The rates of separation from active membership table, which is used to measure the probabilities of members remaining in employment, changed for SERS and SPRS. The rates of pay increase table, used to project a member's current pay to the pay upon which System benefits will be based, changed for SERS, SPRS, MRP and JRS.

In accordance with directions provided by the Office of Retirement Services, the investment return assumption was lowered from 7.5 percent to 7.4 percent for SPRS and SERS for use in the annual funding valuations beginning with the September 30, 2017, valuation. For use in the annual funding valuations beginning with the September 30, 2018, valuation, the investment return assumption was lowered from 7.4 percent to 6.9 percent for SPRS and SERS. The investment return assumption was lowered from 8.0 percent to 7.5 percent for JRS for use in the annual funding valuations beginning with the September 30, 2017, valuation. For use in the annual funding valuations beginning with the September 30, 2018, valuation, the investment return assumption was lowered from 7.5 percent to 7.0 percent for JRS. The September 30, 2018, funding valuation will establish the actuarially determined contribution amounts for fiscal year 2021 for SERS and SPRS and for the fiscal year 2019 for JRS and LRS.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Allocation for SERS, SPRS, and JRS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate & Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	-
Total	100.0%	

*Long-term Rate of Returns are net of administrative expenses and 2.3 percent inflation.

Asset Allocation for LRS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return**
Large Cap Equity	27.0%	4.5%
Small Cap Equity	13.0	5.5
International Developed Equity	11.0	7.0
International Small Cap Equity	5.0	7.0
Emerging Markets	9.0	9.0
Fixed Income	18.0	2.2
Hedge Fund	5.0	5.2
Public Natural Resources	10.0	7.0
Cash	2.0	1.6
Total	100.0%	

**The arithmetic rates of return were provided by the System's investment consultant along with a 2.2 percent price inflation assumption.

Rate of Return

For the year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 10.9 percent for SERS, 10.8 percent for SPRS, 9.3 percent for JRS, and 10.3 percent for LRS. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

For SERS and SPRS a discount rate of 7.0 percent was used to measure the total OPEB liability, compared to a prior year rate of 7.5 percent. For JRS, a discount rate of 7.0 percent was used to measure the total OPEB liability, compared to a prior year rate of 8.0 percent. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.0 percent. The projection of cash flows used to determine this discount rate assumed that plan member contributions would be made at the current contribution rate and that employer contributions would be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plans' fiduciary net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Michigan
Notes to the Financial Statements

For LRS, the single discount rate of 4.0 percent, compared to a prior year rate of 3.7 percent, was used to measure the total OPEB liability. This single discount rate was based on an expected rate of return on OPEB plan investments of 7.0 percent and a municipal bond rate of 3.8 percent (the municipal bond rate is based on an index of twenty-year general obligation bonds with average AA credit ratings, which is published by the Federal Reserve). The projection of cash flows used to determine this single discount rate assumes that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2025. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2025, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents SERS, SPRS, and JRS's net OPEB liability, calculated using a discount rate of 7.0 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 6.0%	Current Discount 7.0%	1% Increase 8.0%
SERS Net OPEB Liability	\$ 9,163,805.2	\$ 7,935,180.4	\$ 6,904,702.7
SPRS Net OPEB Liability	674,459.7	578,424.9	499,118.1
JRS Net OPEB Liability	8,381.4	7,507.1	6,755.3

The following presents LRS's net OPEB liability, calculated using a discount rate of 4.0 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 3.0%	Current Discount 4.0%	1% Increase 5.0%
LRS Net OPEB Liability	\$ 195,519.0	\$ 163,663.0	\$ 138,584.8

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents SERS and SPRS's net OPEB liability, calculated using a healthcare trend rate of 8.3 percent graded to 3.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current trend rate (in thousands):

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
SERS Net OPEB Liability	\$ 6,842,013.3	\$ 7,935,180.4	\$ 9,205,334.5
SPRS Net OPEB Liability	494,934.5	578,424.9	676,983.5

The following presents JRS's net OPEB liability (asset), calculated using a healthcare trend rate of 9.0 percent graded to 3.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current trend rate (in thousands):

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
JRS Net OPEB Liability	\$ 6,718.3	\$ 7,507.1	\$ 8,397.3

The following presents LRS's net OPEB liability, calculated using a healthcare trend rate of 8.8 percent graded to 4.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current trend rate (in thousands):

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
LRS Net OPEB Liability	\$ 137,781.7	\$ 163,663.0	\$ 195,976.4

Michigan
Notes to the Financial Statements

Changes in the Net OPEB Liability

The amounts included for the primary government and component units in the table below are related to SERS (in millions):

	Primary Government Increase (Decrease)			Component Units Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Assets)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Assets)
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Balances at 9/30/2018	\$ 10,155.1	\$ 2,019.7	\$ 8,135.4	\$ 138.3	\$ 27.5	\$ 110.8
Changes for the year:						
Service cost	92.1	-	92.1	1.2	-	1.2
Interest	750.4	-	750.4	10.0	-	10.0
Differences between expected/actual	(1,041.8)	-	(1,041.8)	(13.9)	-	(13.9)
Changes of assumptions	798.4	-	798.4	10.7	-	10.7
Contributions - employer	-	679.8	(679.8)	-	9.1	(9.1)
Net investment income	-	226.5	(226.5)	-	3.0	(3.0)
Benefit payments, including refunds						
of member contributions	(397.2)	(397.2)	-	(5.3)	(5.3)	-
Administrative expenses	-	(0.5)	0.5	-	-	-
Other changes	2.7	0.7	2.0	(2.7)	(0.5)	(2.1)
Net changes	204.6	509.3	(304.7)	-	6.3	(6.2)
Balances at 9/30/2019	\$ 10,359.7	\$ 2,529.1	\$ 7,830.6	\$ 138.3	\$ 33.8	\$ 104.6

The amounts included in the table below are related to SPRS (in millions):

	Primary Government Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Assets)
	(a)	(b)	(a) - (b)
Balances at 9/30/2018	\$ 780.9	\$ 150.7	\$ 630.2
Changes for the year:			
Service cost	9.2	-	9.2
Interest	57.6	-	57.6
Differences between expected/actual	(71.3)	-	(71.3)
Changes of assumptions	26.6	-	26.6
Contributions - employer	-	56.8	(56.8)
Net investment income	-	17.2	(17.2)
Benefit payments, including refunds			
of member contributions	(33.6)	(33.6)	-
Administrative and other expenses	-	(0.1)	0.1
Net changes	(11.4)	40.3	(51.8)
Balances at 9/30/2019	\$ 769.4	\$ 191.0	\$ 578.4

Michigan
Notes to the Financial Statements

The amounts included in the table below are related to LRS (in millions):

	Primary Government Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Assets) (a) - (b)
Balances at 9/30/2018	\$ 192.8	\$ 24.5	\$ 168.3
Changes for the year:			
Service cost	1.5	-	1.5
Interest	7.1	-	7.1
Differences between expected/actual	3.3	-	3.3
Changes of assumptions	(9.4)	-	(9.4)
Contributions - employer	-	4.7	(4.7)
Net investment income	-	1.6	(1.6)
Benefit payments, including refunds of member contributions	(6.7)	(6.7)	-
Administrative and other expenses	-	0.9	(0.9)
Net changes	(4.3)	0.4	(4.7)
Balances at 9/30/2019	\$ 188.6	\$ 24.9	\$ 163.7

The amounts included in the table below are related to JRS (in millions):

	Primary Government Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Assets) (a) - (b)
Balances at 9/30/2018	\$ 7.0	\$ 1.0	\$ 6.0
Changes for the year:			
Service cost	0.2	-	0.2
Interest	0.5	-	0.5
Differences between expected/actual	0.4	-	0.4
Changes of assumptions	1.1	-	1.1
Contributions - employer	-	0.5	(0.5)
Contributions - member	-	0.1	(0.1)
Net investment income	-	0.1	(0.1)
Benefit payments, including refunds of member contributions	(0.6)	(0.6)	-
Administrative and other expenses	-	(0.1)	0.1
Net changes	1.6	-	1.5
Balances at 9/30/2019	\$ 8.6	\$ 1.1	\$ 7.5

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the State recognized OPEB expense related to the primary government and its component units of \$628.1 million and \$7.4 million, respectively. OPEB expense for SERS, SPRS, LRS, and JRS is listed by plan in the table below (in millions):

Plan	Primary Government	Component Units
SERS	\$ 584.6	\$ 7.4
SPRS	42.9	-
LRS	(0.3)	-
JRS	1.0	-
Total	\$ 628.1	\$ 7.4

Michigan
Notes to the Financial Statements

The total reported deferred outflows of resources and deferred inflows of resources related to OPEB, including component units, are identified in Note 28. For each plan, the deferred outflows of resources and deferred inflows of resources related to OPEB for SERS, SPRS, LRS, and JRS are in the table below (in millions):

	Primary Government				Component Units	Total
	SERS	SPRS	LRS	JRS	SERS Only	
Deferred Outflows of Resources:						
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ 0.3	\$ -	\$ 0.3
Changes of assumptions	653.2	21.4	-	0.8	8.7	684.1
Changes in proportion and differences between employer contributions and proportionate share of contributions	11.7	-	-	-	3.0	14.7
Contributions subsequent to the measurement date	755.8	60.4	9.1	7.6	9.4	842.3
Total Deferred Outflows of Resources:	<u>\$ 1,420.7</u>	<u>\$ 81.8</u>	<u>\$ 9.1</u>	<u>\$ 8.6</u>	<u>\$ 21.2</u>	<u>\$ 1,541.4</u>
Deferred Inflows of Resources:						
Difference between expected and actual experience	\$ 899.4	\$ 59.9	\$ -	\$ -	\$ 12.0	\$ 971.3
Net difference between projected and actual earnings on pension plan investments	104.4	8.0	0.6	-	1.4	114.4
Changes in proportion and differences between employer contributions and proportionate share of contributions	49.1	-	-	-	5.3	54.5
Total Deferred Inflows of Resources:	<u>\$ 1,052.9</u>	<u>\$ 67.9</u>	<u>\$ 0.6</u>	<u>\$ 0.1</u>	<u>\$ 18.7</u>	<u>\$ 1,140.2</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB for SERS, SPRS, LRS, and JRS will be recognized in OPEB expense as follows (amounts in millions):

Year Ended September 30	Primary Government OPEB Expense Amount				Component Units OPEB Expense Amount	Total
	SERS	SPRS	LRS	JRS	SERS Only	
2020	\$ (96.1)	\$ (11.9)	\$ (0.2)	\$ 0.4	\$ (1.7)	\$ (109.5)
2021	(96.1)	(11.9)	(0.2)	0.4	(1.7)	(109.5)
2022	(96.1)	(11.7)	(0.2)	0.2	(1.7)	(109.5)
2023	(78.2)	(9.7)	-	-	(1.4)	(89.3)
2024	(21.6)	(1.2)	-	-	(0.5)	(23.3)

Currently, deferred outflows and inflows of resources related to OPEB that will be recognized in OPEB expense do not extend beyond the five years identified in the table above.

Postemployment Life Insurance Benefit

Plan Description

The State of Michigan provides PELIB to eligible individuals upon retirement from State employment. Members of SERS, SPRS, JRS, and certain members of the Military Retirement Provisions (MRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. PELIB is a single-employer, state-wide, defined benefit OPEB plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. PELIB is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of PELIB is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

PELIB is not a trust and has no plan assets.

Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40.0 percent of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996, and whose employment was transferred to the Recorder's Court on October 1, 1996, and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25.0 percent of the active life insurance coverage (which amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23. The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

Contributions

The State contributes 100 percent of the premiums for employee and retiree life insurance coverage. The premium rates for fiscal year 2018 and fiscal year 2019 were 28.0 cents for each \$1,000 of coverage of active payroll. The employee contributes 100.0 percent of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies. The employer contribution to PELIB for retirees and their eligible dependents for the fiscal year ending September 30, 2019, was \$32.9 million from the primary government and \$0.4 million from its component units.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Net OPEB Liability

The net OPEB liability for PELIB was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for PELIB involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Individual Entry-Age
Wage Inflation Rate:	3.5%
Investment Rate of Return (discount rate):	3.8% per year

Mortality: Healthy Life and Disabled Life Mortality (Percentages of the Male and Female rates used in the pension valuations):

Plan	Percent of Male Rates	Percent of Female Rates
SERS	115%	121%
SPRS	111	121
JRS	120	128
MRP	111	121

Claims Incurred But Not Reported (IBNR): A liability equal to 25.0 percent of expected first year cash flow was held for postemployment life insurance benefits claims IBNR.

Michigan
Notes to the Financial Statements

Spouse Benefits for Future Retirees: The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees as follows:

SERS plan members:	3.0%
SPRS Non-Hybrid plan members:	2.0%
SPRS Hybrid plan members:	4.0%
JRS plan members:	1.0%
Special Duty Officer members:	1.0%

Spouse Benefits for Current Retirees: Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees as follows:

SERS retirees:	4.0%
SPRS retirees:	3.0%
JRS retirees:	2.0%
Special Duty Officer retirees:	2.0%

Opt Out Factors: The data provided to the actuary for this valuation indicates that a portion of JRS members are not members of PELIB. Approximately 52.0 percent of JRS active members participate in the Program. A list of current retiree members of JRS who participate in PELIB was not available. JRS retiree member liabilities were developed by multiplying total potential JRS retiree liabilities by 52.0 percent.

Compensation: For some SERS retirees, final average compensation (FAC) was not reported. The FAC for these members was assumed to be \$51,045 (the average of all SERS retiree records reported with FAC).

For purposes of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement. The factor used to cover an FAC to a base wage is based on the length of the FAC period for each group. The factor used for each affected plan follows:

SERS	Conservation:	0.983092 (2 year FAC)
	Corrections and All Others:	0.966565 (3 year FAC)
SPRS	Non-Hybrid:	0.983092 (2 year FAC)
	Hybrid:	0.934616 (5 year FAC)

For SERS defined contribution plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the SERS defined benefit plan.

Other: The face values of PELIB policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the PELIB policies for retirees as follows:

Individuals retired after July 1974: 50.0 percent of compensation at retirement (compensation reported for the 2017 retirement system valuations)

Individuals retired on or before July 1974: A minimum benefit of \$1,000 and a maximum benefit of \$5,000 for an average of \$3,000

Spousal benefits \$1,000

Data for current retiree members of PELIB was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2017 retirement valuations were included in this valuation of PELIB.

Discount Rate

A discount rate of 3.8 percent was used to measure the ending total OPEB liability for PELIB as of September 30, 2018. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since PELIB has no assets. The municipal bond rate of 3.5 percent was used for determining the beginning total OPEB liability for PELIB as of September 30, 2017. For the prior valuation, dated September 30, 2016, the discount rate used was 3.5 percent. A decrease in the discount rate used affects the measurement of total OPEB liability for PELIB by increasing its total OPEB liability.

Michigan
Notes to the Financial Statements

Total OPEB Liability for Postemployment Life Insurance Benefits

PELIB total liability is measured as the total liability, less the amount of the PELIB net position. In actuarial terms, this is the accrued liability less the market value of assets. PELIB has no assets (amounts below are in millions).

Total OPEB Liability as of September 30, 2017	\$ 1,279.2
Total OPEB Liability as of September 30, 2018	1,249.4
Total Covered Payroll	3,154.5
Total Liability as a Percentage of Covered Payroll	39.6%

Sensitivity of the Total OPEB Liability for Postemployment Life Insurance

The following table presents total OPEB liability for PELIB, calculated using a Single Discount Rate of 3.8 percent, as well as what the total OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher (in thousands):

	1% Decrease 2.8%	Current Discount 3.8%	1% Increase 4.8%
PELIB Net OPEB Liability	\$ 1,460,788.3	\$ 1,249,369.8	\$ 1,080,488.9

Changes in the Total OPEB Liability

The amounts included in the table below are related to PELIB (in millions):

	Primary Government Increase (Decrease) Total OPEB Liability (a)	Primary Component Units Increase (Decrease) Total OPEB Liability (a)
Balances at 9/30/2018	\$ 1,262.9	\$ 16.4
Changes for the year:		
Service cost	28.5	0.4
Interest	44.2	0.6
Differences between expected/actual	(7.5)	(0.1)
Changes of assumptions	(63.7)	(0.8)
Benefit payments, including refunds of member contributions	(30.9)	(0.4)
Other changes	0.3	(0.3)
Net changes	(29.1)	(0.7)
Balances at 9/30/2019	\$ 1,233.7	\$ 15.6

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Life Insurance OPEB

For the year ended September 30, 2019, the State recognized OPEB expense related to PELIB of \$46.7 million for the primary government and \$0.5 million for the component units.

The deferred outflows of resources and deferred inflows of resources related to PELIB are included in Note 28 and in the table below (in millions):

	Primary Government	Component Units
Deferred Outflows of Resources:		
Difference between expected and actual experience	\$ 0.8	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	1.5	0.5
Contributions subsequent to the measurement date	32.9	0.4
Total Deferred Outflows of Resources:	\$ 35.2	\$ 0.9
Deferred Inflows of Resources:		
Difference between expected and actual experience	\$ 6.3	\$ 0.1
Changes of assumptions	107.3	1.4
Changes in proportion and differences between employer contributions and proportionate share of contributions	1.2	0.8
Total Deferred Inflows of Resources:	\$ 114.7	\$ 2.2

Michigan
Notes to the Financial Statements

Amounts reported as deferred outflows of resources related to PELIB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the total PELIB liability in the year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to PELIB will be recognized in PELIB expense as follows (amounts in millions):

Year Ended September 30	Primary Government OPEB Expense Amount	Component Units OPEB Expense Amount
2020	\$ (25.9)	\$ (0.4)
2021	(25.9)	(0.4)
2022	(25.9)	(0.4)
2023	(24.2)	(0.4)
2024	(10.5)	(0.2)

Currently, deferred outflows and inflows of resources related to PELIB that will be recognized in OPEB expense do not extend beyond the five years identified in the table above.

NOTE 12 – LEASES

Accounting Policy

The State leases various assets under non-cancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. For budgetary purposes, lease payments are only reported as expenditures when paid.

Most leases have cancellation clauses with one to six-month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Leases that exist between the State and the State Building Authority (SBA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, SBA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide financial statements for the bonds issued by SBA to construct the assets associated with the leases. Future payments to SBA are, therefore, not included in the schedules of lease commitments below. Note 13 provides information on the amount of SBA's bonds outstanding and a schedule of debt service requirements.

During fiscal years 2008, 2011, and 2015, the State entered into building lease agreements with the Michigan Strategic Fund (MSF), a discretely presented component unit. The leases were classified as capital leases and are included in the capital lease disclosures below.

Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled \$58.3 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$52.8 million, \$46.3 million, and \$18.4 million, respectively, during the fiscal year. Included in these amounts were payments to MSF for principal, interest, and executory costs totaling \$12.4 million, \$10.3 million, and \$0.0 million, respectively.

Michigan
Notes to the Financial Statements

A summary of the operating and non-cancelable capital lease commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2020	\$ 11.3	\$ 51.9	\$ 43.3	\$ 17.6	\$ 112.9
2021	7.0	47.7	39.5	15.5	102.7
2022	4.1	45.3	36.1	13.8	95.2
2023	2.6	44.2	32.6	12.3	89.0
2024	0.9	32.7	29.4	10.6	72.7
2025-2029	0.3	126.3	99.2	39.6	265.2
2030-2034	0.1	43.7	42.4	12.5	98.6
2035-2039	0.1	26.5	24.0	6.7	57.1
2040-2044	0.1	20.0	11.0	0.9	32.0
Thereafter	0.4	14.9	2.2	0.1	17.2
Total	<u>\$ 26.9</u>	<u>\$ 453.4</u>	<u>\$ 359.7</u>	<u>\$ 129.6</u>	<u>\$ 942.6</u>

The above capital leases relate to governmental activities which include the General Fund, other governmental funds, and the internal service funds. A liability of \$453.4 million has been recorded in the government-wide financial statements for the capital lease principal. Included in this liability are the capital leases between the State and MSF totaling \$177.9 million.

The historical cost of assets acquired under capital leases, which are included in capital assets on the government-wide financial statements at September 30, follows (in millions):

	Governmental Activities	Business Type Activities
Buildings	\$ 479.3	\$ 1.6
Equipment	249.5	-
Total	728.8	1.6
Accumulated Depreciation	(363.9)	(0.5)
Net Buildings and Equipment	<u>\$ 364.9</u>	<u>\$ 1.1</u>

Included in the table above is the historical cost and accumulated depreciation for the capital leases between the State and MSF of \$250.7 million and \$117.1 million, respectively.

Primary Government – Business-Type Activities

Rental expense incurred under operating leases totaled \$0.2 million during the fiscal year.

A summary of the operating lease and non-cancelable capital lease commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2020	\$ 0.3	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.4
2021	0.2	0.1	0.1	0.1	0.3
2022	0.1	0.1	0.1	0.1	0.3
2023	0.1	0.1	0.1	0.1	0.3
2024	-	0.1	0.1	0.1	0.3
2025-2029	-	0.6	0.4	0.4	1.4
2030-2034	-	0.1	0.2	0.1	0.4
2035-2039	-	0.1	-	-	0.1
Total	<u>\$ 0.7</u>	<u>\$ 1.3</u>	<u>\$ 1.2</u>	<u>\$ 1.0</u>	<u>\$ 3.5</u>

Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled \$16.0 million. Total capital lease obligations were \$26.8 million, \$9.5 million, and \$0.3 million for principal, interest, and executory costs, respectively, during the fiscal year.

NOTE 13 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT

General Information

General Obligation Bonds and Notes

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a subfund of the General Fund. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15.0 percent of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. In fiscal year 2019, the State did not issue any general obligation short-term notes.

Revenue Dedicated Bonds and Notes

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. In addition, SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30 follows (in millions):

	Beginning Balance	Draws	Repayments	Ending Balance
Commercial Paper Notes	\$ 46.4	\$ 89.8	\$ 62.6	\$ 73.6

Note 14 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

Bonds Issued and Outstanding

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

	Amounts Issued	Outstanding September 30	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
General Obligation Bonded Debt					
General Obligation Debt:					
Series 2010 A (Refunding)	\$ 46.6	\$ 22.5	2013	2021	4.44 %
Series 2011 A (Refunding) (2)(3)	44.0	44.0	2022	2026	3.83
Series 2011 B (Refunding) (2)(3)	65.4	14.8	2014	2021	1.72
Series 2012 (Refunding)	92.3	46.3	2017	2021	4.49
Series 2014 A (3)	65.1	65.1	2024	2029	5.00
Series 2014 B (3)	20.2	20.2	2027	2027	3.59
Series 2015 A (Refunding)	129.1	97.0	2017	2029	4.82
Series 2016 A (3)	82.2	82.2	2022	2025	5.00
Series 2016 B (Refunding)	60.0	60.0	2022	2026	4.78
Series 2017 A (1)(2)(3)	79.0	79.0	2022	2027	5.00
Series 2017 B (1)(2)(3)	40.6	40.6	2020	2025	1.95
Series 2018 (2)(3)	149.2	149.2	2027	2033	3.49
School Loan Bonds:					
Series 2009 A (Refunding)	204.1	66.6	2016	2021	6.59
Series 2009 B (Refunding) (5)	193.7	24.8	2010	2030	5.58
Series 2010 B (Refunding)	83.8	40.5	2017	2021	3.73
Series 2011 A	150.0	59.1	2014	2023	3.71
Series 2011 B	30.1	30.1	2023	2023	3.70
Series 2012 A (Refunding)	225.0	95.6	2013	2026	2.32
Series 2013 A	200.0	200.0	2024	2033	3.33
Series 2016 A (Refunding)	129.1	120.8	2017	2023	1.69
Total General Obligation Bonded Debt	2,089.5	1,358.4			

Michigan
Notes to the Financial Statements

	Amounts Issued	Outstanding September 30	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
Revenue Dedicated Bonded Debt					
<u>State Park Related:</u>					
2002 – Gross Revenue Bonds	\$ 15.5	\$ 4.3	2004	2023	3.76 %
Total Revenue Dedicated Bonded Debt - State Park Related	15.5	4.3			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Comprehensive Transportation Fund Bonds:					
Series 2005 (Refunding)	62.2	26.4	2009	2023	5.25
Series 2011 (Refunding)	18.5	6.7	2013	2022	4.50
Series 2013 (Refunding)	10.1	1.5	2014	2023	4.70
Series 2015 (Refunding)	29.4	26.2	2017	2031	4.89
Grant Anticipation Bonds:					
Series 2016 (Refunding)	607.1	595.1	2018	2027	4.97
State Trunkline Fund Bonds:					
Series 2004 (Refunding)	103.5	34.9	2006	2022	5.02
Series 2005 (Refunding)	223.0	69.8	2010	2022	5.24
Series 2009 (Revenue and Refunding)	146.2	146.2	2018	2027	4.99
Series 2011	91.0	76.8	2014	2037	4.72
Series 2012 (Refunding)	49.3	21.2	2014	2022	4.80
Series 2014 (Refunding)	265.1	60.6	2016	2022	4.49
Series 2015 (Refunding)	54.1	54.1	2023	2023	4.84
Total Revenue Dedicated Bonded Debt - Transportation Related	1,659.4	1,119.5			
<u>State Building Authority:</u>					
Series 2007 I Multi-modal (4)	96.5	32.5	2009	2043	1.59
Series 2009 I (Refunding)	222.1	13.4	2010	2020	4.88
Series 2009 II	113.5	3.6	2011	2020	4.99
Series 2011 I A (Revenue and Refunding)	409.6	357.1	2012	2046	5.16
Series 2011 I B	12.2	9.1	2013	2032	5.69
Series 2011 II A (Revenue and Refunding)	180.7	171.8	2012	2042	5.23
Series 2011 II B (Refunding) (4)	45.8	35.3	2014	2044	1.59
Series 2013 I A (Revenue and Refunding)	531.3	375.6	2015	2048	4.76
Series 2015 I (Revenue and Refunding)	989.3	948.6	2016	2051	3.86
Series 2016 I (Revenue and Refunding)	665.2	620.4	2018	2052	3.06
Series 2017 I (4)	109.0	107.0	2019	2053	1.52
Series 2019 I (Revenue and Refunding)	235.6	235.6	2020	2054	3.19
Total State Building Authority Bonded Debt	3,610.6	2,909.7			
Total Revenue Dedicated Bonded Debt	5,285.5	4,033.6			
Total General Obligation and Revenue Dedicated Bonded Debt	\$ 7,375.0	\$ 5,391.9			

- (1) Sections 324.19301 and 324.71301 of the Michigan Compiled Law (MCL) authorized the issuance of bonds totaling \$800.0 million. As of September 30, 2017, \$800.0 million of such bond proceeds had been received, leaving no remaining authorization. The sum of the amounts issued in the preceding table differs by the amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.
- (2) MCL Section 324.95102 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2019, \$637.4 million of such bond proceeds had been received, leaving remaining authorization of \$37.6 million. The sum of amounts issued in the preceding table differs by the amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.
- (3) In November 2002, voters approved a ballot proposal in which the State would issue \$1.0 billion in general obligation bonds to provide capital, which is then loaned to local units of government for water quality improvement projects. As of September 30, 2019, \$655.0 million of such bond proceeds had been recognized as received, leaving remaining authorization of \$345.0 million. Included in the amount recognized as received is \$100.0 million in bonds issued on December 18, 2003, to a discretely presented component unit, Michigan Finance Authority (MFA) (\$10.0 million relating to Strategic Water Quality and \$90.0 million relating to the previously existing State Water Quality Revolving Fund). No cash traded hands in the issuance of the bonds to MFA, the registered owner of the bonds.

The \$10.0 million bond was being used as collateral for Strategic Water Quality revenue bonds issued by MFA. MFA funded the principal and interest costs of the issued revenue bonds until the State refunded the general obligation bond document. This transaction allowed the State's General Fund to defer principal and interest costs until future years when the bond was repurchased/redeemed. In addition, the \$10.0 million bond included a provision that required the State to repurchase all or any portion of this bond upon 10-days written notice from the registered owner, MFA. For this reason, the State had recognized the bond related to Strategic Water Quality as a liability in the entity-wide statements. The \$10.0 million bond was reduced to a net obligation of \$6.0 million when \$4.0 million of the proceeds from the General Obligation Recreation and Environmental Protection Series 2006 B (which was fully refunded in fiscal year 2009) were used to refund a portion of the original obligation. The remaining \$6.0 million net obligation was fully refunded by General Obligation Environmental Program and Refunding Bonds Series 2017 A.

The \$90.0 million "bond" document issued for the State Water Quality Revolving Fund does not contain the 10-day repurchase provision that the \$10.0 million bond did. Nor is the \$90.0 million "bond" document being used as collateral by MFA. For these reasons, the State has not recognized a liability for the \$90.0 million "bond" document related to the existing State Water Quality Revolving Fund.

- (4) SBA Multi-Modal and variable rate bonds bear interest at a remarketed weekly rate. Estimated interest was computed using the weekly rates as of September 30, 2019.
- (5) This issuance was acquired as an investment by the State Lottery Fund, an enterprise fund, through a public market offering and is reported as part of investments in the fund's statement of net position.

Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the Bonds Issued and Outstanding table and the Changes in Bonds and Notes Payable table at their accreted year-end book value. The following table summarizes capital appreciation bonds (in millions):

	Accreted Book Value	Ultimate Maturity Value	Fiscal Year Maturities	
			First Year	Last Year
General Obligation Bonds				
Series 2009 B (Refunding)	\$ 24.8	\$ 37.6	2010	2030

Refundings and Defeasances

The State has defeased certain bonds through advance refundings by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

Revenue Dedicated

During the year, SBA issued fixed rate Revenue and Revenue Refunding Bonds 2019 Series I in the amount of \$235.6 million, maturing in fiscal years 2020 to 2054. From the proceeds, \$189.1 million was deposited with an escrow agent to partially refund principal and pay accrued interest on 2009 Revenue Refunding Bonds Series I and 2009 Revenue Bonds Series II; \$62.6 million was used to refund commercial paper notes; and \$12.9 million was deposited in the Acquisition Fund for costs of 2019 Facilities. As a result of the refundings, SBA's debt service increased by \$160.1 million over the next 35 years. The refundings resulted in an economic gain of \$17.3 million.

The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	Amounts Outstanding
State Building Authority:	
Series 2009 I (Refunding)	\$ 100.9
Series 2009 II	84.2
Total State Building Authority	<u>\$ 185.1</u>

Michigan
Notes to the Financial Statements

Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds (in millions):

Fiscal Years Ending	General Obligation		State Park and Transportation Related		State Building Authority		Total Principal and Interest
	Principal	Fixed Interest	Principal	Fixed Interest	Principal	Interest	
2020	\$ 155.7	\$ 49.8	\$ 162.7	\$ 52.4	\$ 98.8	\$ 128.9	\$ 648.3
2021	162.5	43.1	140.4	44.8	81.6	129.8	602.3
2022	162.4	38.1	147.8	37.5	85.8	125.7	597.3
2023	155.5	32.0	112.9	30.7	90.2	121.8	543.2
2024	108.4	26.7	112.9	25.1	94.3	117.8	485.1
2025-2029	437.3	74.7	399.6	44.2	552.0	514.0	2,021.9
2030-2034	189.4	15.6	29.7	7.7	685.5	360.1	1,288.0
2035-2039	-	-	17.9	1.4	578.1	208.3	805.7
2040-2044	-	-	-	-	344.0	107.5	451.4
2045-2049	-	-	-	-	214.9	45.1	260.0
2050-2054	-	-	-	-	84.6	6.9	91.5
Total	<u>\$ 1,371.2</u>	<u>\$ 280.1</u>	<u>\$ 1,123.8</u>	<u>\$ 243.8</u>	<u>\$ 2,909.7</u>	<u>\$ 1,866.0</u>	<u>\$ 7,794.7</u>

Interest to maturity for SBA may be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds.

Changes in Bonds and Notes Payable

Changes in bonds and notes payable for the year ended September 30 were as follows (in millions):

	Beginning Balance	Additions	Reductions	Accretion	Ending Balance	Amounts Due Within One Year	Due Thereafter
Governmental Activities							
Bonds Payable:							
General obligation debt	\$ 1,531.0	\$ -	\$ (174.7)	\$ 2.1	\$ 1,358.4	\$ 155.7	\$ 1,202.6
Revenue bonds	1,283.8	-	(159.9)	-	1,123.8	162.7	961.2
State Building Authority	2,957.9	235.6	(283.7)	-	2,909.7	98.8	2,810.9
Unamortized Discounts:							
General obligation debt	(0.7)	-	0.2	-	(0.6)	-	(0.6)
State Building Authority	(3.1)	-	0.2	-	(2.9)	-	(2.9)
Unamortized Premiums:							
General obligation debt	76.7	-	(12.2)	-	64.6	-	64.6
Revenue dedicated debt	163.1	-	(24.8)	-	138.4	-	138.4
State Building Authority	244.8	29.1	(10.6)	-	263.3	-	263.3
Total bonds and notes payable	<u>\$ 6,253.4</u>	<u>\$ 264.7</u>	<u>\$ (665.5)</u>	<u>\$ 2.1</u>	<u>5,854.6</u>	<u>417.2</u>	<u>5,437.4</u>

Plus State Building Authority commercial paper notes reported as
"Current Liabilities: Bonds and Notes Payable" on the Statement
of Net Position

	73.6	73.6	-
As reported on the Statement of Net Position	<u>\$ 5,928.2</u>	<u>\$ 490.8</u>	<u>\$ 5,437.4</u>

NOTE 14 – BONDS AND NOTES PAYABLE – DISCRETELY PRESENTED COMPONENT UNITS

Bonds and Notes Payable

The state universities and the Michigan State Housing Development Authority (MSHDA) utilize June 30 fiscal year-ends. The Farm Produce Insurance Authority and Venture Michigan Fund (VMF) utilize a December 31 fiscal year-end, and the remaining discretely presented component units have September 30 fiscal year-ends.

Bonds Payable

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State.

The following table summarizes debt service requirements of the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year-end (in millions):

Fiscal Years Ending In	Total Debt		All Other Debt		Direct Placement Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 1,432.2	\$ 529.0	\$ 1,268.6	\$ 484.1	\$ 163.6	\$ 44.9
2021	650.3	492.4	477.1	452.9	173.3	39.5
2022	840.3	464.9	663.2	430.9	177.1	34.0
2023	657.0	431.7	474.0	403.9	183.0	27.8
2024	793.6	404.3	665.8	381.6	127.7	22.8
Total five years	4,373.5	2,322.4	3,548.7	2,153.4	824.7	169.0
2025-2029	2,522.2	1,630.6	2,171.0	1,557.8	351.2	72.8
2030-2034	2,273.9	1,102.3	2,202.7	1,067.2	71.2	35.1
2035-2039	1,447.9	642.4	1,415.6	612.4	32.3	30.0
2040-2044	1,203.9	355.9	1,060.9	337.6	143.0	18.3
2045-2049	1,358.4	119.9	1,353.2	119.8	5.2	0.1
2050-2054	1,217.5	29.1	1,217.5	29.1	-	-
Thereafter	4,459.6	6.3	4,459.6	6.3	-	-
2025 - Thereafter	14,483.4	3,886.4	13,880.5	3,730.2	602.9	156.2
Total	18,856.9	\$ 6,208.8	\$ 17,429.2	\$ 5,883.6	\$ 1,427.7	\$ 325.2
Unamortized discount	(15.1)					
Unamortized premium	449.2					
Off market borrowings	41.5					
Unpaid accretion for capital appreciation bonds	(5,824.3)					
Total principal	\$ 13,508.1					

Included in the table above is \$1.5 billion of demand bonds comprised of \$771.3 million issued by MSHDA, \$600.0 million issued by the Michigan Finance Authority (MFA), and \$120.0 million issued by the state universities.

Notes Payable

As of September 30, 2019, MFA has short-term notes outstanding of \$417.9 million and long-term notes outstanding of \$235.6 million. Of the total \$653.5 million notes outstanding, \$180.5 million were direct placement notes.

As of December 31, 2018, VMF has long-term notes outstanding of \$250.0 million.

State universities have short-term notes outstanding of \$1.2 million and long-term notes outstanding of \$9.0 million as of June 30, 2019. Of the total \$10.2 million notes outstanding, \$0.7 million were direct placement notes.

Unrecorded Limited Obligation Debt

Certain State financing authorities have issued limited obligation revenue bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt.

Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided.

MFA issues limited obligation bonds to finance loans to private or nonpublic, nonprofit institutions of higher education, qualified public or private educational facilities and healthcare providers for capital improvements. As of September 30, 2019, MFA had bonds outstanding of \$10.1 billion. Of this amount, \$410.3 million of the bonds have been defeased in substance, leaving a remaining undefeased balance of \$9.7 billion.

The Michigan Strategic Fund (MSF) issues taxable and tax-exempt private activity bonds, formerly known as industrial development revenue bonds, which are not recorded as liabilities. The total amount of private activity bonds issued by MSF and its predecessor entity for the period January 1, 1979, through September 30, 2019 was \$11.4 billion. The amount of tax-exempt bonds issued during fiscal year 2019 was \$912.7 million. In fiscal year 2019, there were no taxable bonds issued by MSF under the Taxable Bond Program. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

MSHDA issues limited obligation bonds to finance multi-family housing projects. At June 30, 2019, limited obligation bonds had been issued totaling \$909.1 million, of which 85 issues totaling \$796.5 million had been retired. The aggregated principal of all MSHDA outstanding debt may not exceed \$4.2 billion.

MSHDA entered into several interest rate exchange agreements for a total of \$742.4 million as of June 30, 2019, representing several bond series. In accordance with the exchange agreements, MSHDA pays fixed rates ranging from 2.7 percent to 5.4 percent.

NOTE 15 – OTHER LONG-TERM OBLIGATIONS

Primary Government

Other Long-Term Obligations

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until claims, judgments, or amounts owed are “due and payable” at September 30. Expenses and liabilities for material claims and judgment losses are recorded in the government-wide and proprietary fund financial statements when the loss is considered probable.

Capital Leases

This liability is described in more detail in Note 12.

Compensated Absences

This liability is described in more detail in Note 1.

Workers' Compensation

The gross amount of workers' compensation liability, \$69.6 million at September 30, 2019, has been recorded at its discounted present value of \$46.8 million, using a discount rate of approximately 8.0 percent. The present value of the current portion of this liability is \$10.4 million. In fiscal year 2019, state agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$22.9 million.

Net Pension Liability

This liability is described in more detail in Note 10.

Net Other Postemployment Benefits (OPEB) Liability

This liability is described in more detail in Note 11.

Pollution Remediation

This liability is measured in accordance with the obligating event criteria defined in Governmental Accounting Standards Boards (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The State's pollution remediation obligation at September 30, 2019, is \$199.7 million (\$31.5 million of which is the current portion). This estimate is based on professional judgment, experience, and historical cost data. Recoveries from other responsible parties, which would reduce the State's remediation liability, are not anticipated. Remediation obligation estimates may change over time due to changes in technology, prices, and regulations.

Superfund sites account for approximately \$122.9 million of this total. The State has numerous instances of hazardous waste contamination that qualify as Superfund sites. Superfund is the federal government's program to clean up these hazardous

Michigan
Notes to the Financial Statements

waste sites. Under this program, the State is required to pay or ensure payment of 10.0 percent of the cost of remediation action and 100 percent of the cost of operations and maintenance.

Remediation obligations related to underground storage tanks account for \$32.0 million of this total. As of September 30, 2019, there were 307 open claims. The State reimburses eligible refined petroleum underground storage tank owners or operators for eligible cleanup costs for confirmed releases that were discovered and reported on or after December 30, 2014.

Other pollution obligations include funds committed for remediation activities for publicly-funded response activities and state-liable sites. Not included in the liability is approximately \$16.1 million for state-owned sites where a legal obligation exists but the GASB Statement No. 49 criteria for accruing a liability has not been met.

Financed Purchases

This liability represents contracts entered into by the Department of Transportation for the design, building, and financing of highway lighting projects. The liability of \$48.9 million at September 30, 2019, represents the cost of the project less payments made through fiscal year 2019.

Other Claims and Judgments

The governmental activities estimated liability for other claims and litigation losses, \$731.5 million at September 30, 2019, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving state taxes and other claims, in which it is considered probable that costs will be incurred. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability for other claims and judgments also includes \$225.6 million for the expected sale and redemption or nullification of Venture Michigan Fund tax vouchers. This liability is further described in Note 25.

The liability recorded for other claims and judgments within business-type activities includes overpayments by employers to the Michigan Unemployment Compensation Funds totaling \$28.7 million.

Changes in Other Long-Term Obligations

Changes in long-term liabilities for the year ended September 30 are summarized as follows (in millions):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Other Long-term Obligations:						
Capital lease obligations:						
Component units	\$ 190.3	\$ -	\$ 12.4	\$ 177.9	\$ 13.8	\$ 164.1
Others	298.3	17.4	40.4	275.4	38.1	237.2
Compensated absences	396.8	279.4	314.2	362.0	213.6	148.4
Workers' compensation	49.6	8.2	11.0	46.8	10.4	36.4
Net pension liability	5,903.4	890.0	10.3	6,783.1	-	6,783.1
Net OPEB liability	10,137.0	2.0	384.7	9,754.3	-	9,754.3
Pollution remediation **	192.7	35.9	29.0	199.7	31.5	168.1
Direct borrowing - financed purchases	60.2	-	11.3	48.9	3.7	45.2
Other claims and judgments	506.3	296.4	71.3	731.5	222.3	509.2
Total Governmental						
Activities	<u>\$ 17,734.6</u>	<u>\$ 1,529.4</u>	<u>\$ 884.5</u>	<u>\$ 18,379.4</u>	<u>\$ 533.4</u>	<u>\$ 17,846.0</u>
Business-type Activities						
Other Long-term Obligations:						
Lottery prize awards*	\$ 170.3	\$ 10.0	\$ 15.7	\$ 164.6	\$ 14.9	\$ 149.8
Capital lease obligations	0.7	0.5	0.1	1.2	0.1	1.1
Compensated absences	3.0	1.8	1.9	2.9	1.7	1.2
Net pension liability	36.2	4.1	0.7	39.6	-	39.6
Net OPEB liability	65.8	-	6.1	59.6	-	59.6
Other claims and judgments	47.4	-	18.8	28.7	-	28.7
Total Business-type						
Activities	<u>\$ 323.5</u>	<u>\$ 16.5</u>	<u>\$ 43.3</u>	<u>\$ 296.7</u>	<u>\$ 16.7</u>	<u>\$ 280.0</u>

*The amounts due within one year are included with "Accounts payable and other liabilities" on the Statement of Net Position.

**Beginning balance has been restated. More detailed information can be found in Note 4.

The General Fund, other governmental, and internal service funds in which the leases are recorded will liquidate the capital lease obligations. The compensated absence and workers' compensation liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension liabilities and net OPEB liabilities will be liquidated by the State's governmental and proprietary funds that contribute toward the pension funds, based on the statutorily required contribution rates. The pollution remediation obligation will be liquidated by the General Fund. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and transportation related governmental funds.

Discretely Presented Component Units

The net pension liability totaled \$741.7 million for component units, which includes \$79.4 million related to authorities participating in the State Employees' Retirement System, \$639.0 million related to State universities participating in the Public Schools Employees' Retirement System, and the remaining amount in other non-State of Michigan related retirement systems.

The net OPEB liability totaled \$264.7 million for component units, which includes \$120.2 million related to authorities participating in the State Employees' Retirement System and Postemployment Life Insurance Benefit, \$124.7 million related to State universities participating in the Public Schools Employees' Retirement System, and the remaining amount in other non-State of Michigan related retirement systems.

Michigan Education Trust

Michigan Education Trust (MET) offers contracts, which for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur. The statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound. Liabilities have been recorded on the Statement of Net Position for the actuarial present value of future tuition benefit obligations.

The 1988, 1989, and 1990 enrollments are known as Plans B and C. Enrollments after November 1995 are known as Plan D.

The actuarial report on the status of MET Plans B and C, as of September 30, 2019, shows the actuarial present value of future tuition obligations to be \$57.1 million, as compared to the actuarially determined market value of assets available of \$114.9 million. The actuarial assumptions used include: a projected tuition increase rate of 5.5 percent for year 1, 5.0 percent for year 2, 4.5 percent for year 3 and 4.5 percent for year 4 and beyond; and a discount rate of 2.9 percent.

The actuarial report on the status of MET Plan D, as of September 30, 2019, shows the actuarial present value of future tuition obligations to be \$783.0 million, as compared to the actuarially determined market value of assets available of \$1.0 billion. The actuarial assumptions used include: a projected tuition increase rate of 5.5 percent for year 1, 5.0 percent for year 2, 4.5 percent for year 3 and 4.5 percent for year 4 and beyond; and a discount rate of 5.5 percent.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan and, thus, the investment income realized by MET is not currently subject to federal income tax. On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of qualified higher education expenses (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the 1996 Tax Act.

NOTE 16 – INCOME TAX CREDITS AND REFUNDS

Income Tax Credits

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits that are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax is the primary credit that falls into this category. Expenditures for this credit are recognized in the year the tax returns are filed and recipients claim the credit.

Michigan
Notes to the Financial Statements

The following table summarizes the various credits, reported on the "Tax credits" line as an expense in the government-wide financial statements and as an expenditure in the fund financial statements at September 30 (in millions):

Property tax credits:	
General homestead	\$ 407.6
Senior citizens	266.5
Blind and disabled	64.5
Farmland preservation	44.2
Veterans	0.4
Subtotal - property tax credits	783.2
Earned income tax credit	111.8
Home heating (excluding federal share)	0.1
Total tax credits	<u>\$ 895.1</u>

Income Tax Refunds Payable

The \$997.9 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

NOTE 17 – TAX ABATEMENTS

The State employs a variety of tax abatements that encourage economic development within the State, or otherwise benefits Michigan citizens. A tax abatement (for financial reporting purposes) is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the State or citizens of the State. Governmental Accounting Standards Board (GASB) Statement No. 77, Tax Abatement Disclosures, requires disclosure of certain information about tax abatement agreements. The State administers other programs and policies that reduce the taxes that an individual or entity would otherwise owe that do not meet the definition of a tax abatement as defined by GASB Statement No. 77 and are therefore not included in this disclosure.

As of September 30, the State provided tax abatements through the following programs:

Program Name	Brownfield Redevelopment Credit Program
Program purpose	The Brownfield Redevelopment Credit Program was established to encourage businesses to make an investment in eligible Michigan property that was used or is currently used for commercial, industrial, public, or residential purposes and is either a facility (environmentally contaminated property), functionally obsolete, or blighted.
Taxes being abated	Michigan Business Tax (MBT)
Authority under which abatement agreements are entered	Public Acts 39 of 2011 Michigan Compiled Laws (MCL) Sections 125.2651 - 125.2670, 207.801 - 207.810, and 208.1437
Criteria to be eligible to receive abatements	Taxpayer enters into an agreement with the Michigan Economic Growth Authority (MEGA) and agrees to fulfill investment necessary for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in Brownfield development zones. Eligible property must be owned or leased by the taxpayer and designated in a locally approved Brownfield Plan created under the Brownfield Redevelopment Financing Act. Credits are awarded to projects that best meet criteria for selection priorities.
How taxes are reduced	Taxpayer claims a credit when filing annual tax return. Taxpayer may also file a form separate from the annual tax return to claim an accelerated and reduced payment of the credit. Credit is computed and certified by the Michigan Economic Development Corporation (MEDC).
How amount of abatement is determined	Tax liability is reduced via credit based on a formula set by law that considers the amount of eligible investment.

Michigan
Notes to the Financial Statements

Program Name	Brownfield Redevelopment Credit Program
Provisions and conditions under which abated taxes become eligible for recapture	<p>The disposal or transfer to another location of personal property used to calculate this credit will result in an addition to the tax liability of the qualified taxpayer that was originally awarded the credit in the year in which the disposal or transfer occurs. This is true even if the credit was assigned to someone else. This additional liability will be calculated as of the date of the disposition or transfer by multiplying the same percentage used to calculate the credit times the federal basis of the property used to calculate gain or loss (as calculated for federal purposes). The amount otherwise added to the tax liability may also be used to reduce any carryforward of credits available to the taxpayer.</p> <p>For multiphase projects, if all components are not completed by ten years after the date on which the preapproval letter was issued, the qualified taxpayer shall pay to the state treasurer, as a penalty, an amount equal to the sum of all credits claimed and assigned for all components of the project. No credits based on that multiphase project shall be claimed after that date by the qualified taxpayer or any assignee.</p>
Types of commitments made by the recipients of the tax abatements	Perform eligible investment per MEGA agreement. Taxpayer will need to perform either demolition, construction, restoration, alteration, renovation, or improvement of buildings or site improvements on eligible property, the addition of machinery, equipment, and fixtures to eligible property, or various environmental clean-up activities on eligible property.
Total revenue estimated to be reduced for fiscal year 2019	\$22.3 million

Program Name	Brownfield Redevelopment Tax Increment Financing Program
Program purpose	This Brownfield Redevelopment Tax Increment Financing Program was established to encourage businesses to revitalize and redevelop eligible Michigan property that was used or is currently used for commercial, industrial, public, or residential purposes and is either a facility (environmentally contaminated property), functionally obsolete, or blighted.
Taxes being abated	State Education Tax (SET)
Authority under which abatement agreements are entered	MCL Sections 125.2651 - 125.2670
Criteria to be eligible to receive abatements	A work plan in accordance with P.A. 381 of 1996 to remediate a Brownfield property must be approved by either the Department of Environmental Quality for environmental eligible activities or the Michigan Strategic Fund (MSF) for nonenvironmental eligible activities. The size and the duration of tax incentives are highly discretionary, as each is determined on a case-by-case basis by the Brownfield Redevelopment Authority of the relevant locality.
How taxes are reduced	Taxes are reduced using tax increment financing. The developer of the Brownfield property is repaid for its Brownfield related investment via capture of the increased taxable value.
How amount of abatement is determined	The amount of abatement is based on the increase in taxable value caused by redevelopment of the Brownfield property.
Provisions and conditions under which abated taxes become eligible for recapture	No provisions for recapturing abated taxes.
Types of commitments made by the recipients of the tax abatements	Adherence to Brownfield work plans for rehabilitation of Brownfield properties.
Total revenue estimated to be reduced for fiscal year 2019	\$5.6 million

Michigan
Notes to the Financial Statements

Program Name	Farmland Preservation Credit - Corporate and Non-Corporate Program
Program Purpose	The Farmland Preservation Credit Program was established to provide tax incentive for farmland owners, which include individuals and corporations, that enter into a Farmland Development Rights Agreement (FDRA) with the Michigan Department of Agriculture and Rural Development (MDARD) and agree to preserve the land as farmland and not develop for another use. The credit gives back to farmland owners a portion of the property taxes paid on farmland.
Taxes being abated	Individual Income Tax (IIT) MBT
Authority under which abatement agreements are entered	Public Act 39 of 2011 MCL Section 324.36109
Criteria to be eligible to receive abatements	Taxpayer must own farmland and have entered into an FDRA agreement with MDARD.
How taxes are reduced	Taxpayer claims a credit when filing annual tax return.
How amount of abatement is determined	Tax liability is reduced via credit based on a formula set by law that considers the proportion of eligible and non-eligible property taxes paid on the farmland.
Provisions and conditions under which abated taxes become eligible for recapture	If a parcel is released from the program, the land owner is required to repay the tax credits taken during the last seven years under the agreement, plus six percent simple interest.
Types of commitments made by the recipients of the tax abatements	Taxpayer agrees not to develop farmland for another purpose besides farming.
Total revenue estimated to be reduced for fiscal year 2019	\$47.2 million (IIT) \$1.8 million (MBT)

Program Name	Historic Preservation Credit Program
Program purpose	The Historic Preservation Credit Program was established to provide tax incentives for homeowners, commercial property owners, and businesses to rehabilitate historic resources located in Michigan. Rehabilitation projects must be certified by the State Historic Preservation Office (SHPO).
Taxes being abated	MBT IIT
Authority under which abatement agreements are entered	Public Act 39 of 2011 MCL Sections 206.266 and 208.1435
Criteria to be eligible to receive abatements	Taxpayer has a rehabilitation plan certified for the rehabilitation of a historic resource, and/or the taxpayer applies and receives confirmation from the Michigan State Housing Development Authority that the historic significance, the rehabilitation plan, and the completed rehabilitation of the historic resource meet criteria determined by the law. This credit is no longer available to new property owners and no new applications are being accepted, however there are existing projects actively using the credit.
How taxes are reduced	Taxpayer claims a credit when filing annual tax return. Credit is computed and certified by SHPO.
How amount of abatement is determined	Tax liability is reduced via credit based on a formula set by law that considers the amount of qualified eligible investment certified by SHPO, scale of project, and whether the taxpayer is eligible for the federal Rehabilitation Credit under Section 47 of Internal Revenue Code.

Michigan
Notes to the Financial Statements

Program Name	Historic Preservation Credit Program
Provisions and conditions under which abated taxes become eligible for recapture	If the historic resource is sold or disposed of less than five years after being placed in service, a percentage of the credit amount previously claimed shall be added back to the tax liability of the qualified taxpayer based on the number of years the resource had been in service.
Types of commitments made by the recipients of the tax abatements	Make qualified expenditures to rehabilitate a historic resource.
Total revenue estimated to be reduced for fiscal year 2019	\$3.1 million (MBT) \$0.1 million (IIT)

Program Name	MEGA Employment Credit Program
Program purpose	The MEGA Tax Credit Program was established in 1995 to promote economic growth and job creation within the State. The MEGA tax credit is a refundable tax credit to a company's business tax liability to the State of Michigan. A MEGA tax credit certificate is granted to a Michigan business once it fulfills an agreed upon number of created and retained jobs and amount of capital investment in the State. As of December 2011, no new tax credit applications have been accepted or awarded.
Taxes being abated	MBT
Authority under which abatement agreements are entered	Public Act 39 of 2011 MCL Sections 207.801 - 207.810 and 208.1431
Criteria to be eligible to receive abatements	Taxpayer agrees to retain or add qualified new jobs as defined in MCL Section 207.803.
How taxes are reduced	Taxpayer claims a credit when filing annual tax return. Credit is computed and certified by MEDC.
How amount of abatement is determined	Tax liability is reduced via credit based on the amount of payroll attributable to qualified new or retained jobs, health care costs, tax rate, and specific annual limits defined by law.
Provisions and conditions under which abated taxes become eligible for recapture	As determined by MEGA, the taxpayer may have its credit reduced or terminated, or have a percentage of the credit amount previously claimed added back to the tax liability of the taxpayer in the tax year that the taxpayer: <ul style="list-style-type: none"> • fails to meet the requirements for the credit • violates any conditions included in the agreement entered with MEGA • removes any of the qualified new jobs from Michigan during the term of the written agreement and for a period of years after the term of the written agreement
Types of commitments made by the recipients of the tax abatements	Retain or add qualified new jobs as defined in MCL Section 207.803.
Total revenue estimated to be reduced for fiscal year 2019	\$510.4 million

Program Name	MEGA Poly-Silicon Energy Cost Credit Program
Program purpose	The MEGA Poly-Silicon Energy Cost Credit Program was established to stimulate the manufacturing of polycrystalline silicon to be used for solar cells and semiconductor microchips.
Taxes being abated	MBT

Michigan
Notes to the Financial Statements

Program Name	MEGA Poly-Silicon Energy Cost Credit Program
Authority under which abatement agreements are entered	Public Act 39 of 2011 MCL Sections 207.801 - 207.810 and 208.1432
Criteria to be eligible to receive abatements	Taxpayer enters into agreement with MEGA and agrees to construct and operate a new or expanded facility for the manufacturing of polycrystalline silicon.
How taxes are reduced	Taxes are reduced for a period of 12 years by taxpayer claiming a credit when filing annual tax return. Credit is computed and certified by MEDC.
How amount of abatement is determined	Tax liability is reduced via credit based on a formula set by law that considers the annual guaranteed cost of electricity and the annual projected cost of electricity.
Provisions and conditions under which abated taxes become eligible for recapture	No provisions for recapturing abated taxes.
Types of commitments made by the recipients of the tax abatements	Construct and operate a new or expanded facility to manufacture polycrystalline silicon to be used for solar cells and semiconductor microchips.
Total revenue estimated to be reduced for fiscal year 2019	This information is legally prohibited from being disclosed under MCL Section 205.28(1)(f).

Program Name	Renaissance Zone Credit - Development Program
Program purpose	The Renaissance Zone Credit - Development Program provides incentive for businesses and individuals to help revitalize a designated Renaissance Zone. Originally, Michigan Renaissance Zones were geographic regions of the State designated as virtually tax free for any business or resident presently in or moving into a Renaissance Zone for a period of up to 15 years. Since then, the Renaissance Zone Act, (P.A. 376 of 1996, as amended) has been expanded shifting away from larger geographic area designations and now focuses on project-specific and parcel-specific designations. All Renaissance Zone types receive the same benefit. As of December 31, 2011, the geographic region portion of the program is being phased out and time extensions and new geographic subzones are no longer available.
Taxes being abated	MBT
Authority under which abatement agreements are entered	Public Act 39 of 2011 MCL Sections 125.2681 - 125.2696 and 208.1433
Criteria to be eligible to receive abatements	Renaissance Zone Credits reported under GASB Statement No. 77 are limited to credits claimed by taxpayers with a development agreement executed between the taxpayer and MSF board or that are part of a qualified collaborative agreement. Taxpayers with an agreement must be located and conducting business activity in a Renaissance Zone.
How taxes are reduced	Taxpayer claims a credit when filing annual tax return.
How amount of abatement is determined	Tax liability is reduced via credit based on a formula that considers the level of business activity performed in the Renaissance Zone with respect to the level of activity performed outside of the Renaissance Zone.
Provisions and conditions under which abated taxes become eligible for recapture	Recapture conditions vary and only occur when expressly provided in the agreement signed by the taxpayer and MSF board.

Michigan
Notes to the Financial Statements

Program Name	Renaissance Zone Credit - Development Program
Types of commitments made by the recipients of the tax abatements	Locate and conduct business in the Renaissance Zone and create jobs or make capital investment.
Total revenue estimated to be reduced for fiscal year 2019	\$48.0 million

Program Name	Renaissance Zone Property Tax Exemption Program
Program purpose	The Renaissance Zone Property Tax Exemption Program provides incentive for businesses and individuals to help revitalize a designated Renaissance Zone. Originally, Michigan Renaissance Zones were geographic regions of the State designated as virtually tax free for any business or resident presently in or moving into a Renaissance Zone for a period of up to 15 years. Since then, the Renaissance Zone Act (P.A. 375 of 1996, as amended) has been expanded shifting away from larger geographic area designations and now focuses on project-specific and parcel-specific designations. All Renaissance Zone types receive the same benefit. As of December 31, 2011, the geographic region portion of the program is being phased out and time extensions and new geographic subzones are no longer available.
Taxes being abated	SET
Authority under which abatement agreements are entered	MCL Sections 125.2681 - 125.2696 and 211.7ff
Criteria to be eligible to receive abatements	Renaissance Zone exemptions reported under GASB Statement No. 77 are limited to exemptions claimed by taxpayers with a development agreement executed between the taxpayer and MSF board or that are part of a qualified collaborative agreement. Taxpayers must be located and conducting business activity in a Renaissance Zone.
How taxes are reduced	For taxpayers with an executed development agreement, real and personal property in a Renaissance Zone is exempt from taxation under the General Property Tax Act with certain exceptions as specified in MCL 211.7ff.
How amount of abatement is determined	Property tax exemption applies to all taxes levied except for debt millage, school district sinking fund millage, independent school district enhancement millage, and special assessments.
Provisions and conditions under which abated taxes become eligible for recapture	Recapture conditions vary and only occur when expressly provided in the agreement signed by the taxpayer and MSF board.
Types of commitments made by the recipients of the tax abatements	Locate and conduct business in the Renaissance Zone and create jobs or make capital investment.
Total revenue estimated to be reduced for fiscal year 2019	\$4.2 million

Program Name	State Essential Services Assessment Exemption
Program purpose	The State Essential Services Assessment Exemption was established to encourage large-scale Michigan investments in eligible manufacturing personal property.
Taxes being abated	State Essential Services Assessment (ESA)
Authority under which abatement agreements are entered	MCL Section 211.1059

Michigan
Notes to the Financial Statements

Program Name	State Essential Services Assessment Exemption
Criteria to be eligible to receive abatements	Taxpayer submits a business plan or demonstrates to MSF that a minimum of \$25 million will be invested in additional eligible personal property in this state during the duration of the written agreement. The fund board considers the following criteria when approving an exemption to the assessment: out-of-state competition; net-positive return to the State of Michigan; level of investment made by the eligible claimant; business diversification; reuse of existing facilities; near-term job creation or significant job retention as a result of the investment made in eligible personal property; strong links to Michigan suppliers; whether the project is in a local unit of government that contains an eligible distressed area as that term is defined in MCL Section 125.1411.
How taxes are reduced	If MSF grants an exemption from ESA, the taxpayer is subject to Alternative ESA under Public Act 93 of 2014. Alternative ESA is identical to ESA except that Alternative ESA tax rates are half the ESA rates. If MSF grants an exemption from both ESA and Alternative ESA, a 100% exemption is granted.
How amount of abatement is determined	Businesses receiving the abatement are required to report the acquisition cost of the exempted personal property. The acquisition cost is the tax base used to calculate ESA. The number of mills decreases based on the number of years the personal property is owned.
Provisions and conditions under which abated taxes become eligible for recapture	The written agreement shall provide for a repayment provision on the exemption to the assessment if the eligible claimant fails to comply with the provisions of the written agreement.
Types of commitments made by the recipients of the tax abatements	Taxpayer must make the required personal property investment.
Total revenue estimated to be reduced for fiscal year 2019	\$4.2 million

NOTE 18 – DEFERRED COMPENSATION PLANS

The State participates in two deferred compensation plans that allow employees to defer a portion of their salary until future years. Executive Order 1999-7 transferred administrative oversight of the plans, labeled 457 and 401k after sections of the Internal Revenue Code, to the Department of Technology, Management and Budget. Day-to-day operations of the plans have been contracted to a third-party; however, the State Treasurer oversees investment options. Prior to fiscal year 2016, the 457 and the 401k deferred compensation plans were combined for reporting purposes under the heading of "State of Michigan Deferred Compensation Funds." In fiscal year 2016, the 401k deferred compensation plan was transferred to the State of Michigan 401k Plans Fund and combined with the defined contribution pension plan. As a result, the remaining 457 deferred compensation plan amounts are now included within the State of Michigan 457 Plans Fund.

Although the 457 and 401k deferred compensation plans are no longer combined for reporting purposes, the following policies still apply. Generally, the State makes no contribution to the 457 plan; however, the payments for other postemployment benefits related to employees hired prior to January 1, 2012, and who opted out of the graded premium may go to the 457 plan as employer contributions. Generally, the State does not make matching contributions to the 401k deferred compensation plan. To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting investments in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among the investment tiers. Investment earnings, net of administrative charges, are credited to the participants proportionally, based upon their balances in the plan.

The 457 and 401k deferred compensation plans include loan provisions for State of Michigan employees. Loans to participants are recorded as assets.

NOTE 19 – INTERFUND RECEIVABLES AND PAYABLES

Primary Government

The balances of current interfund receivables and payables as of September 30 were (in millions):

Due From	Due To						Total
	General Fund	School Aid Fund	Non-Major Governmental Funds	Unemployment Compensation Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ -	\$ -	\$ 0.6	\$ 8.7	\$ 74.3	\$ 83.6
School Aid Fund	1,620.4	-	-	-	-	-	1,620.4
Non-Major Governmental Funds	32.6	-	76.4	-	0.9	9.0	118.9
State Lottery Fund	-	26.8	-	-	-	0.4	27.2
Unemployment Compensation Funds	0.1	-	0.9	-	-	-	0.9
Non-Major Enterprise Funds	-	-	-	-	-	0.2	0.2
Internal Service Funds	-	-	-	-	0.3	3.9	4.2
Fiduciary Funds	-	-	-	-	-	0.9	0.9
Total	<u>\$ 1,653.1</u>	<u>\$ 26.8</u>	<u>\$ 77.3</u>	<u>\$ 0.6</u>	<u>\$ 9.9</u>	<u>\$ 88.7</u>	<u>\$ 1,856.4</u>

Interfund receivables and payables are recorded for borrowings to eliminate negative balances in the Common Cash pool, as described in Note 5, payroll liabilities for group insurance and retirement, and tax accrual distributions for taxes collected in the following fiscal year.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: \$1.0 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction and related accrued interest of \$2.2 million.

Discretely Presented Component Units

Receivables and related liabilities between the primary government and the discretely presented component units, do not agree because the Michigan State Housing Development Authority and the 10 State universities have a June 30 fiscal year-end.

NOTE 20 – INTERFUND COMMITMENTS

Mackinac Bridge Authority

Mackinac Bridge Authority (MBA), a discretely presented component unit, has over the years received \$75.3 million of subsidies, including \$12.3 million for operations and \$63.0 million for debt service. These subsidies were provided by the State Trunkline and Michigan Transportation funds, respectively.

State statutes require that MBA continue charging bridge tolls and begin repaying the State funds for the subsidies provided. These repayments are to continue until such time as the subsidies have been completely returned. MBA has not recorded a liability and the State funds have not recorded receivables for these subsidies because: the reimbursements are contingent upon future net revenues, there is no repayment schedule, and the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by MBA, after consideration of MBA's annual needs for its operations and planned repairs and improvements.

As of September 30, 2019, MBA has repaid a total of \$16.8 million of the advance from the Michigan Transportation Fund, leaving a balance of \$46.2 million. No repayments have been made on the advance from the State Trunkline Fund.

NOTE 21 – TRANSFERS

Interfund transfers as of September 30, consisted of the following (in millions):

Transferred From	Transfer To			
	General Fund	School Aid Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 1.7	\$ 436.7	\$ 438.4
School Aid Fund	-	-	125.4	125.4
Non-Major Governmental Funds	70.5	-	1,800.3	1,870.8
State Lottery Fund	3.3	1,070.6	3.0	1,077.0
Unemployment Compensation Funds	-	-	50.5	50.5
Non-Major Enterprise Funds	248.1	-	-	248.1
Internal Service Funds	4.2	-	-	4.2
Fiduciary Funds	0.3	-	-	0.3
Total	<u>\$ 326.4</u>	<u>\$ 1,072.4</u>	<u>\$ 2,415.8</u>	<u>\$ 3,814.6</u>

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Purchase Revolving Fund and the State Lottery Fund as required by law, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

NOTE 22 – FUND DEFICITS

Primary Government

Governmental Funds reporting a fund balance deficit:

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$23.7 million. The fund deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$80.8 million. The fund deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Proprietary Funds reporting a net position deficit (in millions):

Enterprise Funds:	
State Lottery Fund (SLF)	\$ 33.5
Liquor Purchase Revolving Fund	37.2
Internal Service funds:	
Correctional Industries Revolving Fund	2.5
Information Technology Fund	653.5
Motor Transport Fund	6.2

The deficits above are primarily attributable to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. The Statement of Net Position now includes a portion of net Other Postemployment Benefits liability related to the State Employees' Retirement System (SERS) that was allocated to the fund in accordance with GASB standards. The deficit is also attributed to GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The Statement of Net Position includes a portion of net pension liability related to the SERS that was allocated to the fund in accordance with GASB standards.

In addition the SLF deficit is also attributed to the unrealized losses on investments that SLF holds to fund future payments due on annuitized lottery prizes. Accounting principles dictate that SLF record the gain or loss related to the change in market value of investments.

NOTE 23 – FUND BALANCES AND NET POSITION

Fund Balance Classifications – Governmental Funds

The following table provides additional detail regarding the fund balances reported on the Governmental Funds Balance Sheet at September 30 (in millions):

	General Fund	School Aid Fund	Other Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total
Non-Spendable							
Inventory and prepaids	\$ 20.4	\$ -	\$ -	\$ -	\$ 10.4	\$ -	\$ 30.8
Long term notes/receivables	1.9	-	-	-	-	-	1.9
Permanent principal	-	-	244.0	-	-	832.7	1,076.8
Restricted							
General government	132.7	-	12.3	-	-	-	145.0
Education	6.5	275.8	-	123.0	-	-	405.3
Public safety and corrections	28.1	-	2.5	-	-	13.4	44.0
Conservation, environment, recreation, and agriculture	247.6	-	308.7	1.9	-	279.0	837.2
Health and human services	71.0	-	2.5	-	-	-	73.5
Transportation	-	-	221.0	-	1,042.8	-	1,263.8
Labor, commerce, and regulatory	168.1	-	64.3	-	-	-	232.3
Other purposes	-	-	-	41.8	-	-	41.8
Committed							
General government	1,488.1 *	-	294.0	-	-	-	1,782.1
Education	98.5	-	11.4	-	-	-	109.9
Public safety and corrections	248.2	-	-	-	-	-	248.2
Conservation, environment, recreation, and agriculture	103.2	-	-	-	-	-	103.2
Health and human services	274.3	-	-	-	-	-	274.3
Transportation	140.1	-	-	-	-	-	140.1
Labor, commerce, and regulatory	73.4	-	-	-	-	-	73.4
Assigned							
General government	25.7	-	-	-	-	-	25.7
Education	3.4	-	-	-	-	-	3.4
Public safety and corrections	53.2	-	-	-	-	-	53.2
Conservation, environment, recreation, and agriculture	40.1	-	-	-	-	-	40.1
Health and human services	8.7	-	-	-	-	-	8.7
Labor, commerce, and regulatory	4.2	-	-	-	-	-	4.2
Unassigned	916.2	-	-	-	(104.5)	-	811.7
Total Fund Balances	<u>\$ 4,153.4</u>	<u>\$ 275.8</u>	<u>\$ 1,160.7</u>	<u>\$ 166.6</u>	<u>\$ 948.7</u>	<u>\$ 1,125.2</u>	<u>\$ 7,830.4</u>

* \$1,148.6 million of this balance relates to the Counter-Cyclical Budget and Economic Stabilization Fund as referenced in Note 3.

Michigan
Notes to the Financial Statements

Restricted Net Position – Primary Government

The following table provides additional detail regarding the restricted net position reported for the primary government on the government-wide Statement of Net Position at September 30 (in millions):

	Restricted by Enabling Legislation	External or Constitutional Restrictions	Total
Governmental Activities:			
Restricted For:			
Education	\$ 6.2	\$ 808.2	\$ 814.4
Public safety and corrections	23.6	7.0	30.5
Conservation, environment, recreation, and agriculture	241.7	207.5	449.2
Health and human services	42.3	31.1	73.4
Transportation	-	1,164.2	1,164.2
Labor, commerce, and regulatory	233.8	0.3	234.1
Other purposes	129.0	4.0	133.0
Funds Held as Permanent Investments:			
Expendable	-	292.4	292.4
Nonexpendable	18.4	1,058.4	1,076.8
Total Restricted Net Position - Governmental	<u>\$ 694.9</u>	<u>\$ 3,573.0</u>	<u>\$ 4,267.9</u>
Business - Type Activities:			
Restricted For:			
Unemployment compensation	\$ 5,002.8	\$ -	\$ 5,002.8
Other purposes	-	3.2	3.2
Total Restricted Net Position - Business - Type	<u>\$ 5,002.8</u>	<u>\$ 3.2</u>	<u>\$ 5,006.0</u>
Total Primary Government:			
Restricted For:			
Education	\$ 6.2	\$ 808.2	\$ 814.4
Public safety and corrections	23.6	7.0	30.5
Conservation, environment, recreation, and agriculture	241.7	207.5	449.2
Health and human services	42.3	31.1	73.4
Transportation	-	1,164.2	1,164.2
Unemployment compensation	5,002.8	-	5,002.8
Labor, commerce, and regulatory	233.8	0.3	234.1
Other purposes	129.0	7.2	136.2
Funds Held as Permanent Investments:			
Expendable	-	292.4	292.4
Nonexpendable	18.4	1,058.4	1,076.8
Total Restricted Net Position - Primary Government	<u>\$ 5,697.7</u>	<u>\$ 3,576.3</u>	<u>\$ 9,273.9</u>

NOTE 24 – DISAGGREGATION OF PAYABLES

The line “Current Liabilities: Accounts payable and other liabilities,” as presented on the government-wide Statement of Net Position as of September 30 consisted of the following (in millions):

	General Fund	School Aid Fund	Non-Major Governmental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-Major Enterprise Funds	Total
Medicaid Programs	\$ 1,742.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,742.3
Non-Medicaid Health and Human Services Programs	564.8	-	-	-	-	-	-	564.9
Transportation Programs	-	-	509.8	-	-	-	-	509.8
School Aid Programs	-	137.3	-	-	-	-	-	137.3
Other State Programs	355.4	-	49.7	-	-	-	-	405.1
Merit Award Scholarships	-	-	0.8	-	-	-	-	0.8
Payroll and Withholdings	212.4	-	25.6	-	1.1	-	0.6	239.7
Tax Refunds other than Income Tax	178.2	18.8	9.9	-	-	-	-	206.9
Unearned Receipts	38.3	-	0.4	-	-	-	-	38.7
Amounts Held for Others	22.5	-	48.6	-	3.3	-	-	74.4
Capital Projects - Non-Transportation	-	-	19.7	-	-	-	-	19.7
Prize Awards	-	-	-	-	200.5	-	-	200.5
Liquor Purchase	-	-	-	-	-	-	109.3	109.3
Unemployment Payments	-	-	-	-	-	33.4	-	33.4
Internal Service Fund Liabilities	-	-	-	95.2	-	-	-	95.2
Due to Fiduciary Funds *	-	-	-	87.8	-	-	-	87.8
Miscellaneous	-	-	-	-	14.4	-	0.4	14.8
Total	<u>\$ 3,114.0</u>	<u>\$ 156.2</u>	<u>\$ 664.6</u>	<u>\$ 183.0</u>	<u>\$ 219.3</u>	<u>\$ 33.4</u>	<u>\$ 110.2</u>	<u>\$ 4,480.7</u>

* This amount represents amounts due to fiduciary funds that are reclassified as external payables on the government-wide Statement of Net Position.

Effective January 1, 2008, the State replaced the Single Business Tax with the Michigan Business Tax (MBT). Effective January 1, 2012, the MBT was replaced by the Corporate Income Tax. However, a small number of taxpayers with certificated credits may continue to file under the MBT provisions until their credits expire. Beginning in fiscal year 2008, the State did not estimate a business tax liability on the accrual basis of accounting due to the lack of information. The State is still unable to estimate an accrual because the data needed to compare tax payments received to the total tax liability is not available. Therefore, any potential tax refunded (payable), or tax overpayments that will be applied by taxpayers against subsequent tax liability periods (carried forward), is not measurable and has not been recorded in this fiscal year.

NOTE 25 – CONTINGENCIES AND COMMITMENTS

Primary Government

Litigation

In the government-wide and proprietary fund financial statements, the State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the governmental fund financial statements, liabilities are accrued when cases are settled and the amount is due and payable.

The State is a party to various legal proceedings seeking damages, injunctive, or other relief. In addition to routine litigation, certain of these proceedings could, if unfavorably resolved from the point of view of the State, substantially affect state programs or finances. These lawsuits involve programs generally in the areas of corrections; tax collection; and commerce and budgetary reductions to school districts and governmental units. Relief sought generally includes damages in tort cases; improvement of prison medical and mental health care and refund claims for state taxes. The State is also a party to various legal proceedings that, if resolved in the State's favor, would result in contingency gains to the State, but without material effect upon fund balance/net position. The ultimate dispositions and consequences of all of these proceedings are not presently determinable, but such ultimate dispositions and consequences of any single proceeding or all legal proceedings collectively should not themselves, except as listed below, in the opinion of the Attorney General of the State and the State Budget Office, have a material adverse effect on the State's financial position. Those lawsuits pending which may have a significant impact or substantial effect on state programs or finances, if resolved in a manner unfavorable to the State, include the following:

In re Flint Water Cases (formerly known as Melisa Mays v Governor Snyder): The State of Michigan, Governor Snyder, Department of Environmental Quality (DEQ), Department of Health and Human Services (DHHS) and various other State employees, officers, and boards have been sued in approximately 90 lawsuits arising out of the Flint Water Crisis. Plaintiffs allege that the State defendants are responsible for a decision to use the Flint River as the drinking water source, which caused them to be exposed to contaminated water. According to plaintiffs, DEQ failed to order Flint to properly treat the drinking water, which allegedly caused the plaintiffs to be exposed to unsafe levels of lead and to legionella bacteria. Plaintiffs also allege DHHS failed to warn plaintiffs of the increased exposure to lead and to legionella. Over 2,700 individuals have filed notices of intent against the State defendants in the Court of Claims. Multiple individual and class actions have been filed against the State defendants seeking injunctive relief and monetary damages arising out of claims for bodily injury, property damage, statutory violations, and infringement of constitutional rights. Plaintiffs have not yet stated the total damages being sought, but the claimed damages will certainly exceed \$1.0 billion. The State defendants have asserted multiple defenses to those claims, which are under consideration by the courts. A reasonable possibility exists that the litigation will be settled in 2020 and that any settlement will require a significant payment in the hundreds of millions by the State.

Taxpayers for Michigan Constitutional Government v The State of Michigan: On September 7, 2016, plaintiffs filed suit against defendants in the Michigan Court of Appeals under the provisions of the Headlee Amendment to the Michigan Constitution. Plaintiffs named the Department of Technology, Management and Budget, the Office of the Auditor General, and the State as defendants. Among its provision, Section 30 of the Headlee Amendment requires that "The proportion of total state spending paid to all units of local government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79." The figure was recalculated in 1993 based on prior litigation. This means that each year, state spending in the form of aid to local governments, in the aggregate, must be at least 48.97 percent of total state spending from state revenue sources, as those terms are defined.

This case challenges whether certain categories of state spending should be counted toward, or excluded from, the 48.97 percent calculation. Plaintiffs' allegations challenged Proposal A funding for schools, including public school academies, transportation funding, and other unspecified state spending to aid units of local government. The transportation funding claims were later dismissed. Although plaintiffs do not quantify a specific dollar amount in contention as to the remaining claims, making it impossible to estimate the precise fiscal impact of this case, the State's annual school spending alone is a substantial portion of the State's overall budget. On October 29, 2019, the Court of Appeals issued a published decision in the Defendants' favor as to Counts I and II of the complaint, addressing Proposal A spending generally and Public School Academy spending specifically, for purposes of Section 30 of the Headlee Amendment. The Court of Appeals found in favor of the Plaintiffs as to Count IV and V of the complaint, addressing treatment of state mandate spending under Section 30 of the Headlee Amendment and Plaintiffs' statutory mandamus request, respectively. The parties filed timely cross-applications for leave to appeal with the Michigan Supreme Court and the applications are pending.

Any Court decision changing how these categories of state spending are treated under Headlee could have a substantial impact on the State's overall budget and the Legislature's annual appropriation process. The Court of Appeals' decision is not final unless, or until, the Michigan Supreme Court addresses the parties' respective applications for leave to appeal, which are still in the briefing stage.

Concerned Pastors for Social Action et al v Nick Khouri et al: On January 27, 2016, plaintiffs filed suit against defendants in a lawsuit arising out of the Flint Water Crisis. A settlement agreement was reached on March 27, 2017. As a part of the settlement agreement the State is required to allocate \$87.0 million from a combination of State and federal funding sources to reimburse the City of Flint through calendar year 2020 for costs related to identifying service line materials and replacing lead and galvanized steel service lines. Of the \$87.0 million, \$20.0 million will originate from federal funds under the Water Infrastructure Improvements for the Nation Act (WIIN) and \$20.0 million will be from State matching funds related to the WIIN federal funds. The remaining \$47.0 million is required to be allocated by the State from sources other than WIIN. In addition, the State is required to reserve an additional \$10.0 million in federal WIIN funds in the event that the \$87.0 million in allocated funds do not cover all costs. As of the fiscal year ended September 30, 2019, the State has expended over \$63.0 million in funds for service line replacements. Other components of the settlement agreement require the State to conduct the following activities until all lead service lines are replaced: provide tap water monitoring; perform filter installation, maintenance and education activities; and continue to operate and maintain funding at current levels for several existing programs. It is expected that the remaining \$34.0 million will be paid in 2020.

John Doe et al v Department of Corrections et al: Plaintiffs filed class action complaints in Washtenaw County Circuit Court and federal district court against the Department of Corrections (DOC), Governor Snyder, DOC's Director and Deputy Directors, and several DOC employees, including individual wardens. The state-court complaint is based on alleged violations of the Elliott-Larsen Civil Rights Act. The federal complaint alleges violations of 42 USC § 1983, as well as claims based on international law. The proposed class includes "youthful prisoners," described as those between 14 and 17 years that were incarcerated within the Michigan Department of Corrections at any time after October 2010. The parties reached a settlement agreement in February 2020. Under the agreement, the State is required to pay \$25.0 million in fiscal year 2020, \$15.0 million in fiscal year 2021, \$25.0 million in fiscal year 2022, and \$15.0 million in fiscal year 2023. The State has recognized a liability of \$80.0 million in the government-wide statements.

Federal Grants

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as liabilities in the government-wide and proprietary fund financial statements when the loss becomes probable and reasonably estimable. Disallowances are recognized as liabilities in the governmental fund financial statements when the loss becomes due and payable. As of September 30, 2019, the State has recognized a liability of \$34.7 million in the government-wide statements and had been notified of disallowances totaling approximately \$195.7 million for which the State believes the possibility of full repayment is reasonably possible. The State estimates that any additional disallowances of recognized revenue will not be material to the general purpose financial statements.

Gain Contingencies

Certain contingent receivables related to DHHS are not recorded as assets in these statements. Amounts recoverable from DHHS grant recipients for grant overpayments or from responsible third parties are recorded as receivables only if the amount is reasonably measurable, expected to be received within 12 months, and not contingent upon future grants or the completion of major collection efforts by the State. If recoveries are accrued and the program involves federal participation, a liability for the federal share of the recovery is also accrued. The unrecorded amount of potential recoveries, which are ultimately collectible, cannot be reasonably determined.

Master Settlement Annual Payment: In 1998, the major United States tobacco product manufacturers entered into the Master Settlement Agreement (MSA) with the State of Michigan and 51 other jurisdictions (the Settling States) comprised of 46 states, the District of Columbia, Puerto Rico, and four U.S. territories. The MSA is the product of extensive negotiations between the Settling States and Participating Manufacturers (PMs). The Ingham County Circuit Court approved the MSA by entry of a Consent Order on December 11, 1998. The MSA releases the PMs from Michigan's claims that the PMs had conspired to conceal from the public the health risks related to smoking, and had specifically targeted minors in their marketing efforts. In return for the release, the MSA obligates the PMs to make annual payments to the states, and requires substantial changes in the companies' advertising and marketing practices, with the intention of reducing underage smoking. The MSA provides that an Independent Auditor calculates the PMs' payments annually, using a specified formula. The payment is computed as an aggregate figure, which is then divided among the states according to percentages specified in the MSA. The MSA requires the PMs to make their payments by April 15 of each year, in perpetuity, with Michigan receiving an allocable share of 4.3519476 percent of the total.

In December 2012, the State of Michigan along with over 20 other states signed the term sheet settlement; an agreement in principle designed to settle litigation over the application and interpretation of the Nonparticipating Manufacturers (NPM) adjustment and diligent enforcement provisions of the MSA. As a result of the term sheet, the uncertainty regarding the State's disputed payment account and whether the State was diligently enforcing its collection obligations pursuant to the MSA during years 2003 through 2012 was substantially eliminated. The State of Michigan avoided any further reduction of its tobacco payments for those years, and the State's share of those funds was released.

In October 2017, the parties to the term sheet settlement formalized their 2012 understanding by signing the NPM Adjustment Settlement Agreement, which provided a more definitive framework for avoiding similar disputes in subsequent years but retains the potential for additional diligent enforcement-based adjustments after 2017.

On April 18, 2019, the State of Michigan received an annual payment of \$290.7 million pursuant to the terms of the tobacco MSA. This figure represents a combined total of the amounts received by the Michigan Department of Treasury Receipts Processing Division and the Trustee for the Michigan Tobacco Settlement Finance Authority, which receives 24.11 percent of Michigan's annual MSA payment pursuant to Michigan Compiled Law (MCL) Section 129.261, et seq.

It is impossible to calculate with precision the amount of the MSA's sales-based annual payment that Michigan will receive in April 2020, but is expected to be in the range of \$275.0 million to \$290.0 million.

Contingent Liability for Local School District Bonds

Article 9, Section 16, of the Michigan Constitution resulted in a contingent liability for the bonds of any school district which are "qualified" by the State Treasurer. If, for any reason, a qualified school district will be, or is, unable to pay the principal and interest on its qualified bonds when due, the school district shall borrow, and the State shall lend to it, any amount necessary for the school district to avoid a default on its qualified bonds. In the event that adequate funds are not available in the School Loan Revolving Fund to make such a loan, the State is required to make loans from the General Fund. As of September 30, 2019, the principal amount of qualified bonds outstanding was \$13.1 billion. Total debt service requirements on these bonds including interest will be approximately \$1.9 billion in 2020. The amount of loans by the State (related to local school district bonds qualified under this program), outstanding to local school districts as of September 30, 2019, is \$1.2 billion. Interest due on these loans as of September 30, 2019, is \$112.8 million.

Venture Michigan Fund Tax Vouchers

As of September 30, 2019, the Venture Michigan Fund had \$250.0 million in tax vouchers outstanding. These vouchers are used as collateral for loans to early stage venture investment businesses as a mechanism to promote a healthy economic climate in Michigan. Of this amount, the State has recognized a liability of \$225.6 million in the government-wide statements. The liability represents the tax vouchers expected to be sold and redeemed or nullified during the next five years.

Michigan Economic Growth Authority (MEGA) Tax Credits and Poly-Silicon Energy Cost Credit

MEGA tax credits are awarded to businesses that commit to making capital investments that create and/or retain jobs in Michigan. During fiscal year 2015, a number of amendments were made to the MEGA tax credit program that will cap and reduce the liability in future years.

The MEGA Poly-Silicon Energy Cost Credit was established to stimulate the manufacturing of polycrystalline silicon to be used for solar cells and semiconductor microchips. The law allows a refundable credit awarded before 2009 to be claimed for a period of 12 years starting in 2012 (tax years 2012 – 2023).

As of September 30, 2019, an estimated \$6.1 billion in MEGA tax credits and Poly-Silicon Energy Cost Credits remained outstanding. The amount of MEGA tax credits and Poly-Silicon Credits expected to be redeemed is estimated at \$603.5 million in fiscal year 2020; \$593.3 million in fiscal year 2021; \$592.2 million in fiscal year 2022; \$567.4 million in fiscal year 2023; and the remainder in subsequent fiscal years. The State has recognized a liability of \$30.5 million in the government-wide statements. The liability represents certificated credits, eligible to be claimed, and not yet claimed as of December 1, 2019.

Michigan Brownfield Tax Credits

Michigan Brownfield Tax Credits are awarded to businesses that commit to revitalize, redevelop, and reuse contaminated, blighted, functionally obsolete, tax reverted, or historic property. Although the State stopped awarding new Brownfield Tax Credits in calendar year 2011, previously issued credits remain eligible for redemption. As of September 30, 2019, an estimated \$72.6 million in Brownfield Tax Credits remained outstanding. The amount of Brownfield Tax Credits expected to be redeemed is estimated at \$29.9 million in fiscal year 2020, \$40.3 million in fiscal year 2021, and \$2.4 million in fiscal year 2022. The State has recognized a liability of \$18.1 million in the government-wide statements. The liability represents certificated credits, eligible to be claimed, and not yet claimed as of December 1, 2019.

Other Contingent Liabilities

The State has been involved in a court case challenging MCL Section 38.1343a, as enacted by P.A. 75 of 2010, which was in effect from July 1, 2010 to September 3, 2012, that has been amended by P.A. 300 of 2012. Public Act 75 of 2010 required that active members of the Michigan Public School Employees Retirement System (MPERS) contribute 3.0 percent of their compensation to help pay for the cost of health care for retirees of MPERS. On December 20, 2017, the Michigan Supreme Court affirmed that P.A. 75 of 2010 is unconstitutional as it substantially impaired the plaintiffs' employment contracts by involuntarily reducing the plaintiffs' wages by 3.0 percent. As a result, the funds collected pursuant to P.A. 75 of 2010 were refunded to the plaintiffs, by order of the Court of Claims. The amount refunded totaled \$554.0 million, including actual interest accrued. During post-judgment proceedings, the Court of Claims additionally awarded plaintiffs additional judgment interest totaling approximately \$80.0 million to \$90.0 million. The State has filed an appeal related to the Court of Claims' order awarding the plaintiffs judgment interest; the appeal is pending in the Court of Appeals.

Commitments and Encumbrances

The Michigan Department of Transportation has construction and consultant commitments that will be paid with transportation related funds. As of September 30, 2019, these commitments equaled \$2.5 billion; a portion of this balance, \$45.1 million, has been encumbered.

Michigan
Notes to the Financial Statements

Encumbrance balances are comprised of grant agreements and other contracts the State has entered into with vendors for services or goods not yet performed or received as of year-end. A portion of these commitments will be funded with current fund balances. These amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance classifications. Resources provided by future bond proceeds, taxes, federal grants, and local and private revenues will fund the remaining commitments. The following table shows total governmental fund encumbrances as of September 30 (in millions):

	General Fund	School Aid Fund	Other Funds	Total
Restricted				
Education	\$ 2.3	\$ 27.2	\$ -	\$ 29.4
Public safety and corrections	14.6	-	-	14.6
Conservation, environment, recreation and agriculture	112.2	-	95.5	207.7
Health and human services	14.0	-	-	14.0
Transportation	-	-	364.3	364.3
Labor, commerce, and regulatory	8.0	-	10.6	18.7
Other purposes	20.2	-	0.4	20.6
Committed				
Education	0.4	-	-	0.4
Public safety and corrections	21.5	-	-	21.5
Conservation, environment, recreation and agriculture	25.4	-	-	25.4
Health and human services	10.7	-	-	10.7
Transportation	11.8	-	-	11.8
Labor, commerce, and regulatory	14.6	-	-	14.6
Other purposes	26.7	-	4.3	31.1
Assigned				
Education	3.4	-	-	3.4
Public safety and corrections	53.3	-	-	53.3
Conservation, environment, recreation and agriculture	43.2	-	-	43.2
Health and human services	12.5	-	-	12.5
Transportation	-	-	-	-
Labor, commerce, and regulatory	4.2	-	-	4.2
Other purposes	26.2	-	-	26.2
Total Encumbrances	<u>\$ 425.2</u>	<u>\$ 27.2</u>	<u>\$ 475.2</u>	<u>\$ 927.6</u>

Discretely Presented Component Units

Student Loan Guarantees

The Michigan Guaranty Agency (MGA), a fiduciary fund of the Michigan Finance Authority, is contingently liable for student loans made by financial institutions that qualify for guaranty. The State, other than MGA, is not liable for these loans. The default ratio for loans guaranteed by MGA is below 5.0 percent for the fiscal year ended September 30, 2019. In the event of future adverse default experience, MGA could be liable for up to 25.0 percent of defaulted loans. While management believes the MGA expected maximum contingent liability is less than 25.0 percent of outstanding guaranteed loans, the maximum contingent liability at 25.0 percent is \$252.8 million as of September 30, 2019. Management does not expect that all guaranteed loans could default in one year.

The MGA has entered into commitment agreements with all lenders that provide, among other things, that the MGA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. MGA management believes MGA was in compliance with this requirement as of September 30, 2019.

Multi-Family Mortgage Loans

As of June 30, 2019, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$130.2 million and single-family mortgage loans in the amount of \$73.6 million.

MSHDA has committed up to approximately \$1.1 million per year for up to 30 years from the date of completion of the respective developments (subject to three years advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under MSHDA's multi-family program.

In addition, MSHDA makes available up to approximately \$1.0 million per year for up to 30 years to subsidize rents in a similar fashion for 20.0 percent of the units in certain other developments financed or to be financed under MSHDA's multi-family mortgage lending program.

NOTE 26 – RISK MANAGEMENT

Primary Government

General

The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the state employee insurance benefits program, certain state artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past ten fiscal years.

The State has established two internal service funds, which are described below, to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the State recognizes fund liabilities in the fund incurring the loss as follows: governmental funds record an expenditure when a loss is due and payable; proprietary funds record an expense when it is probable that a loss has occurred and the amount can be reasonably estimated. As explained more fully in Note 15, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the government-wide financial statements.

For unemployment claims, the Unemployment Insurance Agency (UIA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UIA through September 30. During fiscal year 2019, expenditures for payments to former State employees (not including university employees) totaled \$4.8 million. The potential liability for future payments cannot be estimated.

The State's two internal service funds, which account for certain areas of risk management, such as portions of its employee insurance benefits, employee bonding, and automobile liability, follow accounting standards established by the Governmental Accounting Standards Board. This results in a reporting which is very similar to that used in the private insurance industry. The various component programs within the two funds may incur deficits during a given year, but each program's surplus and unrestricted net position balance is considered in calculating future charges or benefit levels.

Risk Management Fund

This fund was established during fiscal year 1990 to account for insurance management activities implemented within the Department of Technology, Management and Budget. The automobile liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of \$5.2 million. This includes a long-term portion, which is recorded at \$3.3 million.

Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2019 and 2018 are as follows (in millions):

	2019	2018
Balance - beginning	\$ 5.1	\$ 5.4
Current year claims and changes in estimates	0.8	2.1
Claim payments	(0.8)	(2.3)
Balance - ending	<u>\$ 5.2</u>	<u>\$ 5.1</u>

The Risk Management Fund also has general liability insurance with \$0.9 million recorded in long-term liabilities. General liability insurance amounts were previously reported as part of the Fund's automobile liability. The combined total for the automobile liability and general liability insurances is \$6.1 million in 2019 as well as in 2018.

Workers' compensation payments for state agencies are processed centrally through the Risk Management Fund. Changes in workers' compensation claims for the fiscal years ending September 30, 2019 and 2018 are as follows (in millions):

	2019	2018
Balance - beginning	\$ 49.6	\$ 55.4
Current year claims and changes in estimates	8.2	6.5
Claim payments	(11.0)	(12.3)
Balance - ending	<u>\$ 46.8</u>	<u>\$ 49.6</u>

Workers' compensation is further described in Note 15.

State Sponsored Group Insurance Fund

The Department of Technology, Management and Budget and the Civil Service Commission use this fund to account for employee benefit programs, which are largely self-funded. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of \$131.1 million. This includes a long-term portion, which is recorded at a discounted present value of \$95.7 million. For all claims incurred prior to October 1, 2019, the discounted present value of the long-term disability liability was calculated over a 20-year period using a discount rate of approximately 0.8 percent.

Payments to the State Sponsored Group Insurance Fund are based on estimates of amounts needed to pay prior and current year claims. In addition, a portion of the fund's net position has been designated for catastrophic losses. The risk management designation represents the level of reserves that should be maintained to ease large fluctuations in premium levels in years of unexpected excessive claims. That designation was \$38.1 million at September 30, 2019. Unrestricted net position totaled \$231.4 million at September 30, 2019.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee benefit programs for the fiscal years ending September 30, 2019 and 2018 are as follows (in millions):

	2019	2018
Balance - beginning	\$ 135.0	\$ 134.3
Current year claims and changes in estimates	729.8	728.4
Claim payments	<u>(733.7)</u>	<u>(727.7)</u>
Balance - ending	<u>\$ 131.1</u>	<u>\$ 135.0</u>

Discretely Presented Component Units

State Universities

The state university component units participate with the other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC), which provides indemnity to its members against comprehensive general liability, errors and omissions losses, and property damage commonly covered by insurance. Loss coverages for comprehensive general liability and property are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer, and commercial carriers covering the third layer. For all policy years through June 30, 1993, errors and omissions coverage was structured on a two-layer basis with no excess insurance provided. Effective July 1, 1993, MUSIC obtained excess insurance coverage from commercial carriers covering the third layer. For automobile liability there is no member retention. Comprehensive general liability, property and automobile liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims-made basis.

NOTE 27 – PLEDGED REVENUES

As authorized by legislation, certain revenues of the primary government are pledged to secure debt of the State's discretely presented component units, and to pay the debt service on those bond issuances. In 2006, the Michigan Tobacco Settlement Finance Authority (MTSFA) was created to issue tobacco settlement bonds, the proceeds of which were used to provide funding for the 21st Century Jobs Trust Fund, as well as the School Aid Fund, the General Fund, and a reserve fund. MTSFA was reported as a blended component unit of the State; MTSFA subsequently was transferred by Executive Order 2010-2 to the Michigan Finance Authority (MFA), a discretely presented component unit of the State. The bonds were securitized by a portion of the State's Tobacco Settlement Revenues (TSRs), which were payable to the State under the Master Settlement Agreement entered into by participating cigarette manufacturers in 1998. Beginning April 1, 2008, 13.3 percent of the State's share of the TSRs was pledged to pay tobacco settlement bonds issued in 2006; beginning April 1, 2010, 10.8 percent of TSRs was pledged to pay tobacco settlement bonds issued as part of the 2007 tobacco securitization. From 2018-2025, the State's share of the settlement is \$348.3 million per year. The actual amount received by the State is less, and is affected by market and other factors related to cigarette manufacturing.

For the period ended September 30, 2019, the State's pledged revenue to MFA was \$70.1 million. A total amount of \$69.7 million was received in MFA's tobacco settlement debt service fund to contribute to annual debt service requirements of \$77.6 million. Shortfalls in the receipt of pledged revenue are made up by investment income if available or other resources; debt service on these bonds is payable solely from pledged TSRs.

The State Legislature issued Public Acts 267 and 268 of 2011, which permitted MFA to issue bonds to repay federal advances to the State's Unemployment Trust Account, avoid additional advances, pay unemployment benefits, and minimize the impact on unemployment insurance tax rates. This legislation also created the Unemployment Obligation Trust Fund to receive unemployment obligation assessment revenue created by the legislation and assessed on employers as long as obligations are outstanding. The assessment rate shall be an amount sufficient to ensure timely payment of debt service on the Unemployment Obligation Trust bonds. All revenue collected or earned in the fund is pledged to MFA for payment of the bonds or for other purposes specified in the legislation. During fiscal year 2019, \$455.1 million was recognized as revenue in the State's Unemployment Obligation Trust Fund and \$455.1 million was paid to MFA's unemployment obligation assessment debt service fund; debt service of \$593.8 million was paid by MFA during the current fiscal year. Remaining principal and interest requirements of the secured bonds totaled \$176.6 million at September 30, 2019.

NOTE 28 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The following table provides additional detail regarding deferred outflows of resources and deferred inflows of resources reported on the government-wide Statement of Net Position (in millions):

	Primary Government			
	Governmental Activities	Business- Type Activities	Totals	Component Units
Deferred Outflows of Resources:				
Accumulated decrease in fair value of hedging derivatives	\$ -	\$ -	\$ -	\$ 69.7
Refunding of debt	17.5	-	17.5	128.4
Pension Related:				
Differences between expected and actual experience	18.7	-	18.7	1.0
Changes of assumptions	139.2	-	139.2	10.8
Net difference between projected and actual earnings on pension plan investments	0.4	-	0.4	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	0.1
Contributions subsequent to the measurement date	718.6	3.9	722.6	38.1
Total Pension Related	876.9	3.9	880.9	50.0
Other Postemployment Benefits Related:				
Differences between expected and actual experience	1.1	-	1.1	-
Changes of assumptions	671.1	4.3	675.4	14.6
Changes in proportion and differences between contributions and proportionate share of contributions	12.8	0.4	13.2	3.6
Contributions subsequent to the measurement date	860.5	5.2	865.7	25.2
Total Other Postemployment Benefits Related	1,545.5	9.9	1,555.4	43.5
Total Deferred Outflows of Resources	\$ 2,439.9	\$ 13.9	\$ 2,453.8	\$ 291.6
Deferred Inflows of Resources:				
Accumulated increase in fair value of hedging derivatives	\$ -	\$ -	\$ -	\$ 0.3
Loan origination fees	-	-	-	17.5
Refunding of debt	8.8	-	8.8	7.6
Irrevocable split-interest agreements	-	-	-	15.8
Service concession arrangements	-	-	-	119.2
Pension Related:				
Differences between expected and actual experience	0.5	-	0.5	1.2
Changes of assumptions	8.1	-	8.1	2.4
Net difference between projected and actual earnings on pension plan investments	580.6	3.4	584.0	28.4
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	0.1
Total Pension Related	589.2	3.4	592.6	32.2
Other Postemployment Benefits Related:				
Differences between expected and actual experience	959.6	6.0	965.6	48.5
Changes of assumptions	106.6	0.7	107.3	86.7
Net difference between projected and actual earnings on pension plan investments	112.4	0.7	113.1	8.2
Changes in proportion and differences between contributions and proportionate share of contributions	46.4	3.9	50.3	6.3
Total Other Postemployment Benefits Related	1,225.0	11.3	1,236.2	149.7
Total Deferred Inflows of Resources	\$ 1,822.9	\$ 14.7	\$ 1,837.6	\$ 342.2

Michigan
Notes to the Financial Statements

The following table provides additional detail regarding deferred inflows of resources reported in the governmental funds (in millions):

	General Fund	School Aid Fund	Non-Major Funds	Total Governmental Funds
Taxes considered unavailable	\$ 2,386.6	\$ 532.1	\$ 12.0	\$ 2,930.6
Tobacco settlement receivables	13.1	-	150.6	163.7
School loan revolving program	112.8	-	-	112.8
Other	4.3	-	4.0	8.3
Total deferred inflows of resources	<u>\$ 2,516.8</u>	<u>\$ 532.1</u>	<u>\$ 166.6</u>	<u>\$ 3,215.5</u>

Service Concession Arrangements

This deferred inflow of resources is described in more detail in Note 9. The Service Concession Arrangements are related to Eastern Michigan University and Northern Michigan University.

NOTE 29 – SUBSEQUENT EVENTS

Unemployment Insurance Agency – Obligation Trust Fund

Subsequent to year end, the Unemployment Insurance Agency transferred to the Michigan Finance Authority (MFA) funds from the Compensation Fund sufficient to fully redeem the remaining outstanding obligation bonds with a redemption date of December 30, 2019. In January of 2020, the Obligation Assessment Fund repaid these funds to the Compensation Fund. Consequently, no obligation assessment tax will be assessed for the 2020 rate year. Taxes and interest assessed and collected relating to prior rate years will revert to the Michigan Unemployment Compensation Fund.

Short-Term Borrowing

On October 3, 2019, the State Building Authority (SBA) issued \$84.0 million of commercial paper notes bearing an interest rate of 1.4 percent. The notes matured on January 9, 2020.

On January 9, 2020, SBA issued \$133.4 million of commercial paper notes bearing an interest rate of 1.0 percent. The notes mature on May 21, 2020.

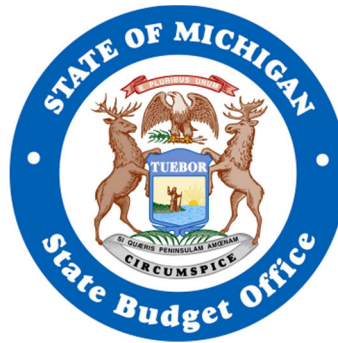
Long-Term Borrowing – Discretely Presented Component Units

On January 14, 2020, MFA issued \$3.9 million of tax anticipation revenue notes bearing a variable interest rate with an initial rate of 4.7 percent. The notes mature on June 30, 2021.

On January 22, 2020, MFA issued \$15.9 million of tax anticipation revenue notes bearing a variable interest rate with an initial rate of 3.4 percent. The notes mature on June 30, 2021.

Subsequent to their respective year-ends, the following discretely presented component units issued bonds, some of which are for purposes of refinancing (in millions):

	Bonds Issued
Central Michigan University	\$ 25.4
Ferris State University	39.3
Michigan Finance Authority	500.8
Michigan State Housing Development Authority	529.0
Oakland University	90.0
Western Michigan University	92.9
Total	<u>\$ 1,277.3</u>





FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Beginning budgetary fund balance	\$ 3,486,258	\$ 3,486,258	\$ 3,486,258	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	9,595,200	10,253,480	10,253,480	-
Federal	13,300	5,094	5,094	-
Local	100	-	-	-
Licenses and permits	14,000	9,317	9,317	-
Services	7,000	4,658	4,658	-
Miscellaneous	73,000	138,440	138,440	-
Proceeds from sale of capital assets	-	6	6	-
Transfers in	240,000	249,832	249,832	-
Restricted Revenues:				
Taxes	3,324,678	5,587,341	5,587,341	-
Federal	18,990,053	18,994,865	18,994,865	-
Local	161,496	275,575	275,575	-
Licenses and permits	487,398	369,202	369,202	-
Services	361,503	352,124	352,124	-
Miscellaneous	1,205,414	684,735	684,735	-
Proceeds from sale of capital assets	-	5,047	5,047	-
Transfers in	366,673	76,568	76,568	-
Total Revenue Inflows	34,839,814	37,006,285	37,006,285	-
Amounts Available for Appropriation	38,326,073	40,492,543	40,492,543	-
Charges to Appropriations (outflows):				
Legislative Branch	214,562	199,309	198,806	503
Judicial Branch	304,107	279,997	279,532	465
Executive Branch:				
Agriculture and Rural Development	108,883	97,661	97,164	497
Attorney General	111,163	91,734	90,519	1,215
Civil Rights	16,900	15,312	15,150	162
Colleges and Universities Grants	1,172,828	1,159,847	1,157,190	2,657
Corrections	2,110,000	1,988,091	1,968,796	19,296
Education	477,470	460,359	451,459	8,900
Environmental Quality	425,911	370,520	370,484	35
Executive Office	6,980	6,980	6,653	327
Health and Human Services	24,865,726	25,620,845	25,560,712	60,133
Insurance and Financial Services	67,972	54,183	53,755	428
Licensing and Regulatory Affairs	474,605	468,010	438,937	29,072
Marshall Plan for Talent	-	30,174	30,174	-
Military and Veterans Affairs	187,813	193,208	190,228	2,980
Natural Resources	160,602	131,757	129,476	2,281
State	261,010	262,560	256,401	6,159
State Police	750,270	692,192	690,952	1,239
Talent and Economic Development	550,026	521,312	518,800	2,511
Technology, Management and Budget	847,125	965,093	935,059	30,034
Transportation	415,619	345,110	345,110	-
Treasury	1,935,775	3,482,530	3,437,674	44,856
Intrafund expenditure reimbursements	-	(668,558)	(668,558)	-
Total Charges to Appropriations	35,465,348	36,768,226	36,554,472	213,753
Reconciling Items:				
Change in noncurrent assets	-	(10,228)	(10,228)	-
Net Reconciling Items	-	(10,228)	(10,228)	-
Ending budgetary fund balance	\$ 2,860,724	\$ 3,714,090	\$ 3,927,843	\$ 213,753

Michigan

SCHOOL AID FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 405,098	\$ 405,098	\$ 405,098	\$ -
12,832,129	12,484,145	12,484,145	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	33,042	33,042	-
-	-	-	-
950,000	1,070,650	1,070,650	-
-	-	-	-
3,000	3,040	3,040	-
1,719,744	1,658,331	1,658,331	-
-	-	-	-
-	-	-	-
-	-	-	-
31,900	10,271	10,271	-
-	-	-	-
-	1,714	1,714	-
15,536,773	15,261,192	15,261,192	-
15,941,870	15,666,290	15,666,290	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
908,304	908,304	907,757	546
-	-	-	-
14,633,985	14,584,331	14,510,531	73,799
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	5	5	-
-	-	-	-
15,542,289	15,492,640	15,418,294	74,346
-	(13,744)	(13,744)	-
-	(13,744)	(13,744)	-
\$ 399,582	\$ 159,906	\$ 234,252	\$ 74,346

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	GENERAL FUND	SCHOOL AID FUND
Sources/inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 40,492,543	\$ 15,666,290
Differences - Budget-to-GAAP:		
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(3,486,258)	(405,098)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(5,053)	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(326,400)	(1,072,363)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 36,674,832</u>	<u>\$ 14,188,829</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 36,554,472	\$ 15,418,294
Differences - Budget-to-GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	1,090	584
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(438,383)	(125,389)
Capital lease and financed purchase acquisitions are not outflows of budgetary resources but are recorded as capital outlay expenditures and other financing sources under GAAP.	7,271	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 36,124,451</u>	<u>\$ 15,293,488</u>

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Statutory/Budgetary Presentation

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most “operating” funds. Note 2 of the basic financial statements identifies the annually budgeted operating funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2019, as well as the actual resource inflows, outflows, and fund balance stated on the budgetary basis. The supplementary portion of this report includes a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, by fund type, for non-major special revenue, capital projects, and permanent funds with annual budgets. Those schedules only include the final appropriated budget.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of October 1, 2018 and includes multi-year projects budgetary carry-forwards from the prior fiscal year.

The budgetary fund balance represents total fund balance, net of noncurrent assets and prior year encumbrances. Noncurrent assets do not represent current financial resources available for appropriation and are removed for budgetary purposes. Prior year encumbrances are considered uses of spending authority in the year the State incurs an obligation and are also removed.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column, therefore updated revenue estimates available for appropriations as of November 30, rather than the amounts shown in the original budget, are reported. The November 30 date is used because P.A. 431 of 1984, as amended, permits budget adjustments by the Legislature through 60 days after year-end.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, carry-backs (i.e., current year appropriations for prior year overdrafts), approved transfers, executive order reductions, and timing differences. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by department rather than being reported by character and function as shown in the GAAP statements. This departmental classification is used to better reflect organizational responsibility and to be more consistent with the budget process. Appropriations include interagency expenditure reimbursement, in which one agency provides funding to another agency within the same fund. The final budget and actual amounts are adjusted to eliminate the duplication.

The timing differences result from unspent authorizations for multi-year projects, such as capital outlay and work projects, and from restricted revenues that had not been appropriated for expenditure in the current year. Such authorization balances remaining at year-end are removed from the final budget column to provide an “annualized” budget.

Positive “variances” reflect restricted revenues that were appropriated and available for expenditure in the current year and unused general purpose spending authority (lapses); negative “variances” reflect budgetary overdrafts. If both positive and negative variances exist for a line, the amount shown is the net variance.

Statutory/Budgetary Reconciliation

The statutory/budgetary basis presentation differs from GAAP in ways that do not affect ending fund balance.

For budgetary reporting purposes, expenditures and transfers out in the “Actual” column include recorded encumbrances because they are considered uses of spending authority in the year the State incurs an obligation. Therefore, the “Original” and “Final Budget” columns do not include encumbrance authorization balances carried over from the prior fiscal year. In the GAAP basis statements, expenditures do not include encumbrances. The effect of this difference is reflected as a reconciling item on the Budgetary Comparison Schedule for the major funds and the Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the non-major special revenue funds and permanent funds.

For budgetary purposes, capitalizable lease and financed purchase expenditures are recognized when payments are due, rather than upon lease inception as required by GAAP. This difference does not affect fund balance because the “other financing sources” recorded under GAAP at lease inception are not recorded on the statutory/budgetary basis.

Statewide Authorization Dispositions

Subsequent to the release of this report, the State publishes “Statewide Authorization Dispositions” to demonstrate its compliance with the legal level of budgetary control. The report includes line-item appropriation details for the General Fund and budgeted operating funds and is available by contacting the State Budget Office, Office of Financial Management at (517) 241-4010.

REQUIRED SUPPLEMENTARY INFORMATION

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

As allowed by Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expends certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 29,711 lane miles of roads and 4,837 bridges (spans in excess of 20 feet).

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Roads

Measurement Scale

The Michigan Department of Transportation (MDOT) uses numerous methods to determine the condition of roadway pavements. The Sufficiency Rating had served as the State's primary method to measure and monitor pavement conditions since 1961; however, Sufficiency Rating has now been eliminated. MDOT has now adopted the Pavement Surface Evaluation and Rating (PASER) as the State's primary method to measure and monitor pavement conditions. The PASER Rating is a visual analysis conducted by trained road agency staff and includes a 10-point scale, as follows:

Rating	Asphalt	Concrete
10, 9, 8 = Good	New, like new construction, from no defects to occasional transverse crack, crack width tight (hairline) or sealed. Few if any longitudinal cracks on joints.	New, like new construction, from no defects to slight traffic wear, slight map cracking, minor surface defects-pop outs, map cracking or flight scaling, isolated meander cracks, isolated cracks at manholes.
7, 6, 5 = Fair	Little or no crack erosion, little or no raveling, few if any patches in good condition or slight to moderate polishing or flushing, no patches or few, slight raveling or patching/wedging in good condition, moderate raveling, extensive to several flushing and polishing. Sound structural condition.	Minor surface scaling, some open joints, isolated settlement or heave areas or moderate surface scaling <25.0% of surface, several corner cracks tight or well-sealed or moderate to severe scaling or polishing between 25.0% to 50.0% of surface, spalling from shallow reinforcement, multiple corner cracks.
4, 3, 2, 1 = Poor	Severe surface raveling, multiple longitudinal and transverse cracks with slight crack erosion or longitudinal and transverse cracks showing extensive crack erosion, occasional potholes, patches in fair/poor condition or closely spaced cracks with erosion, frequent potholes, extensive patches in poor condition or loss of surface integrity, extensive surface distress.	Severe scaling, polishing, map cracking or spalling >50.0% of surface, corner cracks missing pieces or patches, pavement blowups or extensive patching in fair to poor condition or extensive and severely spalled slab cracks, extensive failed patches, joints failed, severe and extensive settlement and heaves or extensive potholes, total loss of pavement integrity.

Established Condition Level

No more than 30 percent of the pavements shall be rated as "Poor."

Assessed Conditions

The State assesses condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of "Good" or "Poor," for the past three years. "Good" represents ratings of 10 through 5 above and "Poor" represents ratings of 4 through 1 on the PASER rating scale.

Rating	2018	2017	2016
Good	73.0%	75.0%	77.2%
Poor	27.0%	25.0%	22.8%

Bridges

Measurement Scale

MDOT utilizes the National Bridge Inventory (NBI) rating scale to monitor the condition of all bridges under its jurisdiction. The inventory rates bridges, including the deck, superstructure and substructure, using a 10-point scale:

Rating	Description
9	Excellent (no specific definition).
8	Very good. No problems noted.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

Established Condition Level

No more than 35 percent of the bridges shall be rated as "structurally deficient."

Assessed Conditions

A bridge is classified as structurally deficient if the deck, superstructure, substructure, or culvert is rated in "poor" condition (0 to 4 on the NBI rating scale). A bridge can also be classified as structurally deficient if its load carrying capacity is significantly below current design standards or if a waterway below frequently overtops the bridge during floods. The following table reports the percentage of bridges reported in the NBI (spans in excess of 20 feet) whose condition was assessed as "structurally deficient," in the stated year:

Fiscal Year	Structurally Deficient
2019	6.3%
2018	5.5%
2017	5.5%

Bridges that are not intended to carry highway traffic are not included in MDOT's condition assessment shown above. As a result, the number of bridges that were included in the structurally deficient calculation (4,492) in fiscal year 2019 is less than the total (4,837) maintained and assessed by the department.

Estimated and Actual Costs to Maintain

The following table presents the State's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the past five fiscal years (in millions):

Fiscal Year	Estimated Spending	Actual Spending
2020	\$ 1,073.1	\$ -
2019	1,049.9	1,162.6
2018	919.4	1,073.7
2017	844.8	830.1
2016	824.2	879.9
2015	729.3	748.5

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LEGISLATIVE RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS*

(In Thousands)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 77	\$ 86	\$ 74	\$ 62	\$ 57
Interest	10,555	10,213	11,025	11,839	11,297
Differences between expected and actual experience	66	(1,617)	1,899	406	-
Changes of assumptions	(3,055)	(13,497)	18,937	20,080	24,547
Benefit payments, including refunds of member contributions	(14,521)	(14,282)	(13,919)	(14,495)	(13,550)
Net Change in Total Pension Liability	(6,878)	(19,097)	18,016	17,891	22,351
Total Pension Liability - Beginning	246,565	265,662	247,646	229,755	207,404
Total Pension Liability - Ending	<u>\$ 239,688</u>	<u>\$ 246,565</u>	<u>\$ 265,662</u>	<u>\$ 247,646</u>	<u>\$ 229,755</u>
Plan Fiduciary Net Position					
Contributions - member	\$ 1	\$ 4	\$ 4	\$ 3	\$ 6
Net investment income	8,630	15,841	11,325	(6,545)	14,868
Benefit payments, including refunds of member contributions	(14,521)	(14,282)	(13,919)	(14,495)	(13,550)
Pension plan administrative expense	(399)	(392)	(405)	(362)	(430)
Other	-	7	-	-	-
Net Changes in Plan Fiduciary Net Pension	(6,289)	1,177	(2,996)	(21,400)	893
Plan Fiduciary Net Position - Beginning	131,738	130,560	133,557	154,957	154,063
Plan Fiduciary Net Position - Ending	<u>\$ 125,448</u>	<u>\$ 131,738</u>	<u>\$ 130,560</u>	<u>\$ 133,557</u>	<u>\$ 154,957</u>
Net Pension Liability (Assets) - Ending	<u>\$ 114,239</u>	<u>\$ 114,828</u>	<u>\$ 135,102</u>	<u>\$ 114,090</u>	<u>\$ 74,799</u>
Plan fiduciary net position as a percentage of the total pension liability	52.3%	53.4%	49.2%	53.9%	67.4%
Covered payroll	\$ 72	\$ 72	\$ 72	\$ 72	\$ 72
Net pension liability as a percentage of covered payroll	159363.2%	160183.9%	188466.1%	159154.3%	104343.7%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS (OPEB)
LIABILITY AND RELATED RATIOS
LEGISLATIVE RETIREMENT SYSTEM
LAST TWO FISCAL YEARS*
(In Thousands)**

	2019	2018
Total OPEB Liability		
Service cost	\$ 1,482	\$ 797
Interest	7,077	8,464
Differences between expected and actual experience	3,292	18
Changes of assumptions	(9,407)	66,226
Benefit payments, including refunds of member contributions	(6,695)	(6,343)
Net Change in Total OPEB Liability	(4,252)	69,162
Total OPEB Liability - Beginning	192,843	123,681
Total OPEB Liability - Ending	<u>\$ 188,591</u>	<u>\$ 192,843</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 4,657	\$ 4,572
Contributions - member	6	6
Net investment income	1,573	2,755
Benefit payments, including refunds of member contributions	(6,695)	(6,343)
OPEB plan administrative expense	(74)	(69)
Other	954	644
Net Changes in Plan Fiduciary Net Position	421	1,565
Plan Fiduciary Net Position - Beginning	24,507	22,942
Plan Fiduciary Net Position - Ending	<u>\$ 24,928</u>	<u>\$ 24,507</u>
Net OPEB Liability (Assets) - Ending	<u>\$ 163,663</u>	<u>\$ 168,336</u>
Plan fiduciary net position as a percentage of the total OPEB liability	13.2%	12.7%
Covered-employee payroll**	\$ 1,662	\$ 1,662
Net OPEB liability as a percentage of covered-employee payroll	9848.2%	10129.4%

*Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

** The Legislative Retirement System does not base contributions to the other postemployment benefits plan on a measure of pay. Therefore, in accordance with GASB Statement No. 85, Omnibus 2017, covered-employee payroll is presented in this schedule instead of covered payroll.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

STATE POLICE RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS*

(In Thousands)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 24,094	\$ 20,908	\$ 19,774	\$ 19,952	\$ 21,142
Interest	149,156	147,193	143,436	140,575	134,317
Differences between expected and actual experience	7,959	18,289	8,440	(6,998)	-
Changes of assumptions	106,681	94,280	-	-	36,683
Benefit payments, including refunds of member contributions	(137,367)	(130,208)	(119,094)	(115,469)	(110,551)
Net Change in Total Pension Liability	150,523	150,462	52,556	38,060	81,591
Total Pension Liability - Beginning	2,046,629	1,896,167	1,843,611	1,805,551	1,723,960
Total Pension Liability - Ending	<u>\$ 2,197,152</u>	<u>\$ 2,046,629</u>	<u>\$ 1,896,167</u>	<u>\$ 1,843,611</u>	<u>\$ 1,805,551</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 84,930	\$ 74,814	\$ 70,505	\$ 70,351	\$ 58,391
Contributions - member	3,489	3,142	3,009	2,677	2,174
Net investment income	151,529	165,384	90,811	26,236	174,085
Benefit payments, including refunds of member contributions	(137,367)	(130,208)	(119,094)	(115,469)	(110,551)
Pension plan administrative expense	(749)	(666)	(575)	(561)	(575)
Other	4	27	10	3	-
Net Changes in Plan Fiduciary Net Pension	101,835	112,492	44,666	(16,762)	123,524
Plan Fiduciary Net Position - Beginning	1,390,564	1,278,071	1,233,405	1,250,168	1,126,643
Plan Fiduciary Net Position - Ending	<u>\$ 1,492,399</u>	<u>\$ 1,390,564</u>	<u>\$ 1,278,071</u>	<u>\$ 1,233,405</u>	<u>\$ 1,250,168</u>
Net Pension Liability (Assets) - Ending	<u>\$ 704,753</u>	<u>\$ 656,066</u>	<u>\$ 618,096</u>	<u>\$ 610,206</u>	<u>\$ 555,384</u>
Plan fiduciary net position as a percentage of the total pension liability	67.9%	67.9%	67.4%	66.9%	69.2%
Covered payroll	\$ 134,177	\$ 125,085	\$ 118,060	\$ 114,278	\$ 114,480
Net pension liability as a percentage of covered payroll	525.2%	524.5%	523.5%	534.0%	485.1%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS (OPEB)

LIABILITY AND RELATED RATIOS

STATE POLICE RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2019	2018
Total OPEB Liability		
Service cost	\$ 9,173	\$ 9,855
Interest	57,650	55,607
Changes of benefit terms	25	-
Differences between expected and actual experience	(71,325)	(4,142)
Changes of assumptions	26,627	-
Benefit payments, including refunds of member contributions	(33,583)	(33,904)
Net Change in Total OPEB Liability	(11,432)	27,416
Total OPEB Liability - Beginning	780,868	753,452
Total OPEB Liability - Ending	<u>\$ 769,435</u>	<u>\$ 780,868</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 56,779	\$ 51,886
Net investment income	17,222	16,063
Benefit payments, including refunds of member contributions	(33,583)	(33,904)
OPEB plan administrative expense	(87)	(100)
Other	10	15
Net Change in Plan Fiduciary Net Position	40,340	33,961
Plan Fiduciary Net Position - Beginning	150,670	116,709
Plan Fiduciary Net Position - Ending	<u>\$ 191,010</u>	<u>\$ 150,670</u>
Net OPEB Liability (Assets) - Ending	<u>\$ 578,425</u>	<u>\$ 630,197</u>
Plan fiduciary net position as a percentage of the total OPEB liability	24.8%	19.3%
Covered payroll	\$ 134,177	\$ 125,085
Net OPEB liability as a percentage of covered payroll	431.1%	503.8%

*Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

STATE EMPLOYEES' RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS*

(In Thousands)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 71,912	\$ 68,311	\$ 74,042	\$ 80,413	\$ 84,040
Interest	1,226,594	1,251,600	1,250,117	1,242,353	1,206,258
Differences between expected and actual experience	115,726	19,798	3,441	55,072	-
Changes of assumptions	1,393,264	710,646	-	-	406,962
Benefit payments, including refunds of member contributions	(1,362,481)	(1,322,657)	(1,289,728)	(1,265,480)	(1,223,033)
Net Change in Total Pension Liability	1,445,015	727,697	37,872	112,358	474,227
Total Pension Liability - Beginning	16,999,872	16,272,175	16,234,303	16,121,945	15,647,718
Total Pension Liability - Ending	<u>\$ 18,444,887</u>	<u>\$ 16,999,872</u>	<u>\$ 16,272,175</u>	<u>\$ 16,234,303</u>	<u>\$ 16,121,945</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 650,740	\$ 703,131	\$ 716,465	\$ 749,332	\$ 705,100
Contributions - member	35,598	40,839	46,666	46,688	47,527
Net investment income	1,273,509	1,411,395	781,528	232,588	1,529,626
Benefit payments, including refunds of member contributions	(1,362,481)	(1,322,657)	(1,289,728)	(1,265,480)	(1,223,033)
Pension plan administrative expense	(6,488)	(6,285)	(6,629)	(6,228)	(6,931)
Other	64	294	278	55	-
Net Changes in Plan Fiduciary Net Pension	590,942	826,716	248,580	(243,044)	1,052,290
Plan Fiduciary Net Position - Beginning	11,807,059	10,980,343	10,731,762	10,974,806	9,922,516
Plan Fiduciary Net Position - Ending	<u>\$ 12,398,002</u>	<u>\$ 11,807,059</u>	<u>\$ 10,980,343</u>	<u>\$ 10,731,762</u>	<u>\$ 10,974,806</u>
Net Pension Liability (Assets) - Ending	<u>\$ 6,046,886</u>	<u>\$ 5,192,813</u>	<u>\$ 5,291,832</u>	<u>\$ 5,502,541</u>	<u>\$ 5,147,139</u>
Plan fiduciary net position as a percentage of the total pension liability	67.2%	69.5%	67.5%	66.1%	68.1%
Covered payroll**	\$ 3,115,261	\$ 3,050,238	\$ 872,358	\$ 946,977	\$ 1,006,633
Net pension liability as a percentage of covered payroll	194.1%	170.2%	606.6%	581.1%	511.3%

* Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent years. However, until a full 10-year trend is compiled, the State will present information for the years which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

** GASB Statement No. 82, Pension Issues, which is effective for fiscal year 2017, states that the measure of payroll that is presented in schedules of required supplementary information required by GASB Statement No. 68 is covered payroll. GASB Statement No. 82 defines covered payroll as the payroll on which contributions to a pension plan are based. To match this definition, the amount reported as covered payroll in this schedule (based on the fiscal year 2017 measurement period) for the State Employees' Retirement System increased significantly from fiscal year 2017 to fiscal year 2018. Prior to fiscal year 2018, these amounts are reported as covered-employee payroll.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS (OPEB)

LIABILITY AND RELATED RATIOS

STATE EMPLOYEES' RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2019	2018
Total OPEB Liability		
Service cost	\$ 93,346	\$ 108,530
Interest	760,408	735,979
Differences between expected and actual experience	(1,055,687)	(71,816)
Changes of assumptions	809,101	-
Benefit payments, including refunds of member contributions	(402,543)	(476,200)
Net Change in Total OPEB Liability	204,625	296,493
Total OPEB Liability - Beginning	10,293,376	9,996,883
Total OPEB Liability - Ending	<u>\$ 10,498,001</u>	<u>\$ 10,293,376</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 688,884	\$ 703,330
Contributions - member	-	27
Net investment income	229,539	217,955
Benefit payments, including refunds of member contributions	(402,543)	(476,200)
OPEB plan administrative expense	(459)	(445)
Other	172	778
Net Changes in Plan Fiduciary Net Position	515,592	445,447
Plan Fiduciary Net Position - Beginning	2,047,229	1,601,782
Plan Fiduciary Net Position - Ending	<u>\$ 2,562,821</u>	<u>\$ 2,047,229</u>
Net OPEB Liability (Assets) - Ending	<u>\$ 7,935,180</u>	<u>\$ 8,246,147</u>
Plan fiduciary net position as a percentage of the total OPEB liability	24.4%	19.9%
Covered payroll	\$ 3,115,261	\$ 3,050,238
Net OPEB liability as a percentage of covered payroll	254.7%	270.3%

*Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)

AND RELATED RATIOS

JUDGES' RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS*

(In Thousands)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 1,587	\$ 1,862	\$ 2,036	\$ 2,439	\$ 2,747
Interest	19,100	19,688	19,743	19,771	19,569
Differences between expected and actual experience	(1,498)	(4,923)	(1,290)	924	-
Changes of assumptions	26,653	-	2,423	-	3,246
Benefit payments, including refunds of member contributions	(23,958)	(23,724)	(23,302)	(23,241)	(22,536)
Net Change in Total Pension Liability	21,884	(7,096)	(389)	(108)	3,025
Total Pension Liability - Beginning	249,940	257,036	257,426	257,534	254,509
Total Pension Liability - Ending	<u>\$ 271,824</u>	<u>\$ 249,940</u>	<u>\$ 257,036</u>	<u>\$ 257,426</u>	<u>\$ 257,534</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 1,736	\$ 1,020	\$ 2,180	\$ 2,634	\$ 3,164
Contributions - member	653	697	805	902	1,025
Net investment income	28,280	32,258	18,425	5,840	37,166
Benefit payments, including refunds of member contributions	(23,958)	(23,724)	(23,302)	(23,241)	(22,536)
Pension plan administrative expense	(413)	(354)	(335)	(312)	(288)
Other	1	10	15	3	-
Net Changes in Plan Fiduciary Net Pension	6,299	9,907	(2,211)	(14,175)	18,530
Plan Fiduciary Net Position - Beginning	264,817	254,910	257,121	271,296	252,766
Plan Fiduciary Net Position - Ending	<u>\$ 271,116</u>	<u>\$ 264,817</u>	<u>\$ 254,910</u>	<u>\$ 257,121</u>	<u>\$ 271,296</u>
Net Pension Liability (Assets) - Ending	<u>\$ 707</u>	<u>\$ (14,878)</u>	<u>\$ 2,126</u>	<u>\$ 304</u>	<u>\$ (13,762)</u>
Plan fiduciary net position as a percentage of the total pension liability	99.7%	106.0%	99.2%	99.9%	105.3%
Covered payroll	\$ 12,047	\$ 12,685	\$ 14,757	\$ 17,518	\$ 18,803
Net pension liability as a percentage of covered payroll	5.9%	-117.3%	14.4%	1.7%	-73.2%

*Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS (OPEB)

LIABILITY AND RELATED RATIOS

JUDGES' RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2019	2018
Total OPEB Liability		
Service cost	\$ 171	\$ 177
Interest	542	527
Differences between expected and actual experience	399	(32)
Changes of assumptions	1,080	-
Benefit payments, including refunds of member contributions	(638)	(334)
Net Change in Total OPEB Liability	1,554	339
Total OPEB Liability - Beginning	7,007	6,669
Total OPEB Liability - Ending	<u>\$ 8,562</u>	<u>\$ 7,007</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 539	\$ 189
Contributions - member	113	117
Net investment income	104	119
Benefit payments, including refunds of member contributions	(638)	(334)
OPEB plan administrative expense	(89)	(95)
Net Changes in Plan Fiduciary Net Position	29	(4)
Plan Fiduciary Net Position - Beginning	1,026	1,030
Plan Fiduciary Net Position - Ending	<u>\$ 1,055</u>	<u>\$ 1,026</u>
Net OPEB Liability (Assets) - Ending	<u>\$ 7,507</u>	<u>\$ 5,982</u>
Plan fiduciary net position as a percentage of the total OPEB liability	12.3%	14.6%
Covered-employee payroll**	6,143	5,918
Net OPEB liability as a percentage of covered-employee payroll	122.2%	101.1%

*Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

** The Judges' Retirement System does not base contributions to the other postemployment benefits plan on a measure of pay. Therefore, in accordance with GASB Statement No. 85, Omnibus 2017, covered-employee payroll is presented in this schedule instead of covered payroll.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

MILITARY RETIREMENT PROVISIONS

LAST FOUR FISCAL YEARS*

(In Thousands)

	2019	2018	2017	2016
Total Pension Liability				
Service cost	\$ 140	\$ 110	\$ 403	\$ 357
Interest	3,555	3,609	2,829	3,564
Differences between expected and actual experience	700	58	-	(17,548)
Changes of assumptions	2,719	2,505	(30,216)	7,086
Benefit payments, including refunds of member contributions	(3,939)	(4,090)	(3,950)	(3,923)
Net Change in Total Pension Liability	3,175	2,192	(30,933)	(10,463)
Total Pension Liability - Beginning	49,299	47,107	78,040	88,503
Total Pension Liability - Ending	<u>\$ 52,474</u>	<u>\$ 49,299</u>	<u>\$ 47,107</u>	<u>\$ 78,040</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 16,245	\$ 5,245	\$ 7,780	\$ 4,267
Net investment income	569	78	12	-
Benefit payments, including refunds of member contributions	(3,939)	(4,090)	(3,950)	(3,923)
Pension plan administrative expense	(396)	(482)	(251)	(344)
Other	123	7	-	-
Net Changes in Plan Fiduciary Net Pension	12,601	758	3,591	-
Plan Fiduciary Net Position - Beginning	4,349	3,591	-	-
Plan Fiduciary Net Position - Ending	<u>\$ 16,950</u>	<u>\$ 4,349</u>	<u>\$ 3,591</u>	<u>\$ -</u>
Net Pension Liability (Assets) - Ending	<u>\$ 35,524</u>	<u>\$ 44,950</u>	<u>\$ 43,515</u>	<u>\$ 78,040</u>
Plan fiduciary net position as a percentage of the total pension liability	32.3%	8.8%	7.6%	0.0%
Covered payroll	\$ 527	\$ 466	\$ 469	\$ 484
Net pension liability as a percentage of covered payroll	6739.5%	9652.5%	9269.3%	16110.3%

*Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent years. However, until a full 10-year trend is compiled, the State will present information for the years which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN TOTAL OTHER POSTEMPLOYMENT BENEFITS (OPEB)

LIABILITY AND RELATED RATIOS

POST EMPLOYMENT LIFE INSURANCE BENEFITS

LAST TWO FISCAL YEARS*

(In Thousands)

	2019	2018
Total OPEB Liability		
Service cost	\$ 28,832	\$ 31,154
Interest	44,731	40,592
Changes of benefit terms	-	11,048
Differences between expected and actual experience	(7,636)	1,294
Changes of assumptions	(64,531)	(83,587)
Benefit payments, including refunds of member contributions	(31,263)	(30,244)
Net Change in Total OPEB Liability	(29,867)	(29,744)
Total OPEB Liability - Beginning	1,279,237	1,308,980
Total OPEB Liability - Ending	<u>\$ 1,249,370</u>	<u>\$ 1,279,237</u>
Covered payroll	\$ 3,154,490	\$ 2,949,242
Total OPEB liability as a percentage of covered payroll	39.6%	43.4%

*Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

The Post Employment Life Insurance Benefit plan is not a trust and has no assets.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR PENSIONS
LEGISLATIVE RETIREMENT SYSTEM
LAST TEN FISCAL YEARS
(In Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 9,348	\$ 8,237	\$ 7,878	\$ 8,063
Contributions in relation to the actuarially determined contribution	8,063	-	-	-
Contribution deficiency (excess)	<u>\$ 1,285</u>	<u>\$ 8,237</u>	<u>\$ 7,878</u>	<u>\$ 8,063</u>
Covered payroll	\$ 18	\$ 72	\$ 72	\$ 72
Contributions as a percentage of covered payroll	44993.7%	0.0%	0.0%	0.0%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2018.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	10 years, Open
Asset Valuation Method	Five-year smoothed fair value
Wage Inflation	4.0 percent
Projected Salary Increases	4.0 percent
Investment Rate of Return	7.0 percent
Retirement Age	Age-based tables of rates with a 100 percent probability of retirement once a member is subject to term limits.
Mortality	
Active	RP-2014 Employee Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
Retirees	RP-2014 Healthy Annuitant Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
Disability Retirement	RP-2014 Disabled Mortality Table, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 7,843	\$ 6,327	\$ 5,993	\$ 4,391	\$ 2,915	\$ 775
-	-	-	-	-	-
<u>\$ 7,843</u>	<u>\$ 6,327</u>	<u>\$ 5,993</u>	<u>\$ 4,391</u>	<u>\$ 2,915</u>	<u>\$ 775</u>
\$ 72	\$ 72	\$ 72	\$ 72	\$ 143	\$ 1,173
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
LEGISLATIVE RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 10,172	\$ 11,632	\$ 11,337	\$ 10,464
Contributions in relation to the actuarially determined contribution	9,091	4,657	4,572	4,538
Contribution deficiency (excess)	\$ 1,081	\$ 6,975	\$ 6,765	\$ 5,926
Covered-employee payroll*	\$ 613	\$ 1,662	\$ 1,662	\$ 1,662
Contributions as a percentage of covered-employee payroll	1484.1%	280.2%	275.1%	273.0%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2018.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar, closed
Remaining Amortization Period	22 years, as of October 1, 2018
Asset Valuation Method	Fair value
Wage Inflation	4.0 percent
Projected Salary Increases	4.0 percent
Investment Rate of Return	7.0 percent
Retirement Age	Age-based tables of rates with a 100 percent probability of retirement once a member is subject to term limits.
Mortality	
Active	RP-2014 Employee Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
Retirees	RP-2014 Healthy Annuitant Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
Disability Retirement	The RP-2014 Disabled Mortality Table, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
Healthcare Trend Rates	8.3 percent trend, gradually decreasing to 4.0 percent in year 10
Excise Tax	A 2.0 percent load was applied to the health care liabilities of current retirees and a 4.0 percent load was applied to the health care liabilities of future retirees to approximate the cost for future excise tax.
Aging Factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"

* The Legislative Retirement System does not base contributions to the other postemployment benefits plan on a measure of pay. Therefore, in accordance with Governmental Accounting Standards Board Statement No. 85, Omnibus 2017, covered-employee payroll is presented in this schedule instead of covered payroll.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 9,363	\$ 9,382	\$ 9,630	\$ 9,674	\$ 11,817	\$ 10,842
4,473	4,323	4,240	7,840	4,288	4,515
<u>\$ 4,889</u>	<u>\$ 5,058</u>	<u>\$ 5,390</u>	<u>\$ 1,834</u>	<u>\$ 7,530</u>	<u>\$ 6,327</u>
\$ 1,734	\$ 2,497	\$ 3,312	\$ 3,587	\$ 3,659	\$ 11,598
258.0%	173.1%	128.0%	218.6%	117.2%	38.9%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

STATE POLICE RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 77,400	\$ 78,531	\$ 72,632	\$ 70,858
Contributions in relation to the actuarially determined contribution	78,510	84,930	74,814	70,505
Contribution deficiency (excess)	<u>\$ (1,110)</u>	<u>\$ (6,399)</u>	<u>\$ (2,182)</u>	<u>\$ 353</u>
Covered payroll	\$ 139,660	\$ 134,177	\$ 125,085	\$ 118,060
Contributions as a percentage of covered payroll	56.2%	63.3%	59.8%	59.7%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2016.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	18 years, as of October 1, 2018
Asset Valuation Method	Five-year smoothed fair value
Price Inflation	2.5 percent
Projected Salary Increases	4.0 - 93.5 percent, including wage inflation at 3.5 percent
Investment Rate of Return	7.5 percent (7.0 percent for Hybrid plan) net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. 100 percent of table rates were used for males and females.
Active	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. 50.0 percent of table rates were used for males and females.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 63,271	\$ 61,401	\$ 57,668	\$ 52,276	\$ 47,248	\$ 41,607
70,351	58,391	49,004	40,687	38,574	37,898
<u>\$ (7,080)</u>	<u>\$ 3,010</u>	<u>\$ 8,663</u>	<u>\$ 11,589</u>	<u>\$ 8,674</u>	<u>\$ 3,709</u>
\$ 114,278	\$ 114,480	\$ 110,244	\$ 104,876	\$ 110,280	\$ 118,571
61.6%	51.0%	44.5%	38.8%	35.0%	32.0%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS
STATE POLICE RETIREMENT SYSTEM
LAST TEN FISCAL YEARS
(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 59,785	\$ 58,368	\$ 52,301	\$ 50,857
Contributions* in relation to the actuarially determined contribution	60,395	56,779	51,886	47,348
Contribution deficiency (excess)	<u>\$ (610)</u>	<u>\$ 1,589</u>	<u>\$ 415</u>	<u>\$ 3,509</u>
Covered payroll	\$ 139,660	\$ 134,177	\$ 125,085	\$ 118,060
Contributions as a percentage of covered payroll	43.2%	42.3%	41.5%	40.1%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2016.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	18 years, as of October 1, 2018
Asset Valuation Method	Fair value
Price Inflation	2.5 percent
Projected Salary Increases	4.0 - 93.5 percent, including wage inflation at 3.5 percent
Investment Rate of Return	7.5 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. 100 percent of table rates were used for males and females.
Active	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. 50.0 percent of table rates were used for males and females.
Healthcare Trend Rates	9.0 percent trend, gradually decreasing to 3.5 percent in year 10
Aging Factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"

* From fiscal year 2010 through fiscal year 2017, contributions included both employer contributions and other governmental contributions.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 47,674	\$ 43,383	\$ 46,803	\$ 68,335	\$ 73,690	\$ 60,004
47,722	48,373	45,659	47,252	35,271	33,213
<u>\$ (48)</u>	<u>\$ (4,990)</u>	<u>\$ 1,144</u>	<u>\$ 21,083</u>	<u>\$ 38,419</u>	<u>\$ 26,791</u>
\$ 114,278	\$ 114,480	\$ 110,244	\$ 104,876	\$ 110,280	\$ 118,571
41.8%	42.3%	41.4%	45.1%	32.0%	28.0%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

STATE EMPLOYEES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 592,909	\$ 627,621	\$ 709,651	\$ 752,161
Contributions in relation to the actuarially determined contribution	600,083	650,740	703,131	716,465
Contribution deficiency (excess)	<u>\$ (7,175)</u>	<u>\$ (23,118)</u>	<u>\$ 6,520</u>	<u>\$ 35,697</u>
Covered payroll *	\$ 3,220,895	\$ 3,115,261	\$ 3,050,238	\$ 872,358
Contributions as a percentage of covered payroll	18.6%	20.9%	23.1%	82.1%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2016.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	18 years, as of October 1, 2018
Asset Valuation Method	Five-year smoothed fair value
Price Inflation	2.5 percent
Projected Salary Increases	3.5 - 12.5 percent, including wage inflation at 3.5 percent
Investment Rate of Return	7.5 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.

Mortality

Retirees	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB; 100 percent of the table rates were used for males and females.
Active	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB; 50.0 percent of the table rates were used for males and females.

* Governmental Accounting Standards Board (GASB) Statement No. 82, Pension Issues, which is effective for fiscal year 2017, states that the measure of payroll that is presented in schedules of required supplementary information required by GASB Statement No. 68 is covered payroll. GASB Statement No. 82 defines covered payroll as the payroll on which contributions to a pension plan are based. To match this definition, the amount reported as covered payroll for the State Employees Retirement System increased significantly from fiscal year 2016 to fiscal year 2017. Prior to fiscal year 2017, these amounts are reported as covered-employee payroll.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 654,515	\$ 624,467	\$ 611,132	\$ 512,616	\$ 447,924	\$ 418,428
749,332	705,100	604,845	419,927	424,547	369,953
<u>\$ (94,817)</u>	<u>\$ (80,633)</u>	<u>\$ 6,287</u>	<u>\$ 92,689</u>	<u>\$ 23,377</u>	<u>\$ 48,475</u>
\$ 946,977	\$ 1,006,633	\$ 1,104,669	\$ 1,155,757	\$ 1,321,472	\$ 1,603,842
79.1%	70.0%	54.8%	36.3%	32.1%	23.1%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS

STATE EMPLOYEES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 762,743	\$ 744,210	\$ 676,227	\$ 659,698
Contributions* in relation to the actuarially determined contribution	765,235	688,884	703,330	686,652
Contribution deficiency (excess)	<u>\$ (2,492)</u>	<u>\$ 55,326</u>	<u>\$ (27,103)</u>	<u>\$ (26,954)</u>
Covered payroll	\$ 3,220,895	\$ 3,115,261	\$ 3,050,238	\$ 2,989,101
Contributions as a percentage of covered payroll	23.8%	22.1%	23.1%	23.0%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2016.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	18 years, as of October 1, 2018
Asset Valuation Method	Fair value
Price Inflation	2.5 percent
Projected Salary Increases	3.5 - 12.5 percent, including wage inflation at 3.5 percent
Investment Rate of Return	7.5 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. 100 percent of the table rates were used for males and females.
Active	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. 50.0 percent of the table rates were used for males and females.
Healthcare Trend Rates	9.0 percent trend, gradually decreasing to 3.5 percent in year 10
Aging Factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"

* From fiscal year 2010 through fiscal year 2017, contributions included both employer contributions and other governmental contributions.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 645,412	\$ 619,512	\$ 678,650	\$ 960,640	\$ 1,020,144	\$ 870,012
713,661	755,883	729,863	672,655	452,969	387,184
<u>\$ (68,249)</u>	<u>\$ (136,371)</u>	<u>\$ (51,213)</u>	<u>\$ 287,985</u>	<u>\$ 567,175</u>	<u>\$ 482,828</u>
\$ 3,029,113	\$ 2,857,324	\$ 2,881,140	\$ 2,895,193	\$ 3,039,875	\$ 2,937,995
23.6%	26.5%	25.3%	23.2%	14.9%	13.2%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

JUDGES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 2,828	\$ 1,736	\$ 1,020	\$ 2,138
Contributions in relation to the actuarially determined contribution	2,828	1,736	1,020	2,180
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41)</u>
Covered payroll	\$ 10,206	\$ 12,047	\$ 12,685	\$ 14,757
Contributions as a percentage of covered payroll	27.7%	14.4%	8.0%	14.8%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2018.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal (Term Cost for death and disability)
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	18 years, as of October 1, 2018
Asset Valuation Method	Five-year smoothed fair value
Price Inflation	2.3 percent
Projected Salary Increases	3.3 percent, including wage inflation at 2.8 percent
Investment Rate of Return	6.3 percent net of investment expenses. Beginning with the most recent experience study (2018 valuation), administrative costs are now factored into the normal costs and not netted against the investment rate of return.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 100 percent for both males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Employee Mortality Tables scaled 100 percent for both males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 2,593	\$ 3,123	\$ 2,751	\$ 1,068	\$ -	\$ -
2,634	3,164	2,793	1,111	43	43
<u>\$ (41)</u>	<u>\$ (41)</u>	<u>\$ (42)</u>	<u>\$ (43)</u>	<u>\$ (43)</u>	<u>\$ (43)</u>
\$ 17,518	\$ 18,803	\$ 18,939	\$ 22,922	\$ 23,565	\$ 25,504
15.0%	16.8%	14.7%	4.8%	0.2%	0.2%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS

JUDGES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 818	\$ 559	\$ 487	\$ 712
Contributions* in relation to the actuarially determined contribution	7,557	539	189	247
Contribution deficiency (excess)	<u>\$ (6,739)</u>	<u>\$ 20</u>	<u>\$ 298</u>	<u>\$ 465</u>
Covered-employee payroll**	\$ 5,967	\$ 6,143	\$ 5,918	\$ 5,889
Contributions as a percentage of covered-employee payroll	126.7%	8.8%	3.2%	4.2%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2018.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	18 years, as of October 1, 2018
Asset Valuation Method	Five-year fair value
Price Inflation	2.3 percent
Projected Salary Increases	3.3 percent, including wage inflation at 2.8 percent
Investment Rate of Return	7.0 percent net of investment expenses. Beginning with the most recent experience study (2018 valuation), administrative costs are now factored into the normal costs and not netted against the investment rate of return.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Healthy Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 100 percent for both males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled by 100 percent for both males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active	RP-2014 Male and Female Employee Mortality Tables scaled by 100 percent for both males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Healthcare Cost Trend Rates	8.3 percent trend, gradually decreasing to 3.5 percent in year 10
Aging Factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"

* From fiscal year 2010 through fiscal year 2017, contributions included both employer contributions and other governmental contributions.

** The Judges' Retirement System does not base contributions to the other postemployment benefits plan on a measure of pay. Therefore, in accordance with Governmental Accounting Standards Board Statement No. 85, Omnibus 2017, covered-employee payroll is presented in this schedule instead of covered payroll.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 663	\$ 659	\$ 699	\$ 597	\$ 605	\$ 490
275	69	55	100	312	712
<u>\$ 388</u>	<u>\$ 591</u>	<u>\$ 644</u>	<u>\$ 497</u>	<u>\$ 293</u>	<u>\$ (222)</u>
\$ 5,926	\$ 6,080	\$ 6,203	\$ 6,190	\$ 5,413	\$ 5,936
4.6%	1.1%	0.9%	1.6%	5.8%	12.0%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

MILITARY RETIREMENT PROVISIONS

LAST TEN FISCAL YEARS

(In Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	\$ 4,422	\$ 6,849	\$ 5,200	\$ 5,200
Contributions in relation to the actuarially determined contribution	41,045	16,245	5,245	7,780
Contribution deficiency (excess)	<u>\$ (36,623)</u>	<u>\$ (9,396)</u>	<u>\$ (45)</u>	<u>\$ (2,580)</u>
Covered payroll *	\$ 493	\$ 527	\$ 466	\$ 469
Contributions as a percentage of covered payroll	8325.4%	3081.9%	1126.3%	1657.3%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30, 2016.

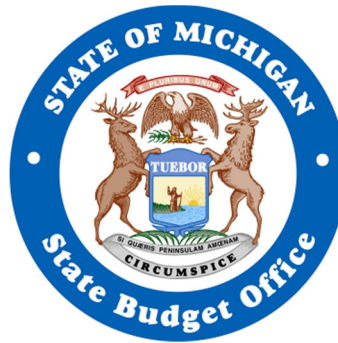
Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2019:

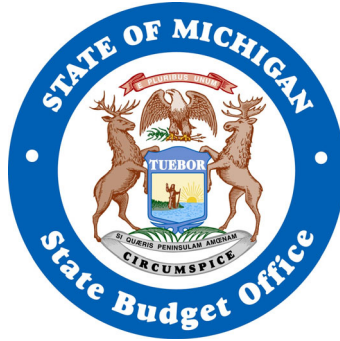
Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	20 years, as of October 1, 2018
Asset Valuation Method	5-year smoothed fair value
Price Inflation	2.5 percent
Projected Salary Increases	3.5 percent for Special Duty officers
Investment Rate of Return	7.5 percent net of investment expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	
Retirees	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. 100 percent of the table rates were used for males and females.
Active	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. 50.0 percent of the table rates were used for males and females.

* Covered payroll relates to the three active Special Duty officers (Generals). Non-special duty members receive \$600 in annual pension benefits, which is not based on a percentage of payroll. Therefore, contributions expressed as percentages of active member payroll are not useful.

Michigan

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 6,293	\$ 6,293	\$ 5,359	\$ 5,359	\$ 3,892	\$ 3,892
4,267	4,223	3,982	4,007	3,709	3,613
<u>\$ 2,026</u>	<u>\$ 2,071</u>	<u>\$ 1,377</u>	<u>\$ 1,351</u>	<u>\$ 183</u>	<u>\$ 280</u>
\$ 484	Unavailable	\$ 457	Unavailable	\$ 142	\$ Unavailable
880.9%		871.2%		2612.5%	





FINANCIAL SECTION

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES – NON-MAJOR FUNDS

Michigan

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 SEPTEMBER 30, 2019
 (In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 4,500	\$ -	\$ 64	\$ -	\$ 4,563
Equity in common cash	941,341	1,884	959,784	95,562	1,998,572
Taxes, interest, and penalties receivable	139,754	-	533	-	140,287
Amounts due from other funds	45,316	-	31,958	-	77,274
Amounts due from component units	-	-	1,726	-	1,726
Amounts due from federal agencies	38,722	-	271,856	-	310,578
Amounts due from local units	4,570	-	93,640	-	98,210
Inventories	458	-	10,394	-	10,852
Investments	-	164,560	10,934	-	175,493
Other current assets	221,807	244	48,248	5,670	275,969
Total Current Assets	<u>1,396,468</u>	<u>166,689</u>	<u>1,429,135</u>	<u>101,233</u>	<u>3,093,524</u>
Noncurrent Assets:					
Taxes, interest, and penalties receivable	3,595	-	18	-	3,613
Amounts due from local units	17,285	-	49,870	-	67,155
Investments	272,675	-	-	1,048,605	1,321,280
Other noncurrent assets	896	-	-	-	896
Total Noncurrent Assets	<u>294,451</u>	<u>-</u>	<u>49,888</u>	<u>1,048,605</u>	<u>1,392,944</u>
Total Assets	<u>\$ 1,690,919</u>	<u>\$ 166,689</u>	<u>\$ 1,479,023</u>	<u>\$ 1,149,838</u>	<u>\$ 4,486,468</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and other liabilities	\$ 271,267	\$ 87	\$ 368,979	\$ 24,231	\$ 664,564
Amounts due to other funds	33,571	-	84,892	438	118,901
Amounts due to component units	52,135	-	-	-	52,135
Bonds and notes payable	-	-	73,580	-	73,580
Interest payable	-	-	184	-	184
Unearned revenue	6,631	-	2,557	-	9,188
Total Current Liabilities	<u>363,605</u>	<u>87</u>	<u>530,192</u>	<u>24,669</u>	<u>918,553</u>
Long-Term Liabilities:					
Unearned revenue	4	-	87	-	91
Total Long-Term Liabilities	<u>4</u>	<u>-</u>	<u>87</u>	<u>-</u>	<u>91</u>
Total Liabilities	<u>363,609</u>	<u>87</u>	<u>530,278</u>	<u>24,669</u>	<u>918,643</u>
DEFERRED INFLOWS OF RESOURCES	<u>166,563</u>	<u>-</u>	<u>21</u>	<u>-</u>	<u>166,584</u>
FUND BALANCES					
Nonspendable	244,069	-	10,394	832,744	1,087,207
Restricted	611,259	166,601	1,042,837	292,425	2,113,121
Committed	305,419	-	-	-	305,419
Unassigned	-	-	(104,507)	-	(104,507)
Total Fund Balances	<u>1,160,747</u>	<u>166,601</u>	<u>948,724</u>	<u>1,125,169</u>	<u>3,401,240</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,690,919</u>	<u>\$ 166,689</u>	<u>\$ 1,479,023</u>	<u>\$ 1,149,838</u>	<u>\$ 4,486,468</u>

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
REVENUES					
Taxes	\$ 3,175,728	\$ -	\$ 15,579	\$ -	\$ 3,191,306
From federal agencies	169,349	-	1,236,963	-	1,406,311
From local agencies	-	-	17,453	-	17,453
From services	4,335	-	3,816	1	8,152
From licenses and permits	223,129	-	17,804	-	240,933
Miscellaneous	865,975	2,333	183,140	95,964	1,147,412
Total Revenues	4,438,515	2,333	1,474,754	95,965	6,011,568
EXPENDITURES					
Current:					
General government	272,319	9	-	4,217	276,545
Education	72,179	2,279	61,916	-	136,374
Health and human services	55,180	-	-	-	55,180
Public safety and corrections	646	-	-	1,895	2,542
Conservation, environment, recreation, and agriculture	253,897	-	-	60,872	314,769
Labor, commerce, and regulatory	645,835	-	-	-	645,835
Transportation	1,947,957	2	1,107,659	-	3,055,619
Capital outlay	16,827	-	1,403,823	21,480	1,442,129
Debt service:					
Bond principal retirement	-	432,071	-	-	432,071
Bond interest and fiscal charges	-	259,750	-	-	259,750
Capital lease and financed purchase payments	1,946	-	587	7	2,540
Total Expenditures	3,266,786	694,112	2,573,985	88,472	6,623,355
Excess of Revenues over (under) Expenditures	1,171,729	(691,779)	(1,099,231)	7,493	(611,787)
OTHER FINANCING SOURCES (USES)					
Bonds and bond anticipation notes issued	-	-	67,478	-	67,478
Refunding bonds issued	-	168,102	-	-	168,102
Premium on bond issuance	-	20,772	8,339	-	29,111
Payment to refunded bond escrow agent	-	(185,167)	-	-	(185,167)
Capital lease and financed purchase acquisitions	3,004	-	514	-	3,518
Proceeds from sale of capital assets	-	-	660	10	671
Transfers from other funds	453,108	675,329	1,287,387	-	2,415,824
Transfers to other funds	(1,612,700)	-	(257,750)	(371)	(1,870,822)
Total Other Financing Sources (Uses)	(1,156,588)	679,036	1,106,629	(361)	628,715
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	15,141	(12,743)	7,398	7,132	16,928
Fund Balances - Beginning of fiscal year	1,145,606	179,345	941,326	1,118,036	3,384,312
Fund Balances - End of fiscal year	\$ 1,160,747	\$ 166,601	\$ 948,724	\$ 1,125,169	\$ 3,401,240

Michigan

BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 2019
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 4,230	\$ 264	\$ 6	\$ -	\$ 4,500
Equity in common cash	257,596	285,536	84,782	313,427	941,341
Taxes, interest, and penalties receivable	139,362	392	-	-	139,754
Amounts due from other funds	44,434	-	882	-	45,316
Amounts due from federal agencies	16,822	3,773	18,115	11	38,722
Amounts due from local units	2,381	1,793	396	-	4,570
Inventories	-	458	-	-	458
Other current assets	3,016	7,661	60,284	150,847	221,807
Total Current Assets	<u>467,841</u>	<u>299,878</u>	<u>164,464</u>	<u>464,284</u>	<u>1,396,468</u>
Noncurrent Assets:					
Taxes, interest, and penalties receivable	3,595	1	-	-	3,595
Amounts due from local units	-	17,285	-	-	17,285
Investments	-	246,444	-	26,232	272,675
Other noncurrent assets	-	137	-	759	896
Total Noncurrent Assets	<u>3,595</u>	<u>263,865</u>	<u>-</u>	<u>26,991</u>	<u>294,451</u>
Total Assets	<u>\$ 471,435</u>	<u>\$ 563,744</u>	<u>\$ 164,464</u>	<u>\$ 491,275</u>	<u>\$ 1,690,919</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and other liabilities	\$ 219,716	\$ 28,914	\$ 21,737	\$ 901	\$ 271,267
Amounts due to other funds	18,511	2,581	12,433	46	33,571
Amounts due to component units	-	-	52,135	-	52,135
Unearned revenue	282	4,455	1,894	-	6,631
Total Current Liabilities	<u>238,509</u>	<u>35,950</u>	<u>88,199</u>	<u>947</u>	<u>363,605</u>
Long-Term Liabilities:					
Unearned revenue	4	-	-	-	4
Total Long-Term Liabilities	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>
Total Liabilities	<u>238,513</u>	<u>35,950</u>	<u>88,199</u>	<u>947</u>	<u>363,609</u>
DEFERRED INFLOWS OF RESOURCES	<u>11,945</u>	<u>217</u>	<u>3,239</u>	<u>151,163</u>	<u>166,563</u>
FUND BALANCES					
Nonspendable	-	218,915	34	25,120	244,069
Restricted	220,978	308,662	71,065	10,554	611,259
Committed	-	-	1,927	303,491	305,419
Total Fund Balances	<u>220,978</u>	<u>527,577</u>	<u>73,026</u>	<u>339,166</u>	<u>1,160,747</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 471,435</u>	<u>\$ 563,744</u>	<u>\$ 164,464</u>	<u>\$ 491,275</u>	<u>\$ 1,690,919</u>

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
REVENUES					
Taxes	\$ 3,175,109	\$ 619	\$ -	\$ -	\$ 3,175,728
From federal agencies	38,764	6,175	123,700	711	169,349
From services	4,294	1	40	-	4,335
From licenses and permits	37,350	168,031	17,747	-	223,129
Miscellaneous	19,986	115,814	516,503	213,671	865,975
Total Revenues	3,275,503	290,641	657,990	214,382	4,438,515
EXPENDITURES					
Current:					
General government	-	3,560	32,289	236,470	272,319
Education	-	-	-	72,179	72,179
Health and human services	-	-	-	55,180	55,180
Public safety and corrections	-	-	-	646	646
Conservation, environment, recreation, and agriculture	-	253,897	-	-	253,897
Labor, commerce, and regulatory	-	-	636,628	9,207	645,835
Transportation	1,947,957	-	-	-	1,947,957
Capital outlay	-	16,827	-	-	16,827
Debt service:					
Capital lease and financed purchase payments	-	204	1,743	-	1,946
Total Expenditures	1,947,957	274,488	670,660	373,681	3,266,786
Excess of Revenues over (under) Expenditures	1,327,546	16,153	(12,670)	(159,300)	1,171,729
OTHER FINANCING SOURCES (USES)					
Capital lease and financed purchase acquisitions	-	-	3,004	-	3,004
Transfers from other funds	255,393	41,500	54,435	101,780	453,108
Transfers to other funds	(1,549,892)	(23,110)	(39,656)	(41)	(1,612,700)
Total Other Financing Sources (Uses)	(1,294,500)	18,390	17,783	101,738	(1,156,588)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	33,047	34,543	5,113	(57,561)	15,141
Fund Balances - Beginning of fiscal year	187,931	493,034	67,913	396,727	1,145,606
Fund Balances - End of fiscal year	\$ 220,978	\$ 527,577	\$ 73,026	\$ 339,166	\$ 1,160,747

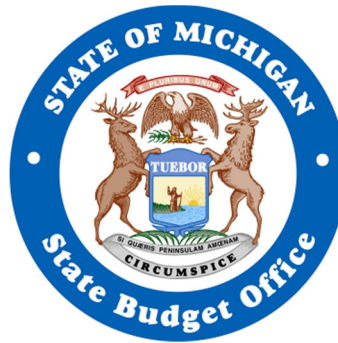
Michigan

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

<u>Statutory/Budgetary Basis</u>	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 3,175,109	\$ 3,175,109	\$ -	\$ 619	\$ 619	\$ -
From federal agencies	38,764	38,764	-	6,175	6,175	-
From services	4,294	4,294	-	1	1	-
From licenses and permits	37,350	37,350	-	168,031	168,031	-
Miscellaneous	19,986	19,986	-	57,939	57,939	-
Transfers in	255,393	255,393	-	41,500	41,500	-
Total Revenues and Other Sources	3,530,896	3,530,896	-	274,265	274,265	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Education	-	-	-	-	-	-
Health and Human Services	-	-	-	-	-	-
Licensing and Regulatory Affairs	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
State Police	-	-	-	-	-	-
Natural Resources	-	-	-	281,414	278,987	2,428
Talent and Economic Development	-	-	-	-	-	-
Transportation	3,654,664	3,647,618	7,046	-	-	-
Treasury	-	-	-	3,268	3,075	193
Total Expenditures, Transfers Out, and Encumbrances	3,654,664	3,647,618	7,046	284,683	282,062	2,621
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (123,768)	(116,722)	\$ 7,046	\$ (10,418)	(7,797)	\$ 2,621
Reconciling Items:						
Encumbrances at September 30		149,768			24,558	
Funds not annually budgeted		-			17,782	
Net Reconciling Items		149,768			42,340	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		33,047			34,543	
FUND BALANCES (GAAP BASIS)						
Beginning balances		187,931			493,034	
Ending balances (GAAP Basis)		\$ 220,978			\$ 527,577	

Michigan

REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,175,728	\$ 3,175,728	\$ -
123,700	123,700	-	711	711	-	169,348	169,348	-
40	40	-	-	-	-	4,335	4,335	-
17,747	17,747	-	-	-	-	223,129	223,129	-
46,645	46,645	-	206,561	206,561	-	331,131	331,131	-
54,435	54,435	-	101,780	101,780	-	453,108	453,108	-
242,566	242,566	-	309,051	309,051	-	4,356,779	4,356,779	-
-	-	-	507	404	102	507	404	102
-	-	-	72,179	72,179	-	72,179	72,179	-
-	-	-	56,111	55,182	928	56,111	55,182	928
20,670	19,076	1,594	-	-	-	20,670	19,076	1,594
-	-	-	1,000	27	973	1,000	27	973
-	-	-	847	633	214	847	633	214
-	-	-	-	-	-	281,414	278,987	2,428
174,321	174,321	-	-	-	-	174,321	174,321	-
-	-	-	-	-	-	3,654,664	3,647,618	7,046
43,540	43,540	-	511,375	236,081	275,294	558,183	282,696	275,487
238,531	236,936	1,594	642,019	364,507	277,512	4,819,896	4,531,123	288,773
\$ 4,036	5,630	\$ 1,594	\$ (332,967)	(55,455)	\$ 277,512	\$ (463,117)	(174,344)	\$ 288,773
	8			-			174,335	
	(526)			(2,106)			15,150	
	(517)			(2,106)			189,485	
	5,113			(57,561)			15,141	
	67,913			396,727			1,145,606	
\$ 73,026			\$ 339,166			\$ 1,160,747		



SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

MICHIGAN TRANSPORTATION FUND

Established pursuant to Michigan Compiled Laws Section 247.660, this fund accounts for the receipt and distribution of several tax revenues dedicated for highway purposes. Transfers are made to the General Fund, State Trunkline Fund, and the Comprehensive Transportation Fund. Expenditures include grants to counties, cities, and villages for highway purposes.

COMPREHENSIVE TRANSPORTATION FUND

Established pursuant to Michigan Compiled Laws Section 247.660b, this fund accounts for the planning and development of public transportation systems within the State. Federal revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund provide financing for expenditures.

Michigan

COMBINING BALANCE SHEET SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED SEPTEMBER 30, 2019 (In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 4,230	\$ -	\$ 4,230
Equity in common cash	50,983	206,613	257,596
Taxes, interest, and penalties receivable	139,362	-	139,362
Amounts due from other funds	-	44,434	44,434
Amounts due from federal agencies	-	16,822	16,822
Amounts due from local units	-	2,381	2,381
Other current assets	2,481	535	3,016
Total Current Assets	197,055	270,785	467,841
Noncurrent Assets:			
Taxes, interest, and penalties receivable	3,595	-	3,595
Total Noncurrent Assets	3,595	-	3,595
Total Assets	\$ 200,650	\$ 270,785	\$ 471,435
LIABILITIES			
Current Liabilities:			
Accounts payable and other liabilities	\$ 170,320	\$ 49,396	\$ 219,716
Amounts due to other funds	18,385	126	18,511
Unearned revenue	1	282	282
Total Current Liabilities	188,705	49,804	238,509
Long-Term Liabilities:			
Unearned revenue	-	4	4
Total Long-Term Liabilities	-	4	4
Total Liabilities	188,705	49,808	238,513
DEFERRED INFLOWS OF RESOURCES	11,945	-	11,945
FUND BALANCES			
Restricted	-	220,978	220,978
Total Fund Balances	-	220,978	220,978
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 200,650	\$ 270,785	\$ 471,435

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

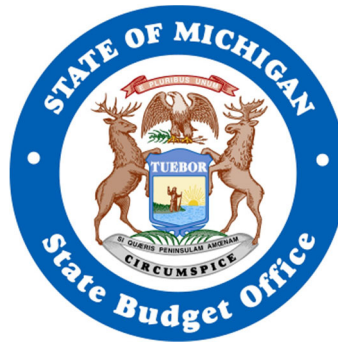
	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
REVENUES			
Taxes	\$ 3,078,258	\$ 96,851	\$ 3,175,109
From federal agencies	-	38,764	38,764
From services	4,294	-	4,294
From licenses and permits	37,033	317	37,350
Miscellaneous	5,159	14,828	19,986
	<u>3,124,744</u>	<u>150,760</u>	<u>3,275,503</u>
Total Revenues			
	<u>3,124,744</u>	<u>150,760</u>	<u>3,275,503</u>
EXPENDITURES			
Current:			
Transportation	1,594,423	353,534	1,947,957
	<u>1,594,423</u>	<u>353,534</u>	<u>1,947,957</u>
Total Expenditures			
	<u>1,594,423</u>	<u>353,534</u>	<u>1,947,957</u>
Excess of Revenues over (under)			
Expenditures	1,530,320	(202,774)	1,327,546
	<u>1,530,320</u>	<u>(202,774)</u>	<u>1,327,546</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	255,393	255,393
Transfers to other funds	(1,530,320)	(19,572)	(1,549,892)
	<u>(1,530,320)</u>	<u>(19,572)</u>	<u>(1,549,892)</u>
Total Other Financing Sources (Uses)			
	<u>(1,530,320)</u>	<u>235,820</u>	<u>(1,294,500)</u>
Excess of Revenues and Other			
Sources over (under) Expenditures			
and Other Uses	-	33,047	33,047
	<u>-</u>	<u>33,047</u>	<u>33,047</u>
Fund Balances - Beginning of fiscal year	-	187,931	187,931
	<u>-</u>	<u>187,931</u>	<u>187,931</u>
Fund Balances - End of fiscal year	\$ -	\$ 220,978	\$ 220,978
	<u>\$ -</u>	<u>\$ 220,978</u>	<u>\$ 220,978</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN TRANSPORTATION FUND		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
Taxes	\$ 3,078,258	\$ 3,078,258	\$ -
From federal agencies	-	-	-
From services	4,294	4,294	-
From licenses and permits	37,033	37,033	-
Miscellaneous	5,159	5,159	-
Transfers in	-	-	-
Total Revenues and Other Sources	<u>3,124,744</u>	<u>3,124,744</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>3,125,634</u>	<u>3,124,744</u>	<u>890</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>3,125,634</u>	<u>3,124,744</u>	<u>890</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (890)</u>	<u>-</u>	<u>\$ 890</u>
Reconciling Items:			
Encumbrances at September 30		<u>-</u>	
Net Reconciling Items		<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>-</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>-</u>	
Ending balances (GAAP Basis)		<u>\$ -</u>	

Michigan

COMPREHENSIVE TRANSPORTATION FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 96,851	\$ 96,851	\$ -	\$ 3,175,109	\$ 3,175,109	\$ -
38,764	38,764	-	38,764	38,764	-
-	-	-	4,294	4,294	-
317	317	-	37,350	37,350	-
14,828	14,828	-	19,986	19,986	-
255,393	255,393	-	255,393	255,393	-
406,152	406,152	-	3,530,896	3,530,896	-
529,030	522,874	6,155	3,654,664	3,647,618	7,046
529,030	522,874	6,155	3,654,664	3,647,618	7,046
\$ (122,877)	(116,722)	\$ 6,155	\$ (123,768)	(116,722)	\$ 7,046
	149,768			149,768	
	149,768			149,768	
	33,047			33,047	
	187,931			187,931	
\$ 220,978			\$ 220,978		



SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

MICHIGAN CONSERVATION AND RECREATION LEGACY FUND

This fund ("Legacy Fund") was created by Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006. The purpose of the amendment was to constitutionally prevent the diversion of certain funds and revenues for purposes other than those for which they were created. Section 40 created the following accounts within the Legacy Fund: Forest Recreation, Game and Fish Protection, Off-Road Vehicle, Recreation Improvement, Snowmobile, State Park Improvement, and Waterways.

The implementing legislation related to this amendment, found in Sections 324.2002 – 324.2035 of the Michigan Compiled Laws, transferred a number of special revenue funds and certain restrictively financed activities within the General Fund to the Legacy Fund. The following special revenue funds were transferred into the fund: Game and Fish Protection Fund, Michigan State Waterways Fund, Marine Safety Fund, and State Park Improvement Fund. The restrictively financed activities transferred into the fund from the General Fund were related to various outdoor recreation activities including snowmobiles, off-road vehicles, recreation trails, and State forest recreation.

Financing consists primarily of hunting and fishing licenses; camping and park entrance fees; 2 percent of gasoline taxes dedicated for boating, snowmobiling, off-road vehicles and other trails; watercraft and snowmobile registration fees; and trail use permits. The fund also receives funding from the Michigan Game and Fish Protection Trust Fund. Expenditures are limited to those activities specified in Section 40 and include forest recreation activities, wildlife and fisheries programs, off-road vehicle and snowmobile trails and facilities, State parks and recreation areas, improvement of lake harbors and inland waterways, and water safety education programs.

MICHIGAN GAME AND FISH PROTECTION TRUST FUND

The former Game and Fish Protection Trust Fund was established in 1986 to restrict certain assets for the purpose of generating interest and earnings for transfer to the former Game and Fish Protection Fund (now accounted for within the Michigan Conservation and Recreation Legacy Fund). Article 9, Section 41, of the State Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Game and Fish Protection Trust Fund.

The fund operates under Sections 324.43702 – 324.43704 of the Michigan Compiled Laws. The Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Account of the Michigan Conservation and Recreation Legacy Fund. Mineral royalties from lands acquired by the Game and Fish Protection Account; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND

The former Michigan Nongame Fish and Wildlife Fund was established in 1983 to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. Article 9, Section 42, of the State Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Nongame Fish and Wildlife Trust Fund.

The fund operates under Sections 324.43902 – 324.43907 of the Michigan Compiled Laws. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Michigan Compiled Laws Section 324.50507. The primary revenue source of the fund is timber revenue from State forest lands. Expenditures from the fund are for forest management activities and forest fire protection. The Authority is authorized to, but thus far has not, issued bonds.

BOTTLE DEPOSITS FUND

Michigan Compiled Laws (MCL) Section 445.573c created the Bottle Deposits Fund to provide for the disposition of unredeemed bottle deposits. The Department of Treasury and the Department of Environmental Quality (DEQ) jointly administer the fund. The law mandates that an annual distribution of the funds be made as follows: 25 percent returned to the dealers and 75 percent to fund several sub-funds.

The 75 percent distribution to DEQ is initially deposited into the Cleanup and Redevelopment Trust Sub-Fund (CRTF), and if not further distributed, remains there until the principal amount reaches \$200 million. Of funds received annually by the CRTF, 80 percent is allocated to the Cleanup and Redevelopment Sub-Fund (CRF) and 10 percent to the Community Pollution Prevention Sub-Fund.

MCL Section 324.20108 moved the former Environmental Response Fund (ERF) to a sub-fund of the CRF. The law mandates that proceeds of all cost recovery actions taken and settlements entered into pursuant to the ERF (excluding natural resource damages) by DEQ or the Attorney General, or both, shall be credited to the ERF.

Several DEQ sub-funds are administratively housed within the Bottle Deposits Fund, although they receive no bottle deposits revenue. Included is the State Sites Cleanup Sub-Fund, established in accordance with MCL Section 324.20108c to provide for response activities at facilities where the State is liable as an owner or operator. The following loan programs administered by DEQ are also included: the Brownfield Revolving Loan Fund created by MCL Section 324.19608a, the Revitalization Revolving Loan Fund created by MCL Section 324.20108a, and the Federal Brownfield Cleanup and Revolving Loan Fund.

Michigan

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

SEPTEMBER 30, 2019

(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
ASSETS		
Current Assets:		
Cash	\$ 78	\$ -
Equity in common cash	159,132	12,514
Taxes, interest, and penalties receivable	392	-
Amounts due from federal agencies	3,682	-
Amounts due from local units	259	-
Inventories	458	-
Other current assets	6,350	722
Total Current Assets	<u>170,352</u>	<u>13,237</u>
Noncurrent Assets:		
Taxes, interest, and penalties receivable	1	-
Amounts due from local units	-	-
Investments	2,572	235,809
Other noncurrent assets	-	-
Total Noncurrent Assets	<u>2,573</u>	<u>235,809</u>
Total Assets	<u>\$ 172,924</u>	<u>\$ 249,046</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and other liabilities	\$ 21,499	\$ 2,000
Amounts due to other funds	1,919	-
Unearned revenue	2,688	-
Total Current Liabilities	<u>26,107</u>	<u>2,000</u>
Total Liabilities	<u>26,107</u>	<u>2,000</u>
DEFERRED INFLOWS OF RESOURCES	<u>1</u>	<u>-</u>
FUND BALANCES		
Nonspendable	-	194,543
Restricted	146,817	52,503
Total Fund Balances	<u>146,817</u>	<u>247,046</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 172,924</u>	<u>\$ 249,046</u>

Michigan

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ 186	\$ -	\$ 264
2,047	44,679	67,164	285,536
-	-	-	392
-	91	-	3,773
-	-	1,534	1,793
-	-	-	458
42	63	483	7,661
2,089	45,020	69,181	299,878
-	-	-	1
-	-	17,285	17,285
8,063	-	-	246,444
-	-	137	137
8,063	-	17,421	263,865
\$ 10,152	\$ 45,020	\$ 86,602	\$ 563,744
\$ 20	\$ 4,125	\$ 1,269	\$ 28,914
2	405	255	2,581
-	1,767	-	4,455
22	6,298	1,524	35,950
22	6,298	1,524	35,950
-	-	216	217
6,000	-	18,372	218,915
4,130	38,722	66,490	308,662
10,130	38,722	84,862	527,577
\$ 10,152	\$ 45,020	\$ 86,602	\$ 563,744

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
REVENUES		
Taxes	\$ 619	\$ -
From federal agencies	6,023	-
From services	1	-
From licenses and permits	168,030	-
Miscellaneous	8,975	24,016
Total Revenues	183,648	24,016
EXPENDITURES		
Current:		
General government	3,075	485
Conservation, environment, recreation, and agriculture	191,374	202
Capital outlay	15,008	-
Debt service:		
Capital lease and financed purchase payments	104	-
Total Expenditures	209,561	687
Excess of Revenues over (under) Expenditures	(25,913)	23,329
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	41,500	-
Transfers to other funds	(3,187)	(17,218)
Total Other Financing Sources (Uses)	38,314	(17,218)
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	12,401	6,111
Fund Balances - Beginning of fiscal year	134,416	240,935
Fund Balances - End of fiscal year	\$ 146,817	\$ 247,046

Michigan

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 619
-	152	-	6,175
-	-	-	1
-	1	-	168,031
1,035	47,929	33,860	115,814
1,035	48,082	33,860	290,641
-	-	-	3,560
226	42,236	19,859	253,897
-	1,819	-	16,827
-	20	80	204
226	44,075	19,939	274,488
809	4,007	13,921	16,153
-	-	-	41,500
(3)	(452)	(2,250)	(23,110)
(3)	(452)	(2,250)	18,390
805	3,555	11,671	34,543
9,325	35,167	73,191	493,034
\$ 10,130	\$ 38,722	\$ 84,862	\$ 527,577

Michigan

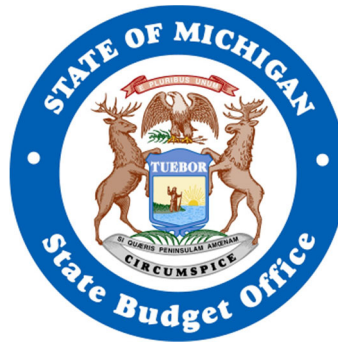
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND			MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 619	\$ 619	\$ -	\$ -	\$ -	\$ -
From federal agencies	6,023	6,023	-	-	-	-
From services	1	1	-	-	-	-
From licenses and permits	168,030	168,030	-	-	-	-
Miscellaneous	8,975	8,975	-	1,035	1,035	-
Transfers in	41,500	41,500	-	-	-	-
Total Revenues and Other Sources	<u>225,148</u>	<u>225,148</u>	<u>-</u>	<u>1,035</u>	<u>1,035</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	228,238	226,271	1,967	500	315	185
Treasury	<u>3,268</u>	<u>3,075</u>	<u>193</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>231,506</u>	<u>229,346</u>	<u>2,160</u>	<u>500</u>	<u>315</u>	<u>185</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (6,358)</u>	<u>(4,198)</u>	<u>\$ 2,160</u>	<u>\$ 535</u>	<u>720</u>	<u>\$ 185</u>
Reconciling Items:						
Encumbrances at September 30		16,599			86	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>16,599</u>			<u>86</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>12,401</u>			<u>805</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>134,416</u>			<u>9,325</u>	
Ending balances (GAAP Basis)		<u>\$ 146,817</u>			<u>\$ 10,130</u>	

Michigan

FUNDS NOT ANNUALLY BUDGETED

FOREST DEVELOPMENT FUND			MICHIGAN GAME AND FISH PROTECTION TRUST FUND	BOTTLE DEPOSITS FUND	TOTALS		
BUDGET	ACTUAL	VARIANCE	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 619	\$ 619	\$ -
152	152	-	-	-	6,175	6,175	-
-	-	-	-	-	1	1	-
1	1	-	-	-	168,031	168,031	-
47,929	47,929	-	-	-	57,939	57,939	-
-	-	-	-	-	41,500	41,500	-
<u>48,082</u>	<u>48,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,265</u>	<u>274,265</u>	<u>-</u>
52,676	52,400	276	-	-	281,414	278,987	2,428
-	-	-	-	-	3,268	3,075	193
<u>52,676</u>	<u>52,400</u>	<u>276</u>	<u>-</u>	<u>-</u>	<u>284,683</u>	<u>282,062</u>	<u>2,621</u>
<u>\$ (4,594)</u>	<u>(4,319)</u>	<u>\$ 276</u>	<u>-</u>	<u>-</u>	<u>\$ (10,418)</u>	<u>(7,797)</u>	<u>\$ 2,621</u>
	7,874		-	-		24,558	
	-		6,111	11,671		17,782	
	<u>7,874</u>		<u>6,111</u>	<u>11,671</u>		<u>42,340</u>	
	3,555		6,111	11,671		34,543	
	<u>35,167</u>		<u>240,935</u>	<u>73,191</u>		<u>493,034</u>	
<u>\$ 38,722</u>			<u>\$ 247,046</u>	<u>\$ 84,862</u>		<u>\$ 527,577</u>	



SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

Michigan Compiled Laws (MCL) Section 570.1201 created the Homeowner Construction Lien Recovery Fund to allow contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid, despite filing a residential lien. MCL Section 570.1201 was repealed effective August 23, 2010. The fund is still accruing monies received from licensees who had final orders issued by the Michigan Residential Builders' and Maintenance and Alteration Contractors' Board to reimburse the payouts from the fund and/or legal costs.

MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND

Michigan Compiled Laws Section 421.10 created this fund to account for administrative costs of the Unemployment Insurance Agency, which is administered by the Department of Talent and Economic Development. The fund derives most of its revenue from federal grants. It also receives transfers from the Michigan Employment Security Act Contingent Fund (reported as part of the Michigan Unemployment Compensation Funds, an enterprise fund). Expenditures for administration are subject to legislative appropriation.

Unemployment benefit payments to individuals are made directly from funds accumulated from employer premiums. These activities are reported in the Michigan Unemployment Compensation Funds.

SAFETY EDUCATION AND TRAINING FUND

Michigan Compiled Laws Section 408.1055 imposes an annual levy on each insurance carrier licensed to write workers' disability compensation business in the State and on each self-insured employer. The Safety Education and Training Fund was established to receive these assessments for supporting the safety education and training activities of the Department of Licensing and Regulatory Affairs' Michigan Occupational Safety and Health Administration.

SECOND INJURY FUND

Michigan Compiled Laws Section 418.501 created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The administrator, appointed by the fund's Board of Trustees, supervises the fund. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers licensed or authorized in Michigan.

SELF-INSURERS' SECURITY FUND

Established by Michigan Compiled Laws Section 418.501, the Self-Insurers' Security Fund (SISF) pays workers' compensation benefits to injured employees of insolvent, private self-insured employers. Revenues are generated through annual assessments of private self-insured employers.

The SISF also administers bankrupt self-insured employer trust funds that are created for the payment of employer obligations due under the Michigan Workers' Disability Compensation Act. Employer obligations are reported as liabilities of this fund.

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND

Established by Michigan Compiled Laws Section 418.501, the Silicosis, Dust Disease, and Logging Industry Compensation Fund reimburses insurance carriers and self-insured employers licensed or authorized in Michigan who pay benefits to employees injured from certain dust diseases, and employees who have sustained personal injury or death while being employed in the logging industry. Revenues are generated through annual assessments of insurance carriers and self-insured employers licensed or authorized in Michigan.

STATE CONSTRUCTION CODE FUND

Michigan Compiled Laws Section 125.1522 created the State Construction Code Fund. Fees received for building permit applications and other funds collected under this legislation are appropriated by the Legislature for the operation of the Department of Licensing and Regulatory Affairs' Bureau of Construction Codes and related indirect overhead expenditures.

UTILITY CONSUMER REPRESENTATION FUND

Established by Michigan Compiled Laws (MCL) Section 460.6m, the Utility Consumer Representation Fund provides funding, on behalf of residential gas, fuel, and electric customers, for energy cost recovery hearings before the Michigan Public Service Commission. The costs of operation and expenses incurred by the Utility Consumer Participation board in performing its duties under this section and MCL Section 460.6l, shall also be paid from the fund. Revenues are generated through annual assessments of regulated utility companies.

UNEMPLOYMENT OBLIGATION TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 421.10a to facilitate the repayment of debt incurred through a bond issuance authorized under the Employment Security Financing Act (MCL Section 12.271 et seq.) and MCL Section 421.26a. This debt was issued in order to repay advances received from the Federal Government that were provided to temporarily assist Michigan with unemployment payments that exceeded current revenue collections. Revenues within the Obligation Trust Fund are generated from annual assessments on employers. Payments are made to the Michigan Finance Authority, a discretely presented component unit, which currently holds the bonds and makes regular payments to the bond holders.

STATE CASINO GAMING FUND

Created by Michigan Compiled Laws (MCL) Section 432.212, this fund provides the licensing, regulation, and control of casino gaming activities in Michigan via the five-member gaming control board created under MCL Section 432.204. Additional responsibilities include the performance of authorized inspections of tribal Class III gaming facilities and records pursuant to and in accordance with the provisions of the various tribal/state compacts as delegated by the Governor in November 2002; the regulation of live horse racing per Executive Order 2009-45; and the licensing and regulation of Millionaire Party charitable gaming events per Executive Order 2012-4.

Michigan

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED

SEPTEMBER 30, 2019

(In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
ASSETS					
Current Assets:					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in common cash	300	-	4,673	9,825	32,389
Amounts due from other funds	-	9	-	-	-
Amounts due from federal agencies	-	18,115	-	-	-
Amounts due from local units	-	396	-	-	-
Other current assets	-	135	4,966	357	1,046
Total Current Assets	<u>300</u>	<u>18,654</u>	<u>9,639</u>	<u>10,182</u>	<u>33,435</u>
Total Assets	<u>\$ 300</u>	<u>\$ 18,654</u>	<u>\$ 9,639</u>	<u>\$ 10,182</u>	<u>\$ 33,435</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and other liabilities	\$ -	\$ 6,770	\$ 532	\$ 1,584	\$ 11,057
Amounts due to other funds	-	11,884	130	18	12
Amounts due to component units	-	-	-	-	-
Unearned revenue	-	-	-	1,681	114
Total Current Liabilities	<u>-</u>	<u>18,654</u>	<u>662</u>	<u>3,283</u>	<u>11,183</u>
Total Liabilities	<u>-</u>	<u>18,654</u>	<u>662</u>	<u>3,283</u>	<u>11,183</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable	-	-	-	20	13
Restricted	300	-	8,977	6,879	22,239
Committed	-	-	-	-	-
Total Fund Balances	<u>300</u>	<u>-</u>	<u>8,977</u>	<u>6,899</u>	<u>22,252</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 300</u>	<u>\$ 18,654</u>	<u>\$ 9,639</u>	<u>\$ 10,182</u>	<u>\$ 33,435</u>

Michigan

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	STATE CONSTRUCTION CODE FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	STATE CASINO GAMING FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 5	\$ 6
1,601	20,066	2,809	1,062	12,059	84,782
-	-	-	873	-	882
-	-	-	-	-	18,115
-	-	-	-	-	396
139	3	-	53,439	199	60,284
1,740	20,069	2,809	55,374	12,263	164,464
<u>\$ 1,740</u>	<u>\$ 20,069</u>	<u>\$ 2,809</u>	<u>\$ 55,374</u>	<u>\$ 12,263</u>	<u>\$ 164,464</u>
\$ 450	\$ 305	\$ 263	\$ -	\$ 778	\$ 21,737
4	111	7	-	266	12,433
-	-	-	52,135	-	52,135
99	-	-	-	-	1,894
553	415	270	52,135	1,044	88,199
553	415	270	52,135	1,044	88,199
-	-	-	3,239	-	3,239
-	-	-	-	-	34
1,187	19,654	2,538	-	9,292	71,065
-	-	-	-	1,927	1,927
1,187	19,654	2,538	-	11,219	73,026
<u>\$ 1,740</u>	<u>\$ 20,069</u>	<u>\$ 2,809</u>	<u>\$ 55,374</u>	<u>\$ 12,263</u>	<u>\$ 164,464</u>

Michigan

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
REVENUES					
From federal agencies	\$ -	\$ 123,700	\$ -	\$ -	\$ -
From services	-	-	24	-	-
From licenses and permits	-	-	-	-	-
Miscellaneous	14	147	9,653	8,064	3,468
Total Revenues	14	123,846	9,677	8,064	3,468
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Labor, commerce, and regulatory	-	148,645	10,153	8,708	3,407
Debt service:					
Capital lease and financed purchase payments	-	1,566	22	87	48
Total Expenditures	-	150,212	10,175	8,795	3,455
Excess of Revenues over (under) Expenditures	14	(26,365)	(498)	(731)	13
OTHER FINANCING SOURCES (USES)					
Capital lease and financed purchase acquisitions	-	3,004	-	-	-
Transfers from other funds	-	50,475	-	-	-
Transfers to other funds	-	(27,113)	(135)	(20)	(13)
Total Other Financing Sources (Uses)	-	26,365	(135)	(20)	(13)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	14	-	(633)	(750)	-
Fund Balances - Beginning of fiscal year	285	-	9,610	7,649	22,252
Fund Balances - End of fiscal year	\$ 300	\$ -	\$ 8,977	\$ 6,899	\$ 22,252

Michigan

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	STATE CONSTRUCTION CODE FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	STATE CASINO GAMING FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,700
-	15	-	-	2	40
-	16,750	-	-	997	17,747
<u>1,327</u>	<u>365</u>	<u>1,893</u>	<u>455,106</u>	<u>36,466</u>	<u>516,503</u>
<u>1,327</u>	<u>17,130</u>	<u>1,893</u>	<u>455,106</u>	<u>37,464</u>	<u>657,990</u>
-	-	1,006	-	31,283	32,289
1,301	8,648	659	455,106	-	636,628
<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,743</u>
<u>1,321</u>	<u>8,648</u>	<u>1,666</u>	<u>455,106</u>	<u>31,283</u>	<u>670,660</u>
<u>5</u>	<u>8,482</u>	<u>228</u>	<u>-</u>	<u>6,181</u>	<u>(12,670)</u>
-	-	-	-	-	3,004
-	-	-	-	3,960	54,435
<u>(5)</u>	<u>(109)</u>	<u>(3)</u>	<u>-</u>	<u>(12,257)</u>	<u>(39,656)</u>
<u>(5)</u>	<u>(109)</u>	<u>(3)</u>	<u>-</u>	<u>(8,297)</u>	<u>17,783</u>
-	8,373	225	-	(2,116)	5,113
<u>1,187</u>	<u>11,281</u>	<u>2,314</u>	<u>-</u>	<u>13,334</u>	<u>67,913</u>
<u>\$ 1,187</u>	<u>\$ 19,654</u>	<u>\$ 2,538</u>	<u>\$ -</u>	<u>\$ 11,219</u>	<u>\$ 73,026</u>

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

Statutory/Budgetary Basis	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND			MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ 123,700	\$ 123,700	\$ -
From services	-	-	-	-	-	-
From licenses and permits	-	-	-	-	-	-
Miscellaneous	14	14	-	147	147	-
Transfers in	-	-	-	50,475	50,475	-
Total Revenues and Other Sources	14	14	-	174,321	174,321	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Licensing and Regulatory Affairs	-	-	-	-	-	-
Talent and Economic Development	-	-	-	174,321	174,321	-
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	-	-	-	174,321	174,321	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 14	14	\$ -	\$ -	-	\$ -
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		14			-	
FUND BALANCES (GAAP BASIS)						
Beginning balances		285			-	
Ending balances (GAAP Basis)		\$ 300			\$ -	

Michigan

SAFETY EDUCATION AND TRAINING FUND			STATE CONSTRUCTION CODE FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	24	-	15	15	-
-	-	-	16,750	16,750	-
9,653	9,653	-	365	365	-
-	-	-	-	-	-
9,677	9,677	-	17,130	17,130	-
11,179	10,310	869	9,491	8,765	725
-	-	-	-	-	-
-	-	-	-	-	-
11,179	10,310	869	9,491	8,765	725
\$ (1,502)	(633)	\$ 869	\$ 7,639	8,364	\$ 725
-	-	-	-	8	-
-	-	-	-	-	-
-	-	-	-	8	-
(633)	-	-	-	8,373	-
9,610	-	-	-	11,281	-
\$ 8,977	-	-	\$ 19,654	-	-

This schedule continued on next page.

Michigan

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 2019

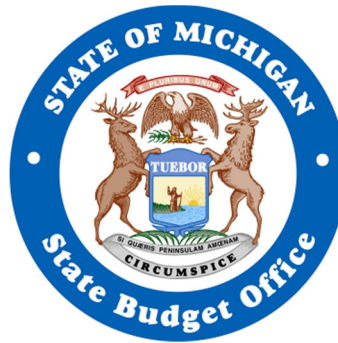
(In Thousands)

Statutory/Budgetary Basis	STATE CASINO GAMING FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
From services	2	2	-
From licenses and permits	997	997	-
Miscellaneous	36,466	36,466	-
Transfers in	3,960	3,960	-
Total Revenues and Other Sources	41,424	41,424	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Licensing and Regulatory Affairs	-	-	-
Talent and Economic Development	-	-	-
Treasury	43,540	43,540	-
Total Expenditures, Transfers Out, and Encumbrances	43,540	43,540	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (2,116)	(2,116)	\$ -
Reconciling Items:			
Encumbrances at September 30		-	
Funds not annually budgeted		-	
Net Reconciling Items		-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(2,116)	
FUND BALANCES (GAAP BASIS)			
Beginning balances		13,334	
Ending balances (GAAP Basis)		\$ 11,219	

Michigan

FUNDS NOT ANNUALLY BUDGETED

SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	TOTALS		
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,700	\$ 123,700	\$ -
-	-	-	-	-	40	40	-
-	-	-	-	-	17,747	17,747	-
-	-	-	-	-	46,645	46,645	-
-	-	-	-	-	54,435	54,435	-
-	-	-	-	-	242,566	242,566	-
-	-	-	-	-	20,670	19,076	1,594
-	-	-	-	-	174,321	174,321	-
-	-	-	-	-	43,540	43,540	-
-	-	-	-	-	238,531	236,936	1,594
-	-	-	-	-	\$ 4,036	5,630	\$ 1,594
-	-	-	-	-		8	
(750)	-	-	225	-		(526)	
(750)	-	-	225	-		(517)	
(750)	-	-	225	-		5,113	
7,649	22,252	1,187	2,314	-		67,913	
\$ 6,899	\$ 22,252	\$ 1,187	\$ 2,538	\$ -		\$ 73,026	



SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

21st CENTURY JOBS TRUST FUND

Michigan Compiled Laws Section 12.257 created the 21st Century Jobs Trust Fund to account for the transfer of the net bond proceeds issued by the Michigan Tobacco Settlement Finance Authority. Executive Order 2010-2 moved the Authority to the Michigan Finance Authority. The bonds were issued to provide sufficient funds to purchase all or a portion of the State's receipts from the master settlement agreement between tobacco manufacturers and the State. Fund expenditures are used to reimburse the Michigan Strategic Fund for expenses related to revitalizing Michigan's economy and for other programs as determined by the Legislature. The fund may accept donations of money from any source; all interest earned is deposited into the State's General Fund. Beginning in fiscal year 2008 through 2023, the fund will also receive a portion of the tobacco settlement revenue received by the State.

MICHIGAN MERIT AWARD TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 12.259 to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. The fund also consists of interest and earnings from trust fund investments and donations. Fund expenditures are used for programs, as determined by the Legislature.

All assets and liabilities of the Tobacco Settlement Trust Fund, established by MCL Section 12.253 and repealed as part of tobacco securitization legislation passed in November 2005, were transferred to the Michigan Merit Award Trust Fund in fiscal year 2006.

CHILDREN'S TRUST FUND

Michigan Compiled Laws (MCL) Section 21.171, established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board (MCL Section 722.603) to coordinate and fund activities for the prevention of child abuse and neglect in the State. All money contributed to the fund in a fiscal year, plus up to 5.0 percent of the rolling average of the fund for the previous twelve quarters shall be available for disbursement if the rolling average of the fund is at least \$23.5 million. If the rolling average of the fund for the previous twelve quarters is less than \$23.5 million then up to 4.25 percent of the twelve-quarter rolling average is available for disbursement. In addition, money granted or received as gifts or donations to the trust fund is available for disbursement upon appropriation. Funds that are not available for disbursement are reported as nonspendable fund balance.

MILITARY FAMILY RELIEF FUND

Michigan Compiled Laws Section 35.1213 created this fund to provide assistance to families of certain members of the reserve components of the United States armed forces on active duty. A qualified individual or the individual's family shall apply to the Department of Military and Veterans Affairs for a grant from the fund. Funds are received primarily from taxpayer contributions on his or her annual State tax return designating \$1 or more of his or her refund to be credited to this fund.

COMMUNITY DISTRICT EDUCATION TRUST FUND

Michigan Compiled Laws Section (MCL) 12.262 created this fund to provide funding to community districts for the duration they are prohibited under MCL Section 380.386 from levying a school operating tax by offsetting the absence of local school operating revenue in the funding of the State portion of foundation allowances under MCL Section 388.1622b. Beginning in fiscal year 2017, \$72.0 million of tobacco settlement revenue shall be deposited into the fund each year until a total of \$617.0 million is deposited. If the earmarked tobacco settlement revenue is less than the amount necessary to offset the absence of local school operating revenue in a community district in the funding of the State portion of foundation allowances under MCL 386.1622b, then the General Fund will be required to reimburse the School Aid Fund for as long as that community district is prohibited from levying a school operating tax.

MISCELLANEOUS SPECIAL REVENUE FUNDS

The miscellaneous special revenue funds column reflects the activities of the following funds: Children's Institute Trust (operating under the authority of Michigan Compiled Laws (MCL) Section 400.207), Special Assessment Deferment (operating under the authority of MCL Section 211.770), and Intrastate Switched Toll Restructuring (operating under the authority of MCL Section 484.2310).

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 275,094	\$ 17,798	\$ 1,246
Amounts due from federal agencies	-	-	11
Other current assets	56,250	40,423	106
Total Current Assets	331,344	58,221	1,363
Noncurrent Assets:			
Investments	-	-	26,232
Other noncurrent assets	-	377	-
Total Noncurrent Assets	-	377	26,232
Total Assets	\$ 331,344	\$ 58,598	\$ 27,594
LIABILITIES			
Current Liabilities:			
Accounts payable and other liabilities	\$ -	\$ 815	\$ 71
Amounts due to other funds	-	31	10
Total Current Liabilities	-	846	80
Total Liabilities	-	846	80
DEFERRED INFLOWS OF RESOURCES	56,250	40,745	-
FUND BALANCES			
Nonspendable	-	-	25,120
Restricted	-	-	2,394
Committed	275,094	17,007	-
Total Fund Balances	275,094	17,007	27,514
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 331,344	\$ 58,598	\$ 27,594

Michigan

MILITARY FAMILY RELIEF FUND	COMMUNITY DISTRICT EDUCATION TRUST FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 2,509	\$ 11,391	\$ 5,390	\$ 313,427
-	-	-	11
-	54,000	67	150,847
2,509	65,391	5,458	464,284
-	-	-	26,232
-	-	382	759
-	-	382	26,991
\$ 2,509	\$ 65,391	\$ 5,840	\$ 491,275
\$ -	\$ -	\$ 15	\$ 901
-	-	5	46
-	-	21	947
-	-	21	947
-	54,000	168	151,163
-	-	-	25,120
2,509	-	5,652	10,554
-	11,391	-	303,491
2,509	11,391	5,652	339,166
\$ 2,509	\$ 65,391	\$ 5,840	\$ 491,275

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - OTHER STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
REVENUES			
From federal agencies	\$ -	\$ -	\$ 711
Miscellaneous	75,000	56,389	2,946
Total Revenues	75,000	56,389	3,656
EXPENDITURES			
Current:			
General government	235,039	1,379	52
Education	-	-	-
Health and human services	-	52,268	2,912
Public safety and corrections	-	619	-
Labor, commerce, and regulatory	-	-	-
Total Expenditures	235,039	54,266	2,964
Excess of Revenues over (under) Expenditures	(160,039)	2,123	692
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	101,780	-	-
Transfers to other funds	-	(30)	(3)
Total Other Financing Sources (Uses)	101,780	(30)	(3)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(58,259)	2,094	690
Fund Balances - Beginning of fiscal year	333,352	14,913	26,824
Fund Balances - End of fiscal year	\$ 275,094	\$ 17,007	\$ 27,514

Michigan

MILITARY FAMILY RELIEF FUND	COMMUNITY DISTRICT EDUCATION TRUST FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 711
140	72,086	7,110	213,671
140	72,086	7,110	214,382
-	-	-	236,470
-	72,179	-	72,179
-	-	-	55,180
27	-	-	646
-	-	9,207	9,207
27	72,179	9,207	373,681
113	(93)	(2,097)	(159,300)
-	-	-	101,780
-	-	(9)	(41)
-	-	(9)	101,738
113	(93)	(2,106)	(57,561)
2,396	11,484	7,758	396,727
\$ 2,509	\$ 11,391	\$ 5,652	\$ 339,166

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>21ST CENTURY JOBS TRUST FUND</u>			<u>MICHIGAN MERIT AWARD TRUST FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	75,000	75,000	-	56,389	56,389	-
Transfers in	101,780	101,780	-	-	-	-
Total Revenues and Other Sources	176,780	176,780	-	56,389	56,389	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	507	404	102
Education	-	-	-	-	-	-
Health and Human Services	-	-	-	52,269	52,268	1
Military and Veterans Affairs	-	-	-	-	-	-
State Police	-	-	-	847	633	214
Treasury	510,132	235,039	275,094	1,192	991	200
Total Expenditures, Transfers Out, and Encumbrances	510,132	235,039	275,094	54,814	54,296	518
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (333,352)</u>	<u>(58,259)</u>	<u>\$ 275,094</u>	<u>\$ 1,575</u>	<u>2,094</u>	<u>\$ 518</u>
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(58,259)</u>			<u>2,094</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>333,352</u>			<u>14,913</u>	
Ending balances (GAAP Basis)		<u>\$ 275,094</u>			<u>\$ 17,007</u>	

Michigan

CHILDREN'S TRUST FUND			MILITARY FAMILY RELIEF FUND			COMMUNITY DISTRICT EDUCATION TRUST FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 711	\$ 711	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,946	2,946	-	140	140	-	72,086	72,086	-
-	-	-	-	-	-	-	-	-
3,656	3,656	-	140	140	-	72,086	72,086	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	72,179	72,179	-
3,842	2,915	927	-	-	-	-	-	-
-	-	-	1,000	27	973	-	-	-
-	-	-	-	-	-	-	-	-
52	52	-	-	-	-	-	-	-
3,894	2,966	927	1,000	27	973	72,179	72,179	-
\$ (238)	690	\$ 927	\$ (860)	113	\$ 973	\$ (93)	(93)	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
690				113		(93)		
26,824				2,396		11,484		
\$ 27,514			\$ 2,509			\$ 11,391		

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

	FUNDS NOT ANNUALLY BUDGETED		MISCELLANEOUS SPECIAL REVENUE FUNDS	
			TOTALS	
<u>Statutory/Budgetary Basis</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES				
From federal agencies	\$ -	\$ 711	\$ 711	\$ -
Miscellaneous	-	206,561	206,561	-
Transfers in	-	101,780	101,780	-
Total Revenues and Other Sources	-	309,051	309,051	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY				
Attorney General	-	507	404	102
Education	-	72,179	72,179	-
Health and Human Services	-	56,111	55,182	928
Military and Veterans Affairs	-	1,000	27	973
State Police	-	847	633	214
Treasury	-	511,375	236,081	275,294
Total Expenditures, Transfers Out, and Encumbrances	-	642,019	364,507	277,512
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	\$ (332,967)	(55,455)	\$ 277,512
Reconciling Items:				
Encumbrances at September 30	-		-	
Funds not annually budgeted	(2,106)		(2,106)	
Net Reconciling Items	(2,106)		(2,106)	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	(2,106)		(57,561)	
FUND BALANCES (GAAP BASIS)				
Beginning balances	7,758		396,727	
Ending balances (GAAP Basis)	\$ 5,652		\$ 339,166	

DEBT SERVICE FUNDS

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all State Trunkline Fund (STF) related bond issues allowed for under Michigan Compiled Laws Section 247.661. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution and irrevocably pledged by law for deposit in STF. Debt service requirements are funded by annual appropriations in STF.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all Comprehensive Transportation Fund (CTF) related bond issues allowed for under Michigan Compiled Laws Section 247.660b. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for comprehensive transportation purposes by Article 9, Section 9, of the State Constitution and irrevocably pledged by law for deposit in CTF. Debt service requirements are funded by annual appropriations in CTF.

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

This fund was established pursuant to Michigan Compiled Laws (MCL) Sections 324.19506, 324.71506, and 324.95102 to service recreation and environmental protection bond issues. This fund also reflects debt service transactions related to State Park Improvement Fund (SPIF) revenue bonds, issued pursuant to MCL Section 324.74106.

Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund, transfers from SPIF representing state park revenues pledged for the payment of State Park Gross Revenue Bonds, and transfers from other funds as required by legislative appropriation or executive order.

Included in the restricted fund balance on the balance sheet is a \$300 thousand reserve account required by the State Park Gross Revenue Bonds document for additional security to pay bond principal and interest.

SCHOOL LOAN BOND REDEMPTION FUND

Michigan Compiled Laws Section 388.922 created this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund or School Aid Fund.

STATE BUILDING AUTHORITY

The State Building Authority (SBA) was created pursuant to Michigan Compiled Laws Section 830.412, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education, as well as State furnishings and equipment.

SBA projects are financed by revenue bonds, the proceeds of which can only be used for construction, cost of borrowing and debt service on projects related to particular bond issues. The resources to finance bond interest and principal payments are provided by transfers from the General Fund and from investment earnings of this fund. When a project is completed, the remaining assets are transferred to this fund where they are invested and used for debt service.

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ -	\$ -	\$ 1,884
Investments	-	-	-
Other current assets	-	-	15
Total Current Assets	-	-	1,900
Total Assets	\$ -	\$ -	\$ 1,900
LIABILITIES			
Current Liabilities:			
Accounts payable and other liabilities	\$ -	\$ -	\$ 1
Total Current Liabilities	-	-	1
Total Liabilities	-	-	1
FUND BALANCES			
Restricted	-	-	1,899
Total Fund Balances	-	-	1,899
Total Liabilities and Fund Balances	\$ -	\$ -	\$ 1,900

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ -	\$ 1,884
-	164,560	164,560
-	229	244
-	164,789	166,689
<u>\$ -</u>	<u>\$ 164,789</u>	<u>\$ 166,689</u>
\$ -	\$ 86	\$ 87
-	86	87
-	86	87
-	164,703	166,601
-	164,703	166,601
<u>\$ -</u>	<u>\$ 164,789</u>	<u>\$ 166,689</u>

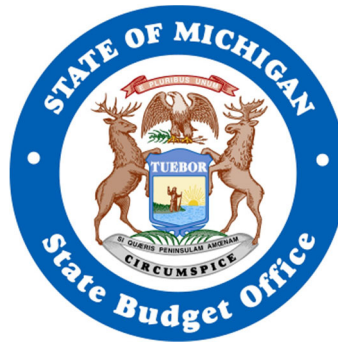
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**DEBT SERVICE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
REVENUES			
Miscellaneous	\$ 2	\$ -	\$ 22
Total Revenues	2	-	22
EXPENDITURES			
Current:			
General government	-	-	9
Education	-	-	-
Transportation	2	-	-
Debt service:			
Bond principal retirement	140,065	18,900	75,440
Bond interest and fiscal charges	56,532	3,939	31,308
Total Expenditures	196,599	22,840	106,757
Excess of Revenues over (under) Expenditures	(196,597)	(22,839)	(106,735)
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	-	-	-
Premium on bond issuance	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers from other funds	196,597	22,839	104,955
Total Other Financing Sources (Uses)	196,597	22,839	104,955
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(1,779)
Fund Balances - Beginning of fiscal year	-	-	3,678
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,899

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ 2,308	\$ 2,333
-	2,308	2,333
-	-	9
-	2,279	2,279
-	-	2
97,923	99,743	432,071
27,466	140,505	259,750
125,389	242,526	694,112
(125,389)	(240,218)	(691,779)
-	168,102	168,102
-	20,772	20,772
-	(185,167)	(185,167)
125,389	225,548	675,329
125,389	229,254	679,036
-	(10,964)	(12,743)
-	175,667	179,345
\$ -	\$ 164,703	\$ 166,601



CAPITAL PROJECTS FUNDS

STATE TRUNKLINE FUND

Established pursuant to Michigan Compiled Laws Section 247.661, this fund accounts for highway construction and maintenance. Its annual budget is subject to legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. The majority of projects in this fund are owned by the State. Financing consists primarily of federal aid, local participation, and transfers from the Michigan Transportation Fund. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations.

This fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Activities of the Blue Water Bridge program, segregated as a separate fund within the accounting system, are also reported within the State Trunkline Fund.

STATE AERONAUTICS FUND

Established pursuant to Michigan Compiled Laws Section 259.34, this fund accounts for airport improvement projects, of which a majority are locally owned. Financing consists primarily of aviation fuel taxes and federal contributions.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, this fund accounts for the proceeds of State trunkline revenue dedicated bonds. These bonds are used in part to finance the costs of road and bridge construction. All projects accounted for by this fund are owned by the State.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, this fund accounts for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are used in part to finance the costs of locally owned comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUNDS

The Michigan Department of Transportation is recognized as the legal representative of the State, including all governmental subdivisions, in the administration of the Federal Highway Administration programs. The financing accounted for in this fund consists primarily of revenues from the federal Highway Trust Fund utilized to reimburse municipalities for road and bridge program activities with very little State funds. All projects accounted for in this fund are locally owned.

STATE BUILDING AUTHORITY

The State Building Authority (SBA) was created pursuant to Michigan Compiled Laws Section 830.412, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education, as well as State furnishings and equipment. The SBA's five-member board is appointed by the Governor.

This capital projects fund accounts for the construction of State projects, certain equipment financing, and higher education related projects using short-term commercial paper notes. Transfers out reflect reimbursements of expenditures to the SBA Advance Financing Fund, and the transfer of assets remaining after the completion of a project to the debt service fund. In the State's Government-wide Financial Statements, accumulated expenditures for incomplete projects are reflected as "construction in progress" and completed projects are recorded as "buildings."

ADVANCE FINANCING FUNDS

The Advance Financing Funds reflects the activities of two sub-funds: the State Building Authority (SBA) Advance Financing Fund and the Site Preparation Economic Development Fund.

The SBA Advance Financing Fund was administratively established to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of SBA bonds. Appropriation acts and concurrent resolutions provide temporary financing of such expenditures for legislatively authorized projects. Expenditures on behalf of SBA are recorded when incurred. At year-end, any deficit in the common cash pool is reclassified as an interfund liability. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to the SBA projects are recorded in this fund.

SBA, in its separately issued statements, does not recognize liabilities for these projects until bonds or commercial paper are issued; therefore, no receivable from SBA is recognized in this fund prior to bond or commercial paper issuance. This results in the fund showing a year-end fund balance deficit. SBA will reimburse this fund by recording a transfer and the deficit attributable to the bonded projects will be eliminated when SBA issues bonds or obtains commercial paper.

The Site Preparation Economic Development Fund is created through the annual appropriations process to account for expenditures incurred to prepare and sell State owned sites declared as surplus that would provide economic benefit to the area or State. Expenditures are recorded when incurred. Sale proceeds of fund properties are deposited into the fund.

COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
ASSETS				
Current Assets:				
Cash	\$ 64	\$ -	\$ -	\$ -
Equity in common cash	857,266	10,042	89,006	3,253
Taxes, interest, and penalties receivable	-	533	-	-
Amounts due from other funds	14,316	-	-	-
Amounts due from component units	1,726	-	-	-
Amounts due from federal agencies	179,024	23,622	30,128	-
Amounts due from local units	23,980	38	-	-
Inventories	10,394	-	-	-
Investments	-	-	-	-
Other current assets	48,144	55	-	-
Total Current Assets	<u>1,134,913</u>	<u>34,290</u>	<u>119,134</u>	<u>3,253</u>
Noncurrent Assets:				
Taxes, interest, and penalties receivable	-	18	-	-
Amounts due from local units	49,824	46	-	-
Total Noncurrent Assets	<u>49,824</u>	<u>64</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 1,184,737</u>	<u>\$ 34,355</u>	<u>\$ 119,134</u>	<u>\$ 3,253</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 262,877	\$ 18,026	\$ -	\$ 153
Amounts due to other funds	5,055	82	-	-
Bonds and notes payable	-	-	-	-
Interest payable	-	-	-	-
Unearned revenue	1,947	-	-	-
Total Current Liabilities	<u>269,879</u>	<u>18,108</u>	<u>-</u>	<u>153</u>
Long-Term Liabilities:				
Unearned revenue	87	-	-	-
Total Long-Term Liabilities	<u>87</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>269,966</u>	<u>18,108</u>	<u>-</u>	<u>153</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>21</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	10,394	-	-	-
Restricted	904,377	16,226	119,134	3,100
Unassigned	-	-	-	-
Total Fund Balances	<u>914,771</u>	<u>16,226</u>	<u>119,134</u>	<u>3,100</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,184,737</u>	<u>\$ 34,355</u>	<u>\$ 119,134</u>	<u>\$ 3,253</u>

Michigan

TRANSPORTATION RELATED TRUST FUNDS	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 64
-	-	217	959,784
-	-	-	533
-	-	17,642	31,958
-	-	-	1,726
38,937	-	145	271,856
69,622	-	-	93,640
-	-	-	10,394
-	10,934	-	10,934
-	49	-	48,248
<u>108,559</u>	<u>10,983</u>	<u>18,004</u>	<u>1,429,135</u>
-	-	-	18
-	-	-	49,870
-	-	-	49,888
<u>\$ 108,559</u>	<u>\$ 10,983</u>	<u>\$ 18,004</u>	<u>\$ 1,479,023</u>
\$ 68,193	\$ 391	\$ 19,338	\$ 368,979
40,366	17,647	21,742	84,892
-	73,580	-	73,580
-	184	-	184
-	-	610	2,557
<u>108,559</u>	<u>91,803</u>	<u>41,690</u>	<u>530,192</u>
-	-	-	87
-	-	-	87
<u>108,559</u>	<u>91,803</u>	<u>41,690</u>	<u>530,278</u>
-	-	-	21
-	-	-	10,394
-	-	-	1,042,837
-	(80,820)	(23,687)	(104,507)
-	(80,820)	(23,687)	948,724
<u>\$ 108,559</u>	<u>\$ 10,983</u>	<u>\$ 18,004</u>	<u>\$ 1,479,023</u>

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
REVENUES				
Taxes	\$ -	\$ 15,579	\$ -	\$ -
From federal agencies	855,308	67,148	32,814	-
From local agencies	17,032	4	-	-
From services	3,305	511	-	-
From licenses and permits	17,300	505	-	-
Miscellaneous	169,859	7,646	3,109	1,264
Total Revenues	1,062,804	91,392	35,924	1,264
EXPENDITURES				
Current:				
Education	-	-	-	-
Transportation	745,959	89,441	-	2,644
Capital outlay	1,335,980	359	1	-
Debt service:				
Capital lease and financed purchase payments	587	-	-	-
Total Expenditures	2,082,526	89,800	1	2,644
Excess of Revenues over (under) Expenditures	(1,019,722)	1,592	35,923	(1,380)
OTHER FINANCING SOURCES (USES)				
Bonds and bond anticipation notes issued	-	-	-	-
Premium on bond issuance	-	-	-	-
Capital lease and financed purchase acquisitions	514	-	-	-
Proceeds from sale of capital assets	660	-	-	-
Transfers from other funds (Note 21)	1,266,509	6,000	-	-
Transfers to other funds (Note 21)	(202,079)	(3,550)	(35,863)	-
Total Other Financing Sources (Uses)	1,065,604	2,450	(35,863)	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	45,881	4,043	60	(1,380)
Fund Balances - Beginning of fiscal year	868,890	12,183	119,075	4,480
Fund Balances - End of fiscal year	\$ 914,771	\$ 16,226	\$ 119,134	\$ 3,100

Michigan

TRANSPORTATION RELATED TRUST FUNDS	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 15,579
268,384	-	13,308	1,236,963
416	-	-	17,453
-	-	-	3,816
-	-	-	17,804
814	447	-	183,140
<u>269,615</u>	<u>447</u>	<u>13,308</u>	<u>1,474,754</u>
-	61,839	78	61,916
269,615	-	-	1,107,659
-	35,257	32,226	1,403,823
-	-	-	587
<u>269,615</u>	<u>97,095</u>	<u>32,304</u>	<u>2,573,985</u>
-	(96,648)	(18,996)	(1,099,231)
-	67,478	-	67,478
-	8,339	-	8,339
-	-	-	514
-	-	-	660
-	-	14,879	1,287,387
-	(16,258)	-	(257,750)
<u>-</u>	<u>59,559</u>	<u>14,879</u>	<u>1,106,629</u>
-	(37,088)	(4,117)	7,398
-	(43,732)	(19,570)	941,326
<u>\$ -</u>	<u>\$ (80,820)</u>	<u>\$ (23,687)</u>	<u>\$ 948,724</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

Statutory/Budgetary Basis	STATE TRUNKLINE FUND			STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 15,579	\$ 15,579	\$ -
From federal agencies	855,308	855,308	-	67,148	67,148	-
From local agencies	17,032	17,032	-	4	4	-
From services	3,305	3,305	-	511	511	-
From licenses and permits	17,300	17,300	-	505	505	-
Miscellaneous	169,859	169,859	-	7,646	7,646	-
Proceeds from sale of capital assets	660	660	-	-	-	-
Transfers in	1,266,509	1,266,509	-	6,000	6,000	-
Total Revenues and Other Sources	2,329,973	2,329,973	-	97,392	97,392	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Transportation	2,459,167	2,379,104	80,062	95,399	93,906	1,493
Total Expenditures, Transfers Out, and Encumbrances	2,459,167	2,379,104	80,062	95,399	93,906	1,493
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (129,194)	(49,131)	\$ 80,062	\$ 1,993	3,486	\$ 1,493
Reconciling Items:						
Encumbrances at September 30		95,013			557	
Funds not annually budgeted		-			-	
Net Reconciling Items		95,013			557	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		45,881			4,043	
FUND BALANCES (GAAP BASIS)						
Beginning balances		868,890			12,183	
Ending balances (GAAP Basis)		\$ 914,771			\$ 16,226	

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUNDS (Continued)**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

<u>Statutory/Budgetary Basis</u>	TOTALS		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
Taxes	\$ 15,579	\$ 15,579	\$ -
From federal agencies	922,456	922,456	-
From local agencies	17,036	17,036	-
From services	3,816	3,816	-
From licenses and permits	17,804	17,804	-
Miscellaneous	177,505	177,505	-
Proceeds from sale of capital assets	660	660	-
Transfers in	1,272,509	1,272,509	-
Total Revenues and Other Sources	2,427,365	2,427,365	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	2,554,566	2,473,011	81,555
Total Expenditures, Transfers Out, and Encumbrances	2,554,566	2,473,011	81,555
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (127,201)	(45,645)	\$ 81,555
Reconciling Items:			
Encumbrances at September 30		95,569	
Funds not annually budgeted		(42,526)	
Net Reconciling Items		53,043	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		7,398	
FUND BALANCES (GAAP BASIS)			
Beginning balances		941,326	
Ending balances (GAAP Basis)		\$ 948,724	

PERMANENT FUNDS

MICHIGAN NATURAL RESOURCES TRUST FUND

Article 9, Section 35, of the State Constitution created the Michigan Natural Resources Trust Fund (MNRTF). The fund, established in 1985, operates under Sections 324.1901 - 324.1908 of the Michigan Compiled Laws. The State Treasurer directs fund investments, which include fixed income and equity investments.

In May of 2011, the MNRTF reached the constitutional limit of \$500 million on the investment corpus. As a result, the MNRTF no longer receives revenue generated from oil and gas bonuses, rentals, and royalties from State-owned land. Constitutionally, these revenue sources are now deposited into the Michigan State Parks Endowment Fund.

Constitutional provisions limit all future MNRTF appropriations to investment and other miscellaneous income of the fund. Appropriations are used to fund grants to local units of government as well as State agencies to acquire land or develop public recreation facilities and to fund payments in lieu of property taxes on State lands acquired by the fund.

MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, the Michigan State Parks Endowment Fund (MSPEF) is governed by the provisions of Michigan Compiled Laws Section 324.74119 to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. Currently all revenues previously attributable to the Michigan Natural Resources Trust Fund from oil and gas bonuses, rentals, and royalties from State-owned land are deposited in the MSPEF until its accumulated principal is capped at \$800 million.

The legislature is limited to appropriating no more than 50 percent of revenues from oil and gas bonuses, rentals, and royalties from State-owned land plus interest and earnings and any private contributions or other revenue to the endowment fund. When the endowment fund's principal balance reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit, annually adjusted for inflation, may be expended.

MICHIGAN VETERANS' TRUST FUND

Article 9, Section 37, of the State Constitution created this fund to finance programs to assist veterans and their beneficiaries. A seven-member board of trustees governs the fund. Resources are provided by investment and common cash earnings. Expenditures and transfers out reflect grants to benefit veterans and their widows or dependents, program and administrative costs at both the State and local level. The fund is administered within the Department of Military and Veterans Affairs.

Michigan

COMBINING BALANCE SHEET

PERMANENT FUNDS

SEPTEMBER 30, 2019

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
ASSETS				
Current Assets:				
Equity in common cash	\$ 66,502	\$ 28,864	\$ 196	\$ 95,562
Other current assets	1,737	3,808	126	5,670
Total Current Assets	68,239	32,672	322	101,233
Noncurrent Assets:				
Investments	681,360	304,118	63,127	1,048,605
Total Noncurrent Assets	681,360	304,118	63,127	1,048,605
Total Assets	\$ 749,599	\$ 336,790	\$ 63,449	\$ 1,149,838
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 20,303	\$ 3,889	\$ 40	\$ 24,231
Amounts due to other funds	18	412	8	438
Total Current Liabilities	20,320	4,300	48	24,669
Total Liabilities	20,320	4,300	48	24,669
FUND BALANCES				
Nonspendable	500,000	282,744	50,000	832,744
Restricted	229,278	49,746	13,401	292,425
Total Fund Balances	729,278	332,490	63,401	1,125,169
Total Liabilities and Fund Balances	\$ 749,599	\$ 336,790	\$ 63,449	\$ 1,149,838

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

PERMANENT FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
REVENUES				
From services	\$ -	\$ 1	\$ -	\$ 1
Miscellaneous	45,386	46,468	4,111	95,964
Total Revenues	45,386	46,468	4,111	95,965
EXPENDITURES				
Current:				
General government	3,526	588	103	4,217
Public safety and corrections	-	-	1,895	1,895
Conservation, environment, recreation, and agriculture	33,636	27,237	-	60,872
Capital outlay	15,374	6,106	-	21,480
Debt service:				
Capital lease and financed purchase payments	-	7	-	7
Total Expenditures	52,535	33,938	1,999	88,472
Excess of Revenues over (under) Expenditures	(7,149)	12,530	2,112	7,493
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	10	-	-	10
Transfers to other funds	(19)	(343)	(10)	(371)
Total Other Financing Sources (Uses)	(8)	(343)	(10)	(361)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(7,157)	12,187	2,102	7,132
Fund Balances - Beginning of fiscal year	736,436	320,303	61,298	1,118,036
Fund Balances - End of fiscal year	\$ 729,278	\$ 332,490	\$ 63,401	\$ 1,125,169

Michigan

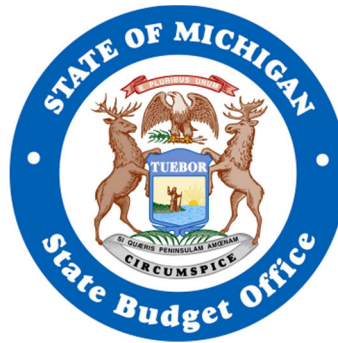
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
PERMANENT FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN NATURAL RESOURCES TRUST FUND			MICHIGAN STATE PARKS ENDOWMENT FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
From services	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ -
Miscellaneous	45,386	45,386	-	46,468	46,468	-
Proceeds from sale of capital assets	10	10	-	-	-	-
Total Revenues and Other Sources	45,397	45,397	-	46,468	46,468	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	94,324	92,867	1,457	34,474	34,306	168
Treasury	3,531	3,526	5	588	588	-
Total Expenditures, Transfers Out, and Encumbrances	97,854	96,393	1,462	35,062	34,894	168
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (52,458)</u>	<u>(50,996)</u>	<u>\$ 1,462</u>	<u>\$ 11,407</u>	<u>11,574</u>	<u>\$ 168</u>
Reconciling Items:						
Encumbrances at September 30		43,839			613	
Net Reconciling Items		43,839			613	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(7,157)			12,187	
FUND BALANCES (GAAP BASIS)						
Beginning balances		736,436			320,303	
Ending balances (GAAP Basis)		<u>\$ 729,278</u>			<u>\$ 332,490</u>	

Michigan

MICHIGAN VETERANS' TRUST FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ -
4,111	4,111	-	95,964	95,964	-
-	-	-	10	10	-
4,111	4,111	-	95,975	95,975	-
5,227	1,905	3,322	5,227	1,905	3,322
-	-	-	128,797	127,173	1,624
103	103	-	4,222	4,217	5
5,330	2,008	3,322	138,246	133,295	4,951
\$ (1,219)	2,102	\$ 3,322	\$ (42,270)	(37,319)	\$ 4,951
-	-	-	-	44,452	-
-	-	-	-	44,452	-
2,102	-	-	-	7,132	-
61,298	-	-	-	1,118,036	-
\$ 63,401	-	-	\$ 1,125,169	-	-



ENTERPRISE FUNDS

ATTORNEY DISCIPLINE SYSTEM

The Attorney Discipline System (ADS) consists of the Attorney Grievance Commission and the Attorney Discipline Board. This system provides the courts, legal profession, and the general public with a means to ensure that complaints against attorneys for potential violations of the Court Rules and the Michigan Rules of Professional Conduct are properly heard and investigated, and that sanctions are imposed where required. ADS is under the supervision of the Michigan Supreme Court which also approves the two agencies' budgets.

ADS receives revenue in the form of mandatory annual assessments on members of the State Bar of Michigan, provided for by Court Rules. This system also receives other revenue, primarily through the assessment of administrative fees and the recovery of costs, including subpoena fees and transcript costs.

LIQUOR PURCHASE REVOLVING FUND

Michigan Compiled Laws (MCL) Section 436.1221 authorized the Liquor Control Commission, within the Department of Licensing and Regulatory Affairs, to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the State Treasurer. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the net income of the fund is transferred to the General Fund in accordance with MCL Section 18.1435.

COMBINING STATEMENT OF NET POSITION
ENTERPRISE FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 1,100	\$ -	\$ 1,100
Equity in common cash	-	74,757	74,757
Inventories	-	13,284	13,284
Investments	2,410	-	2,410
Other current assets	192	19,517	19,709
Total Current Assets	<u>3,702</u>	<u>107,558</u>	<u>111,260</u>
Noncurrent Assets:			
Investments	4,385	-	4,385
Capital Assets:			
Buildings and equipment	1,094	162	1,255
Allowance for depreciation	(567)	(11)	(578)
Total capital assets	<u>527</u>	<u>150</u>	<u>677</u>
Total Noncurrent Assets	<u>4,911</u>	<u>150</u>	<u>5,062</u>
Total Assets	<u>8,614</u>	<u>107,708</u>	<u>116,322</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>301</u>	<u>4,119</u>	<u>4,419</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and other liabilities	387	109,845	110,232
Amounts due to other funds	-	228	228
Interest payable	-	1	1
Unearned revenue	702	-	702
Current portion of other long-term obligations	17	823	840
Total Current Liabilities	<u>1,106</u>	<u>110,896</u>	<u>112,002</u>
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	2,674	31,101	33,775
Total Long-Term Liabilities	<u>2,674</u>	<u>31,101</u>	<u>33,775</u>
Total Liabilities	<u>3,780</u>	<u>141,997</u>	<u>145,778</u>
DEFERRED INFLOWS OF RESOURCES	<u>258</u>	<u>7,022</u>	<u>7,280</u>
NET POSITION			
Net investment in capital assets	(39)	(11)	(51)
Restricted for other purposes	3,244	-	3,244
Unrestricted	<u>1,671</u>	<u>(37,181)</u>	<u>(35,510)</u>
Total Net Position	<u>\$ 4,876</u>	<u>\$ (37,193)</u>	<u>\$ (32,316)</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 5,334	\$ 1,252,015	\$ 1,257,349
Total Operating Revenues	5,334	1,252,015	1,257,349
OPERATING EXPENSES			
Salaries, wages, and other administrative	5,273	92,985	98,258
Depreciation	33	8	41
Purchases for resale	-	913,791	913,791
Premiums and claims	-	13	13
Other operating expenses	-	874	874
Total Operating Expenses	5,307	1,007,671	1,012,978
Operating Income (Loss)	27	244,344	244,371
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	54	3,735	3,789
Investment revenue (expense) - net	282	-	282
Other nonoperating revenues	-	50	50
Interest expense	-	(30)	(30)
Total Nonoperating Revenues (Expenses)	336	3,755	4,091
Income (Loss) Before Transfers	364	248,099	248,462
TRANSFERS			
Transfers to other funds	-	(248,099)	(248,099)
Total Transfers In (Out)	-	(248,099)	(248,099)
Change in net position	364	-	364
Total net position - Beginning of fiscal year	4,513	(37,193)	(32,680)
Total net position - End of fiscal year	\$ 4,876	\$ (37,193)	\$ (32,316)

**COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ -	\$ 1,246,653	\$ 1,246,653
Membership dues	5,589	-	5,589
Payments to employees	(4,145)	(11,795)	(15,940)
Payments to suppliers	(773)	(1,001,419)	(1,002,192)
Claims paid	-	(13)	(13)
Other receipts	96	50	146
Other payments	(191)	(873)	(1,064)
Net cash provided (used) by operating activities	575	232,603	233,178
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	-	(282,615)	(282,615)
Net cash provided (used) by noncapital financing activities	-	(282,615)	(282,615)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital lease payments (including imputed interest expense)	19	(31)	(12)
Net cash provided (used) by capital and related financing activities	19	(31)	(12)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	(79)	-	(79)
Sale of investment securities	523	-	523
Interest and dividends on investments	54	3,735	3,789
Net cash provided (used) by investing activities	498	3,735	4,233
Net cash provided (used) - all activities	1,092	(46,307)	(45,215)
Cash and cash equivalents at beginning of year	8	121,064	121,073
Cash and cash equivalents at end of year	\$ 1,100	\$ 74,757	\$ 75,857
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Position Classifications:			
Cash	\$ 1,100	\$ -	\$ 1,100
Equity in common cash	-	74,757	74,757
Cash and cash equivalents at end of year	\$ 1,100	\$ 74,757	\$ 75,857
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 27	\$ 244,344	\$ 244,371
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	33	8	41
Pension expense	310	994	1,304
OPEB expense	82	473	556
Deferred outflows - contributions subsequent to measurement date	(203)	(2,796)	(3,000)
Other nonoperating revenues	-	50	50
Other reconciling items	10	676	686
Net Changes in Assets and Liabilities:			
Inventories	-	(5,095)	(5,095)
Other assets (net)	34	(6,274)	(6,239)
Accounts payable and other liabilities	(385)	223	(163)
Unearned revenue	667	-	667
Net cash provided (used) by operating activities	\$ 575	\$ 232,603	\$ 233,178
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Cost of capital assets acquisitions financed by capital leases	\$ 547	\$ -	\$ 547
Capital lease liabilities entered into during the year	(547)	-	(547)
Total noncash investing, capital, and financing activities	\$ -	\$ -	\$ -

INTERNAL SERVICE FUNDS

CORRECTIONAL INDUSTRIES REVOLVING FUND

Authorized by Michigan Compiled Laws (MCL) Section 800.325, this fund accounts for the financial transactions of multiple manufacturing and service processing industries employing inmates incarcerated in Michigan's correctional institutions. In 1980, MCL Section 800.326 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, a foreign government or agencies of a foreign government, a private vendor that operates the youth correctional facility, and certain tax-exempt organizations.

The amendment allowed for a five-year phase-in of price setting which would provide a margin in direct and indirect costs to reach self-sufficiency. Since self-sufficiency was reached in 1985, the fund has supported the cost of civilian wages, salaries and other costs which were paid by the Department in the past. A solvent fund allows Industries to expand its operations to service more inmates.

Executive Order 1992-13 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. The minimum required payment was made in fiscal year 2019.

STATE SPONSORED GROUP INSURANCE FUND

This fund was administratively established to reflect the financial transactions of the State sponsored insurance plans that provide health, long-term disability, life, vision, and dental coverage for participating employees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis. A note to the financial statements entitled "Risk Management" provides additional information about this fund.

INFORMATION TECHNOLOGY FUND

This fund was created by administrative decision to provide telecommunication and information technology services for State agencies. During fiscal year 2002, the use of this fund was expanded to account for all information technology activities of the executive branch as prescribed in Executive Order 2001-03. User agencies are billed for the equipment and services based on actual costs or rates established to cover actual costs.

OFFICE SERVICES REVOLVING FUND

Created in 1952, this fund operates under Michigan Compiled Laws Section 18.1269 to provide services in the following areas: printing, reproduction, microfilm and imaging, mailing, distribution of federal and state surplus property, delivery, and warehouse services. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment. During fiscal year 2002, the use of the fund was expanded to account for the purchase of bulk gas used by State agencies.

MOTOR TRANSPORT FUND

This fund was created by Michigan Compiled Laws Section 18.1213 to provide vehicle and travel services for State agencies. Activities include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short-term usage and are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are billed on a monthly basis for services rendered.

RISK MANAGEMENT FUND

Administratively established, this fund accounts for certain centralized risk management functions performed by the Department of Technology, Management and Budget for other State agencies. Currently, the fund has assumed a degree of risk for the automotive liability. This activity and administrative functions are recorded as operating activity of the fund. An activity of the fund for which the fund assumes no risk is the centralized processing of workers' compensation payments for State agencies. Workers' compensation long-term claim liabilities are recorded in the Government-wide Financial Statements and the related current year workers' compensation expenditures are recorded in the applicable funds.

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
 SEPTEMBER 30, 2019
 (In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
ASSETS			
Current Assets:			
Cash	\$ -	\$ 3	\$ 89
Equity in common cash	1,391	362,513	26,903
Amounts due from other funds	-	8,238	1,687
Amounts due from component units	-	92	214
Inventories	6,861	-	46
Other current assets	431	5,393	38,375
Total Current Assets	8,683	376,238	67,314
Noncurrent Assets:			
Capital Assets:			
Land and other non-depreciable assets	-	-	129,303
Buildings and equipment	24,032	-	1,381,960
Allowance for depreciation	(15,214)	-	(907,758)
Construction in progress	-	-	1,274
Total capital assets	8,818	-	604,778
Other noncurrent assets	-	1,700	16,651
Total Noncurrent Assets	8,818	1,700	621,429
Total Assets	17,501	377,938	688,743
DEFERRED OUTFLOWS OF RESOURCES	2,036	-	106,141
LIABILITIES			
Current Liabilities:			
Accounts payable and other liabilities	682	15,343	70,592
Amounts due to other funds	87	-	3,870
Interest payable	2,150	-	1,294
Unearned revenue	-	149	79,978
Current portion of other long-term obligations	299	35,388	27,343
Total Current Liabilities	3,218	50,880	183,076
Long-Term Liabilities:			
Advances from other funds	1,044	-	-
Unearned revenue	-	-	378,604
Noncurrent portion of other long-term obligations	15,919	95,664	806,359
Total Long-Term Liabilities	16,964	95,664	1,184,963
Total Liabilities	20,182	146,544	1,368,039
DEFERRED INFLOWS OF RESOURCES	1,899	-	80,300
NET POSITION			
Net investment in capital assets	8,818	-	513,456
Unrestricted	(11,361)	231,394	(1,166,912)
Total Net Position	\$ (2,543)	\$ 231,394	\$ (653,456)

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTAL
\$ 26	\$ -	\$ -	\$ 118
32,833	1,284	11,713	436,636
-	-	-	9,925
-	-	-	306
3,185	204	-	10,296
2,361	988	656	48,204
<u>38,405</u>	<u>2,476</u>	<u>12,369</u>	<u>505,485</u>
-	-	-	129,303
16,772	10,722	463	1,433,949
(14,235)	(8,460)	(73)	(945,740)
-	-	-	1,274
<u>2,537</u>	<u>2,262</u>	<u>391</u>	<u>618,786</u>
<u>3,500</u>	<u>-</u>	<u>1,050</u>	<u>22,901</u>
<u>6,037</u>	<u>2,262</u>	<u>1,441</u>	<u>641,686</u>
<u>44,443</u>	<u>4,737</u>	<u>13,809</u>	<u>1,147,171</u>
<u>4,204</u>	<u>1,920</u>	<u>273</u>	<u>114,575</u>
8,208	245	138	95,208
186	61	8	4,212
-	-	3	3,448
-	-	-	80,128
<u>493</u>	<u>186</u>	<u>1,921</u>	<u>65,630</u>
<u>8,887</u>	<u>492</u>	<u>2,071</u>	<u>248,625</u>
-	-	-	1,044
-	-	-	378,604
<u>32,189</u>	<u>11,124</u>	<u>6,107</u>	<u>967,362</u>
<u>32,189</u>	<u>11,124</u>	<u>6,107</u>	<u>1,347,010</u>
<u>41,076</u>	<u>11,616</u>	<u>8,178</u>	<u>1,595,635</u>
<u>6,593</u>	<u>1,210</u>	<u>157</u>	<u>90,158</u>
2,537	2,262	(83)	526,990
(1,559)	(8,429)	5,831	(951,037)
<u>\$ 978</u>	<u>\$ (6,168)</u>	<u>\$ 5,748</u>	<u>\$ (424,047)</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**INTERNAL SERVICE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
OPERATING REVENUES			
Operating revenues	\$ 16,767	\$ 780,193	\$ 954,222
Total Operating Revenues	16,767	780,193	954,222
OPERATING EXPENSES			
Salaries, wages, and other administrative	9,437	18,036	882,604
Depreciation	433	-	122,100
Purchases for resale	-	-	1
Purchases for prison industries	6,121	-	-
Premiums and claims	-	740,157	-
Other operating expenses:			
Leased vehicles expense	-	-	-
Vehicle maintenance expense	-	-	-
Total other operating expenses	-	-	-
Total Operating Expenses	15,991	758,193	1,004,705
Operating Income (Loss)	776	22,000	(50,483)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	-	7,484	-
Other nonoperating revenues	-	-	1,509
Interest expense	(20)	-	(3,117)
Other nonoperating expenses	(87)	-	(10,235)
Total Nonoperating Revenues (Expenses)	(107)	7,484	(11,843)
Income (Loss) Before Transfers	670	29,484	(62,326)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to other funds	(106)	-	(3,804)
Total Transfers In (Out)	(106)	-	(3,804)
Change in net position	564	29,484	(66,130)
Total net position - Beginning of fiscal year	(3,107)	201,910	(587,326)
Total net position - End of fiscal year	\$ (2,543)	\$ 231,394	\$ (653,456)

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 117,030	\$ 71,746	\$ 1,217	\$ 1,941,174
117,030	71,746	1,217	1,941,174
36,649	8,316	1,828	956,870
875	254	39	123,701
70,884	-	-	70,886
-	-	-	6,121
-	-	849	741,006
333	36,723	-	37,056
-	31,133	-	31,133
333	67,856	-	68,189
108,742	76,426	2,715	1,966,772
8,288	(4,681)	(1,499)	(25,598)
-	-	-	7,484
2,590	1,813	-	5,912
-	-	(114)	(3,251)
(710)	-	-	(11,032)
1,880	1,813	(114)	(886)
10,168	(2,868)	(1,613)	(26,484)
(213)	(74)	(9)	(4,205)
(213)	(74)	(9)	(4,205)
9,956	(2,942)	(1,622)	(30,689)
(8,978)	(3,226)	7,370	(393,357)
\$ 978	\$ (6,168)	\$ 5,748	\$ (424,047)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2019
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 16,345	\$ 780,848	\$ 943,834
Payments to employees	(6,185)	-	(274,983)
Payments to suppliers	(8,887)	(20,578)	(634,658)
Claims paid	-	(745,916)	-
Other receipts	-	-	1,402
Other payments	(116)	-	-
Net cash provided (used) by operating activities	1,156	14,354	35,595
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Loans or loan repayments from other funds	-	-	-
Loans or loan repayments to other funds	-	-	(26,367)
Transfers to other funds	(106)	-	(3,804)
Net cash provided (used) by noncapital financing activities	(106)	-	(30,171)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(246)	-	(35,782)
Interest paid	(20)	-	-
Capital lease payments (including imputed interest expense)	-	-	(24,264)
Net cash provided (used) by capital and related financing activities	(266)	-	(60,047)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	-	7,484	-
Net cash provided (used) by investing activities	-	7,484	-
Net cash provided (used) - all activities	784	21,838	(54,623)
Cash and cash equivalents at beginning of year	606	340,677	81,615
Cash and cash equivalents at end of year	\$ 1,391	\$ 362,516	\$ 26,992
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Position Classifications:			
Cash	\$ -	\$ 3	\$ 89
Equity in common cash	1,391	362,513	26,903
Cash and cash equivalents at end of year	<u>\$ 1,391</u>	<u>\$ 362,516</u>	<u>\$ 26,992</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 776	\$ 22,000	\$ (50,483)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	433	-	122,100
Pension expense	1,771	-	89,508
OPEB expense	617	-	32,792
Deferred outflows - contributions subsequent to measurement date	(1,359)	-	(64,189)
Other nonoperating revenues	-	-	1,509
Other nonoperating expenses	(53)	-	-
Other reconciling items	1	-	(347)
Net Changes in Assets and Liabilities:			
Inventories	(756)	-	-
Other assets (net)	(167)	(735)	(59,060)
Accounts payable and other liabilities	(108)	(6,919)	(31,495)
Unearned revenue	-	9	(4,741)
Net cash provided (used) by operating activities	<u>\$ 1,156</u>	<u>\$ 14,354</u>	<u>\$ 35,595</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ 6,370
Capital lease liabilities entered into during the year	-	-	(6,370)
Gain (loss) on disposal of capital assets	(34)	-	(10,235)
Total noncash investing, capital, and financing activities	<u>\$ (34)</u>	<u>\$ -</u>	<u>\$ (10,235)</u>

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 115,425	\$ 71,849	\$ 24,354	\$ 1,952,655
(11,929)	(3,802)	(941)	(297,841)
(94,528)	(74,560)	(3,430)	(836,641)
-	-	(21,664)	(767,580)
2,027	1,786	-	5,214
(107)	-	-	(223)
10,887	(4,728)	(1,681)	55,584
22,000	-	4,367	26,367
-	-	-	(26,367)
(213)	(74)	(9)	(4,205)
21,787	(74)	4,358	(4,205)
(424)	-	-	(36,452)
-	-	-	(20)
-	-	(98)	(24,362)
(424)	-	(98)	(60,834)
-	-	-	7,484
-	-	-	7,484
32,251	(4,802)	2,580	(1,972)
609	6,086	9,133	438,726
\$ 32,859	\$ 1,284	\$ 11,713	\$ 436,755
\$ 26	\$ -	\$ -	\$ 118
32,833	1,284	11,713	436,636
\$ 32,859	\$ 1,284	\$ 11,713	\$ 436,755
\$ 8,288	\$ (4,681)	\$ (1,499)	\$ (25,598)
875	254	39	123,701
1,505	1,620	175	94,580
603	557	78	34,646
(2,857)	(992)	(133)	(69,531)
2,590	1,813	-	5,912
(707)	-	-	(760)
118	(67)	(76)	(371)
908	109	-	261
(1,820)	(223)	(53)	(62,058)
1,385	(3,118)	(212)	(40,467)
-	-	-	(4,732)
\$ 10,887	\$ (4,728)	\$ (1,681)	\$ 55,584
\$ -	\$ -	\$ -	\$ 6,370
-	-	-	(6,370)
(3)	-	-	(10,272)
\$ (3)	\$ -	\$ -	\$ (10,272)

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Notes to the financial statements, entitled "Deferred Compensation Plans," "Pension Benefits," and "Other Postemployment Benefits," include additional information regarding the following funds and plans.

STATE OF MICHIGAN 457 PLANS

This fund was established in accordance with Michigan Compiled Laws (MCL) Section 38.1151 to account for deferred compensation plans that permit State of Michigan, Michigan Public School, and Education Achievement Authority employees to defer a portion of their income until future years. This fund also includes the State of Michigan 457 Personal Healthcare subfund created by MCL Section 38.68b for all employees hired after January 1, 2012 and those who opted out of the graded premium.

Prior to fiscal year 2016, this fund was titled the State of Michigan Deferred Compensation Funds and included a portion of the State of Michigan 401k Plan related to deferred compensation for State employees. Beginning with fiscal year 2016, this fund only includes amounts that are part of deferred compensation plans established in accordance with Section 457(b) of the Internal Revenue Code. This change occurred to improve comparability with the 457 Plan's separately issued financial statements.

LEGISLATIVE PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Legislative Retirement System (LRS) created by Michigan Compiled Laws (MCL) Section 38.1001. LRS's pension plan provides benefits for members of the Legislature, the presiding officers, and their surviving spouses or children. Participants in the system have a deduction from each salary payment to partially finance the fund. Legislative appropriations, interest on fund investments, and court fees complete the financing.

MCL Section 38.1018 amended LRS's enabling legislation to provide that individuals who first became a legislator or lieutenant governor on or after March 31, 1997, participate in the State's defined contribution plan.

LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits (OPEB) of the Legislative Retirement System (LRS) created by Michigan Compiled Laws Section 38.1001. LRS's OPEB plan provides its members with health, dental, vision, and hearing insurance coverage. This fund includes health coverage for participants of both the defined benefit pension plan and the defined contribution retirement plan.

Pursuant to MCL Section 38.1075, the LRS OPEB plan became closed to new participants. All qualified participants must have completed six years of service before January 1, 2013, to qualify for health insurance in the plan.

STATE POLICE PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Michigan State Police Retirement System (MSPRS) created by Michigan Compiled Laws Section 38.1605, which is administered by a nine-member board under the direction of a chairperson elected from the membership. MSPRS's pension plan provides retirement, survivor and disability benefits to Michigan State Police officers. Financing is provided by investment income and by an annual legislative appropriation.

As a result of contract negotiations, a "pension plus" plan was created which pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account for employees first hired on or after June 10, 2012.

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits (OPEB) of the Michigan State Police Retirement System (MSPRS) created by Michigan Compiled Laws Section 38.1605. MSPRS's OPEB plan provides retirees hired before June 10, 2012, with the option of receiving health, dental, and vision coverage. Employees hired on or after June 10, 2012, are accounted for within the State of Michigan 401k Plan's Personal Health Care Fund.

STATE EMPLOYEES' PENSION BENEFITS FUND

This fund was established to account for pension benefits of the State Employees' Retirement System (SERS) created by Michigan Compiled Laws (MCL) Section 38.2, which is administered by a nine-member board under the direction of an Executive Secretary. SERS's pension plan provides retirement, survivor and disability benefits to State employees.

Effective March 31, 1997, MCL Section 38.13 closed the plan to new applicants. All new employees become members of the State's defined contribution plan. The law also allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits (OPEB) of the State Employees' Retirement System (SERS) created by Michigan Compiled Laws Section 38.2. SERS's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage. This fund includes coverage for participants of both the defined benefit pension plan and the defined contribution retirement plan.

PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Michigan Public School Employees' Retirement System (MPERS) created by Michigan Compiled Laws (MCL) Section 38.1321. An eight-member board governs administrative policy. MPERS's pension plan provides retirement, survivor and disability benefits to the public school employees.

Employer contributions and investment earnings provide financing for the fund. Under MCL Section 38.1343a, employees may contribute additional amounts into a "member investment plan."

MCLs Section 38.1304, et al were amended to create a new "pension plus" plan which pairs a guaranteed retirement income (defined benefit) with a flexible and transferable retirement savings (defined contribution) account for employees first hired after June 30, 2010.

Effective July 13, 2017, MCL Section 38.1305 et al., were amended to close the pension plus plan to employees hired after January 31, 2018 and a new, optional pension plus 2 was created. The pension plus 2 plan is similar to the pension plus plan, however, it contains a 50% contribution share from the employee and employer, both of which include the cost of future unfunded liabilities.

PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits (OPEB) of the Michigan Public School Employees' Retirement System (MPERS) created by Michigan Compiled Laws (MCL) Section 38.1321. MPERS's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage.

Effective July 1, 2010, MCL Section 38.1343e requires employees to contribute a percentage of their compensation into a funding account established under the Public Employee Retirement Health Care Funding Act.

JUDGES' PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Michigan Judges Retirement System (MJRS) created by Michigan Compiled Laws (MCL) Section 38.2201. MJRS's pension plan provides retirement, survivor and disability benefits to judges in the judicial branch of State government. Financing comes from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

MCL Section 38.2401a, effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits (OPEB) of the Michigan Judges Retirement System (MJRS) created by Michigan Compiled Laws Section 38.2201. MJRS's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage. This fund includes health coverage for participants of both the defined benefit pension plan and the defined contribution retirement plan.

MILITARY PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Military Retirement Provisions (MRP) created by Public Act 150 of 1967 being Michigan Compiled Laws (MCL) Section 32.706 and 32.801. MRP's pension plan provides retirement and survivor benefits to State of Michigan military officers and former members of the Michigan National Guard. Financing comes from investment earnings and legislative appropriations.

STATE OF MICHIGAN 401K PLANS

This fund was established in accordance with Michigan Compiled Laws (MCL) Section 38.1151 as a defined contribution pension plan. Membership within the plan includes all State employees hired after March 31, 1997, Public School Reporting Units members hired after July 1, 2010, and for those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, Legislative Retirement System, and Education Achievement Authority who elect to transfer to this plan. This fund also includes the State of Michigan 401k Personal Healthcare subfund created by MCL Section 38.68b for all employees hired after January 1, 2012, and those who opted out of the graded premium.

Prior to fiscal year 2016 this fund was titled the State of Michigan Defined Contribution Retirement Fund. Beginning with fiscal year 2016, this fund only includes amounts that are part of deferred compensation and defined contribution plans established in accordance with Section 401 of the Internal Revenue Code. This change occurred to improve comparability with the 401k Plan's separately issued financial statements.

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

SEPTEMBER 30, 2019

(In Thousands)

	STATE OF MICHIGAN 457 PLANS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ASSETS				
Equity in common cash	\$ 3,297	\$ 1,299	\$ 100	\$ 3,264
Receivables:				
From participants	9,806	-	-	1
From employer	-	-	-	4,940
Other	3,563	-	-	-
Interest and dividends	-	30	-	16
Due from other funds	-	-	-	-
Due from component unit	-	-	-	-
Due from other governmental	-	-	215	-
Investments at Fair Value:				
Short-term investments	-	-	-	49,750
Fixed income	-	-	-	204,125
Domestic equities	-	34,273	8,346	336,984
Real estate	-	-	-	142,751
Alternative investments	-	12,203	2,972	-
Private equity pools	-	-	-	278,745
International equities	-	204	50	239,402
Absolute return	-	-	-	244,477
Mutual funds	150,839	74,502	18,143	-
Pooled investment funds	1,281,146	-	-	-
Separate accounts	834,743	-	-	-
Securities lending collateral	-	-	-	59,421
Total Assets	<u>2,283,393</u>	<u>122,512</u>	<u>29,825</u>	<u>1,563,876</u>
LIABILITIES				
Accounts payable and other liabilities	2,766	154	17	53
Amounts due to other funds	-	4	-	-
Obligations under security lending	-	-	-	59,414
Unearned revenue	611	-	25	-
Total Liabilities	<u>3,377</u>	<u>159</u>	<u>43</u>	<u>59,467</u>
NET POSITION				
Restricted for pension, postemployment health-care, and deferred compensation participants	<u>\$ 2,280,016</u>	<u>\$ 122,353</u>	<u>\$ 29,782</u>	<u>\$ 1,504,408</u>

Michigan

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ 9,039	\$ 29,158	\$ 89,967	\$ 115,595	\$ 1,784	\$ 792
-	80	-	472	-	4
3,660	44,118	46,176	195,886	68,229	36
802	-	-	-	152,984	-
2	130	31	538	73	3
-	-	18,362	-	-	400
-	334	381	-	-	-
985	-	20,729	-	-	-
5,922	400,611	86,719	1,681,333	220,835	7,897
30,208	1,658,590	398,056	6,895,680	938,530	35,818
49,885	2,738,498	657,433	11,383,189	1,549,249	59,147
21,099	1,159,754	278,383	4,822,926	656,558	25,072
-	-	-	-	-	-
41,263	2,265,806	543,770	9,419,839	1,282,258	48,927
35,460	1,946,067	467,255	8,087,454	1,100,557	42,034
36,167	1,986,235	476,888	8,258,380	1,124,462	42,930
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
8,617	482,077	115,690	2,006,436	271,474	10,317
<u>243,109</u>	<u>12,711,459</u>	<u>3,199,840</u>	<u>52,867,729</u>	<u>7,366,994</u>	<u>273,377</u>
2,375	1,545	40,237	1,512	203,317	-
-	-	-	-	-	-
8,616	482,021	115,677	2,006,204	271,443	10,316
-	-	32	2,844	135	-
<u>10,991</u>	<u>483,567</u>	<u>155,946</u>	<u>2,010,559</u>	<u>474,895</u>	<u>10,316</u>
<u>\$ 232,118</u>	<u>\$ 12,227,892</u>	<u>\$ 3,043,893</u>	<u>\$ 50,857,170</u>	<u>\$ 6,892,099</u>	<u>\$ 263,061</u>

This statement continued on next page.

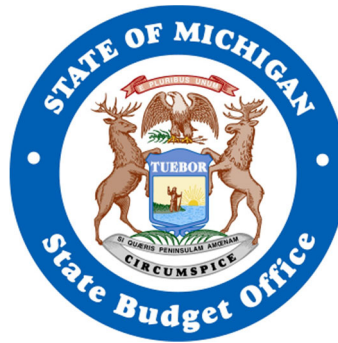
Michigan

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS (Continued)**

SEPTEMBER 30, 2019

(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	MILITARY PENSION BENEFITS FUND	STATE OF MICHIGAN 401K PLANS	TOTALS
ASSETS				
Equity in common cash	\$ 25	\$ 597	\$ 2,244	\$ 257,161
Receivables:				
From participants	-	1	155,294	165,658
From employer	4	-	-	363,049
Other	42	-	2,741	160,131
Interest and dividends	-	1	-	824
Due from other funds	-	-	-	18,762
Due from component unit	-	-	-	715
Due from other governmental	109	-	-	22,038
Investments at Fair Value:				
Short-term investments	196	1,218	-	2,454,482
Fixed income	1,199	7,727	-	10,169,934
Domestic equities	1,983	12,760	-	16,831,748
Real estate	835	5,403	-	7,112,781
Alternative investments	-	-	-	15,174
Private equity pools	1,640	10,564	-	13,892,812
International equities	1,407	9,067	-	11,928,956
Absolute return	1,430	9,255	-	12,180,223
Mutual funds	-	-	566,630	810,113
Pooled investment funds	-	-	4,408,318	5,689,464
Separate accounts	-	-	1,705,987	2,540,731
Securities lending collateral	332	2,131	-	2,956,495
Total Assets	9,201	58,722	6,841,214	87,571,251
LIABILITIES				
Accounts payable and other liabilities	64	4	115	252,159
Amounts due to other funds	400	-	-	404
Obligations under security lending	332	2,131	-	2,956,154
Unearned revenue	-	-	-	3,648
Total Liabilities	796	2,134	115	3,212,366
NET POSITION				
Restricted for pension, postemployment health-care, and deferred compensation participants	\$ 8,405	\$ 56,588	\$ 6,841,100	\$ 84,358,886



Michigan

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	STATE OF MICHIGAN 457 PLANS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ADDITIONS				
Contributions:				
From participants	\$ 178,995	\$ 2	\$ 2	\$ 3,693
From employers	369	8,063	9,091	78,510
From other governmental	-	-	354	-
From other systems	618	-	-	-
Investment Income:				
Net increase (decrease) in the fair value of investments	32,563	132	26	58,515
Interest, dividends, and other	16,982	3,563	674	22,897
Securities lending income	-	-	-	1,711
Less Investment Expense:				
Investment activity expense	-	375	74	6,876
Securities lending expense	-	-	-	1,520
Net investment income (loss)	49,545	3,320	626	74,725
Miscellaneous income	2,010	218	1,026	-
Total Additions	231,536	11,604	11,098	156,928
DEDUCTIONS				
Benefits paid to participants or beneficiaries	76,792	14,342	-	144,171
Medical, dental, and life insurance for retirants	-	-	6,164	-
Refunds and transfers to other systems	95,489	-	-	23
Administrative and other expenses	6,791	405	81	725
Total Deductions	179,072	14,748	6,244	144,918
Change in net position	52,464	(3,144)	4,854	12,010
Net position - Beginning of fiscal year	2,227,552	125,497	24,928	1,492,399
Net position - End of fiscal year	\$ 2,280,016	\$ 122,353	\$ 29,782	\$ 1,504,408

Michigan

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ -	\$ 28,442	\$ -	\$ 403,147	\$ 208,197	\$ 566
60,395	600,083	765,235	2,706,713	707,714	2,828
5,218	-	65,604	-	233,196	-
-	-	-	-	-	-
8,561	476,928	114,310	1,973,907	266,684	10,138
3,118	189,297	41,725	770,311	98,493	4,090
250	13,873	3,332	57,884	7,805	300
925	56,624	12,267	231,448	29,963	1,225
222	12,334	2,973	51,334	6,955	266
10,782	611,140	144,126	2,519,320	336,063	13,036
39	17	66	202	74	42
76,433	1,239,683	975,031	5,629,381	1,485,245	16,472
-	1,398,265	-	5,058,624	-	24,151
33,803	-	465,671	-	542,034	-
-	116	3,014	29,345	34	-
1,522	11,411	25,274	27,741	162,321	376
35,325	1,409,793	493,959	5,115,710	704,388	24,527
41,108	(170,110)	481,072	513,672	780,857	(8,055)
191,010	12,398,002	2,562,821	50,343,498	6,111,242	271,116
\$ 232,118	\$ 12,227,892	\$ 3,043,893	\$ 50,857,170	\$ 6,892,099	\$ 263,061

This statement continued on next page.

Michigan

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	MILITARY PENSION BENEFITS FUND	STATE OF MICHIGAN 401K PLANS	TOTALS
ADDITIONS				
Contributions:				
From participants	\$ 102	\$ -	\$ 249,081	\$ 1,072,226
From employers	7,557	41,045	300,793	5,288,396
From other governmental	327	-	-	304,699
From other systems	-	-	15,307	15,924
Investment Income:				
Net increase (decrease) in the fair value of investments	363	2,375	89,238	3,033,739
Interest, dividends, and other	65	507	32,888	1,184,609
Securities lending income	10	62	-	85,226
Less Investment Expense:				
Investment activity expense	24	177	-	339,981
Securities lending expense	9	55	-	75,669
Net investment income (loss)	404	2,711	122,126	3,887,924
Miscellaneous income	-	1	3,780	7,474
Total Additions	8,391	43,756	691,086	10,576,645
DEDUCTIONS				
Benefits paid to participants or beneficiaries	-	3,895	169,866	6,890,106
Medical, dental, and life insurance for retirants	940	-	-	1,048,612
Refunds and transfers to other systems	1	-	239,872	367,893
Administrative and other expenses	99	223	18,765	255,735
Total Deductions	1,041	4,119	428,503	8,562,346
Change in net position	7,350	39,638	262,583	2,014,299
Net position - Beginning of fiscal year	1,055	16,950	6,578,517	82,344,587
Net position - End of fiscal year	\$ 8,405	\$ 56,588	\$ 6,841,100	\$ 84,358,886

PRIVATE PURPOSE TRUST FUNDS

MICHIGAN EDUCATION SAVINGS PROGRAM

Michigan Compiled Laws Section 390.1473 established the Michigan Education Savings Program (MESP) as an entity within the Department of Treasury. MESP operates a college savings plan authorized by section 529 of the Internal Revenue Code. The plan is designed to collect and invest deposits made by contributors for purposes of financing tuition on behalf of future students. Investment earnings, held in trust by MESP, are Federal and State tax-deferred until the student is ready to attend college. The State offers a tax deduction for contributions made each year.

ESCHEATS FUND

The Escheats Fund operates under the authority of Sections 567.221 – 567.265 of the Michigan Compiled Laws and is used to account for unclaimed property held by the State until claimed by the rightful owners. All property, including any income or increment derived from the property, is subject to the custody of (escheated to) the State when certain criteria contained within the laws are met. Proceeds of the fund pay the administrative costs and prompt claims allowed under the laws.

GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND

This fund was administratively established to account for gifts, bequests, and deposits donated or entrusted to the State. Gifts and donations to the State may only be expended in accordance with applicable external restrictions. This fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool.

HOSPITAL PATIENTS' TRUST FUND

The Hospital Patients' Trust Fund operates under the authority of Michigan Compiled Laws Section 330.1730 and is used to account for the personal funds of patients receiving services in State hospitals. The Department of Health and Human Services (DHHS), in conjunction with the State Treasury, acts as the trustee of this fund. The Hospital Patients' Trust Fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool. DHHS distributes the interest quarterly to patients meeting minimum balance requirements.

MICHIGAN ACHIEVING A BETTER LIFE EXPERIENCE

Michigan Compiled Laws Section 206.983 established the Michigan Achieving a Better Life Experience (MiABLE) Program within the Department of Treasury. MiABLE operates a disability savings plan authorized by Section 529 of the Internal Revenue Code. The plan is designed to collect and invest deposits made by contributors for purposes of financing qualified disability expenses on behalf of individuals with disabilities and their designated beneficiaries with disabilities. Any person may contribute into the program, as prescribed by law. Investment earnings are held in trust by MiABLE until the account owner is ready to withdraw for eligible expenses. The Federal and State governments offer a tax benefit for contributions made each year.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

PRIVATE PURPOSE TRUST FUNDS

SEPTEMBER 30, 2019

(In Thousands)

	MICHIGAN EDUCATION SAVINGS PROGRAM	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND
ASSETS			
Cash	\$ 20	\$ -	\$ 1,361
Equity in common cash	-	131,683	24,901
Receivables:			
Interest and Dividends	5,676	-	44
Investments at Fair Value:			
Fixed income	-	-	9,813
Real estate	-	-	1,133
Alternative investments	-	-	4,466
Mutual funds	5,602,931	-	19,053
Guaranteed funding agreements	957,276	-	-
Other current assets	7,829	1,102	825
Other noncurrent assets	-	-	425
Total Assets	<u>6,573,733</u>	<u>132,785</u>	<u>62,022</u>
LIABILITIES			
Accounts payable and other liabilities	15,377	55	5,529
Amounts due to other funds	-	-	27
Total Liabilities	<u>15,377</u>	<u>55</u>	<u>5,556</u>
NET POSITION			
Restricted for other purposes	<u>\$ 6,558,356</u>	<u>\$ 132,730</u>	<u>\$ 56,466</u>

HOSPITAL PATIENTS' TRUST FUND	MICHIGAN ACHIEVING A BETTER LIFE EXPERIENCE PROGRAM	TOTALS
\$ 8	\$ 5,459	\$ 6,848
318	-	156,902
-	-	5,720
-	-	9,813
-	-	1,133
-	-	4,466
-	6,089	5,628,073
-	-	957,276
-	-	9,756
-	-	425
326	11,548	6,780,415
2	59	21,022
-	-	27
2	59	21,049
\$ 325	\$ 11,489	\$ 6,759,366

Michigan

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	MICHIGAN EDUCATION SAVINGS PROGRAM	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND
ADDITIONS			
Contributions:			
From participants	\$ 661,881	\$ -	\$ -
From clients	-	-	53,283
From gifts, bequests, and endowments	-	-	16,534
Investment Income:			
Net increase (decrease) in the fair value of investments	125,389	-	580
Interest, dividends, and other	153,303	-	2,314
Net investment income (loss)	278,692	-	2,894
Escheated property	-	119,267	-
Miscellaneous income	-	-	571
Total Additions	940,573	119,267	73,282
DEDUCTIONS			
Benefits paid to participants or beneficiaries	524,224	-	-
Amounts distributed to clients, claimants, or third parties	-	85,314	69,435
Administrative expense	9,012	9,382	5
Total Deductions	533,236	94,695	69,440
Change in net position	407,337	24,572	3,842
Net position - Beginning of fiscal year - restated	6,151,019	108,158	52,623
Net position - End of fiscal year	\$ 6,558,356	\$ 132,730	\$ 56,466

HOSPITAL PATIENTS' TRUST FUND	MICHIGAN ACHIEVING A BETTER LIFE EXPERIENCE PROGRAM	TOTALS
\$ -	\$ 7,029	\$ 668,910
665	-	53,948
-	-	16,534
-	103	126,072
7	147	155,771
7	250	281,844
-	-	119,267
-	-	571
672	7,280	1,141,074
-	1,906	526,130
537	-	155,285
-	115	18,513
537	2,021	699,928
136	5,259	441,146
189	6,230	6,318,219
\$ 325	\$ 11,489	\$ 6,759,366

AGENCY FUNDS

ENVIRONMENTAL QUALITY DEPOSITS FUND

The Environmental Quality Deposits Fund accounts for deposits of performance bonds for which the Department of Environmental Quality has legal custody. The bonds held by this fund include bond deposits from the hazardous waste program and the solid waste program as provided by Sections 324.11141 and 324.11523 of the Michigan Compiled Laws (MCL) and from the scrap tire program as provided in MCL Section 324.16903.

INSURANCE CARRIER DEPOSITS FUND

This fund was administratively established to account for deposits held by the State Treasurer on behalf of insurance carriers who are licensed or authorized to write insurance in the State and are required by Michigan Compiled Laws Section 500.411, to provide such deposits. All deposits are in the form of various securities and other acceptable assets.

CITY INCOME TAX – TRUST FUND

Michigan Compiled Laws Sections 141.501 – 141.787 created the City Income Tax - Trust Fund and allows a city that imposes a city income tax, pursuant to the City Income Tax Act as amended, to enter into an agreement with the Department of Treasury under which the Department of Treasury shall administer, enforce and collect the city income tax on behalf of the city. City income taxes, interest, penalties and collection fees collected under an agreement entered into pursuant to the above, shall be kept in the City Income Tax - Trust Fund and shall be paid to the city, except that an amount of the taxes collected as determined in the agreement may be retained by the Department of Treasury to cover the cost of collection and administration and that the amount shall be deposited into the State general fund.

CHILD SUPPORT COLLECTION FUND

This fund was administratively established to account for the activity of the Michigan State Disbursement Unit (MISDU). The MISDU, administered by the Department of Health and Human Services, was created to provide a single location within the State for the receipt and disbursement of child support payments.

SOCIAL WELFARE FUND

This fund was administratively created to provide a single location within the State for the receipts and disbursements related to county child care funds and local county funds. Participating counties provide funds to the Department of Health and Human Services (DHHS) on a quarterly basis to pay for court ward youth under DHHS supervision. DHHS uses the funds to pay for approved foster care individuals, private agencies, institutions, in-home care, and independent living based on receipt of child care invoices and supporting documentation.

COMBINING STATEMENT OF FIDUCIARY NET POSITION**AGENCY FUNDS**

SEPTEMBER 30, 2019

(In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	CITY INCOME TAX - TRUST FUND	CHILD SUPPORT COLLECTION FUND	SOCIAL WELFARE FUND	TOTALS
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ 40,726	\$ 182	\$ 40,908
Equity in common cash	2,755	4,281	6,736	-	2,546	16,318
Other current assets	-	-	-	9	-	9
Other noncurrent assets	-	277,157	-	-	-	277,157
Total Assets	<u>\$ 2,755</u>	<u>\$ 281,438</u>	<u>\$ 6,736</u>	<u>\$ 40,735</u>	<u>\$ 2,729</u>	<u>\$ 334,393</u>
LIABILITIES						
Accounts payable and other liabilities	\$ 2,755	\$ 4,281	\$ 6,736	\$ 40,735	\$ 2,729	\$ 57,236
Other long-term liabilities	-	277,157	-	-	-	277,157
Total Liabilities	<u>\$ 2,755</u>	<u>\$ 281,438</u>	<u>\$ 6,736</u>	<u>\$ 40,735</u>	<u>\$ 2,729</u>	<u>\$ 334,393</u>

Michigan

**COMBINING STATEMENT OF CHANGES IN ASSETS AND
LIABILITIES - AGENCY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

	BALANCE OCTOBER 1, 2018	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2019
ENVIRONMENTAL QUALITY DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 2,682	\$ 84	\$ 11	\$ 2,755
Total Assets	<u>\$ 2,682</u>	<u>\$ 84</u>	<u>\$ 11</u>	<u>\$ 2,755</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,682	\$ 84	\$ 11	\$ 2,755
Total Liabilities	<u>\$ 2,682</u>	<u>\$ 84</u>	<u>\$ 11</u>	<u>\$ 2,755</u>
INSURANCE CARRIER DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 1,102	\$ 45,971	\$ 42,792	\$ 4,281
Other noncurrent assets	<u>290,740</u>	<u>59,134</u>	<u>72,717</u>	<u>277,157</u>
Total Assets	<u>\$ 291,842</u>	<u>\$ 105,105</u>	<u>\$ 115,509</u>	<u>\$ 281,438</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 1,102	\$ 45,971	\$ 42,792	\$ 4,281
Other long-term liabilities	<u>290,740</u>	<u>59,134</u>	<u>72,717</u>	<u>277,157</u>
Total Liabilities	<u>\$ 291,842</u>	<u>\$ 105,105</u>	<u>\$ 115,509</u>	<u>\$ 281,438</u>
CITY INCOME TAX - TRUST FUND				
ASSETS				
Equity in common cash	\$ 8,683	\$ 387,148	\$ 389,096	\$ 6,736
Other current assets	<u>36</u>	<u>-</u>	<u>36</u>	<u>-</u>
Total Assets	<u>\$ 8,720</u>	<u>\$ 387,148</u>	<u>\$ 389,132</u>	<u>\$ 6,736</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 8,720	\$ 387,468	\$ 389,452	\$ 6,736
Total Liabilities	<u>\$ 8,720</u>	<u>\$ 387,468</u>	<u>\$ 389,452</u>	<u>\$ 6,736</u>

Michigan

	BALANCE OCTOBER 1, 2018	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2019
CHILD SUPPORT COLLECTION FUND				
ASSETS				
Cash	\$ 36,043	\$ 1,460,346	\$ 1,455,663	\$ 40,726
Other current assets	3	358	352	9
Total Assets	<u>\$ 36,046</u>	<u>\$ 1,460,704</u>	<u>\$ 1,456,015</u>	<u>\$ 40,735</u>
LIABILITIES				
Accounts payable and other liabilities	<u>\$ 36,046</u>	<u>\$ 1,559,447</u>	<u>\$ 1,554,758</u>	<u>\$ 40,735</u>
Total Liabilities	<u>\$ 36,046</u>	<u>\$ 1,559,447</u>	<u>\$ 1,554,758</u>	<u>\$ 40,735</u>
SOCIAL WELFARE FUND				
ASSETS				
Cash	\$ -	\$ 182	\$ -	\$ 182
Equity in common cash	2,082	17,571	17,107	2,546
Other current assets	3	-	3	-
Total Assets	<u>\$ 2,085</u>	<u>\$ 17,754</u>	<u>\$ 17,111</u>	<u>\$ 2,729</u>
LIABILITIES				
Accounts payable and other liabilities	<u>\$ 2,085</u>	<u>\$ 19,411</u>	<u>\$ 18,768</u>	<u>\$ 2,729</u>
Total Liabilities	<u>\$ 2,085</u>	<u>\$ 19,411</u>	<u>\$ 18,768</u>	<u>\$ 2,729</u>
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 36,044	\$ 1,460,528	\$ 1,455,663	\$ 40,908
Equity in common cash	14,549	450,774	449,005	16,318
Other current assets	42	359	391	9
Other noncurrent assets	290,740	59,134	72,717	277,157
Total Assets	<u>\$ 341,376</u>	<u>\$ 1,970,795</u>	<u>\$ 1,977,777</u>	<u>\$ 334,393</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 50,635	\$ 2,012,382	\$ 2,005,781	\$ 57,236
Other long-term liabilities	290,740	59,134	72,717	277,157
Total Liabilities	<u>\$ 341,376</u>	<u>\$ 2,071,516</u>	<u>\$ 2,078,498</u>	<u>\$ 334,393</u>

COMPONENT UNITS – AUTHORITIES

FARM PRODUCE INSURANCE AUTHORITY

Michigan Compiled Laws (MCL) Section 285.315 created the Farm Produce Insurance Authority (FPIA) as a public body corporate. Operating under Sections 285.311 – 285.331 of the MCL, FPIA is governed and administered by a ten-member board of directors. FPIA administers a program in which producers of dry beans, grain, or corn may contribute to the Farm Produce Insurance Fund, a percentage of their net proceeds from all farm produce sold by the producer to a licensee in this State. Under this program the producer may recover from the fund for losses caused by the licensed grain dealer's financial failure.

LAND BANK FAST TRACK AUTHORITY

Michigan Compiled Laws Section 124.765 created the Land Bank Fast Track Authority (LBFTA) to assemble or dispose of public property, including tax reverted property, in a coordinated manner to foster the development of the property and to promote economic growth within the State. LBFTA receives public properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

MACKINAC BRIDGE AUTHORITY

Michigan Compiled Laws (MCL) Section 254.302 created the Mackinac Bridge Authority (MBA). MCL Section 254.314 empowered MBA to construct and operate a bridge between the lower and upper peninsulas of Michigan. Fares and earnings on investments finance the operation and maintenance of the bridge. State statutes require that MBA continue charging bridge tolls and repay State funds for all the subsidies provided in prior years.

MACKINAC ISLAND STATE PARK COMMISSION

Established in 1927, the Mackinac Island State Park Commission currently operates under Sections 324.76701 – 324.76709 of the Michigan Compiled Laws. The Governor, with the advice and consent of the Senate, appoints the seven-member commission. The Commission is responsible for the management of the Mackinac Island and Michilimackinac State Parks and has the authority to issue revenue-dedicated bonds.

MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION

The Michigan Early Childhood Investment Corporation was created by an interlocal agreement between the Department of Health and Human Services and participating intermediate school districts. The interlocal agreement was entered into pursuant to Sections 124.501 – 124.512 of the Michigan Compiled Laws. In 2018, the interlocal agreement was first amended and restated between the Department of Education and participating intermediate school districts. The Corporation's primary objective is to administer activities related to early childhood development.

The governing body of each participant shall appoint one member of the Corporation Board to serve at the will of the participant. The Corporation Board will also include fifteen members appointed by the Governor and the State Superintendent or his or her designee from within the Department. The Corporation will have an Executive Committee of 15 members of the Corporation Board. The members of the Executive Committee will include the State Superintendent, or his or her designated representative from within the Department serving as a member of the Corporation Board, and 14 members of the Corporation Board appointed by the Governor. The members of the Executive Committee appointed by the Governor must include at least one of the members of the Corporation Board appointed by a Participant. The Executive Committee shall exercise the powers of the Corporation.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

The Michigan Economic Development Corporation (MEDC) is a public body corporate created pursuant to an agreement authorized under the Urban Cooperation Act of 1967 and Sections 124.501 – 124.512 of the Michigan Compiled Laws (MCL). MEDC was created by an interlocal agreement, as amended and restated, between participating local economic development organizations formed under the Economic Development Corporations Act, 125.1601 – 125.1636 of the MCL and the Michigan Strategic Fund. The MEDC is a separate legal entity whose purpose is to stimulate, coordinate and advance economic development in the State. Under the terms of the interlocal agreement, the governance of MEDC resides in an executive committee of 20 members appointed to eight-year, staggered terms before May 1, 2019 and for four year terms after April 30, 2019.

MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a prepaid tuition program authorized by section 529 of the Internal Revenue Code. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The amount the purchaser is required to pay is based on several factors, among them are tuition costs, the child's age and grade in school, anticipated investment earnings, tuition rate increases, and the type of contract purchased.

Michigan Compiled Laws Section 390.1425, the Michigan Education Trust Act, created MET. MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the law provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the law. The law and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

STATE BAR OF MICHIGAN

The State Bar of Michigan is an association of lawyers who are licensed to practice in Michigan. It is organized as a public body corporate. Its operations are financed solely from member dues and income from member services. The State Bar's budget is the responsibility of its Board of Commissioners, and it is not subject to State of Michigan appropriation procedures.

Pursuant to Supreme Court rule, its purpose is to aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in this State.

VENTURE MICHIGAN FUND

The Venture Michigan Fund (VMF) was formed as a nonprofit corporation for the purpose of qualifying as a Michigan early stage venture investment corporation as authorized by Sections 125.2231 – 125.2263 of the Michigan Compiled Laws. VMF was organized to raise capital and invest that capital in venture capital firms with the intent of benefiting Michigan's seed or early stage businesses in order to promote the economic health of the State of Michigan. VMF is governed by a board of directors consisting of the State Treasurer, the Chief Executive Officer of the Michigan Economic Development Corporation, and five other directors appointed by the Governor with the advice and consent of the Senate and the House. The Michigan Venture Capital Association also has the option to appoint one member to the board.

Michigan

COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS - AUTHORITIES
 SEPTEMBER 30, 2019
 (In Thousands)

	FARM PRODUCE INSURANCE AUTHORITY	LAND BANK FAST TRACK AUTHORITY	MACKINAC BRIDGE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION
ASSETS				
Current Assets:				
Cash	\$ 630	\$ -	\$ 1,494	\$ 2,278
Equity in common cash	-	14,988	-	-
Amounts due from component units	-	-	-	-
Amounts due from primary government	-	-	-	261
Inventories	-	-	-	672
Investments	2,745	-	3,371	-
Other current assets	177	1,625	391	95
Total Current Assets	3,553	16,613	5,256	3,305
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	-	1,890
Investments	-	-	-	2,245
Mortgages and loans receivable	-	8,900	-	-
Investments	7,378	-	108,944	-
Land and property held for resale	-	4,980	-	-
Capital Assets:				
Land and other non-depreciable assets	-	-	125	416
Buildings, equipment, and other depreciable assets	-	399	13,000	16,301
Less accumulated depreciation	-	(33)	(6,563)	(11,892)
Infrastructure	-	-	102,950	-
Total capital assets	-	366	109,512	4,825
Other noncurrent assets	-	-	-	-
Total Noncurrent Assets	7,378	14,246	218,456	8,959
Total Assets	10,931	30,859	223,711	12,265
DEFERRED OUTFLOWS OF RESOURCES	-	1,133	2,885	824
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	-	154	1,134	201
Amounts due to primary government	-	17	1,726	-
Bonds and notes payable	-	-	-	65
Interest payable	-	-	-	17
Unearned revenue	-	-	1,479	-
Current portion of other long-term obligations	-	19	182	-
Total Current Liabilities	-	189	4,520	283
Long-Term Liabilities:				
Unearned revenue	-	-	809	-
Bonds and notes payable	-	-	-	1,390
Noncurrent portion of other long-term obligations	-	3,431	21,374	6,139
Total Long-Term Liabilities	-	3,431	22,183	7,529
Total Liabilities	-	3,621	26,704	7,813
DEFERRED INFLOWS OF RESOURCES	-	335	2,346	905
NET POSITION				
Net investment in capital assets	-	(21)	109,512	3,347
Restricted For:				
Construction and debt service	-	-	-	3,445
Other purposes	-	5,900	-	1,104
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Unrestricted	10,930	22,157	88,035	(3,524)
Total Net Position	\$ 10,930	\$ 28,037	\$ 197,547	\$ 4,372

Michigan

MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION	MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	MICHIGAN EDUCATION TRUST	STATE BAR OF MICHIGAN	VENTURE MICHIGAN FUND	TOTALS
\$ 2,664	\$ 37,093	\$ 93,688	\$ 2,623	\$ 42,106	\$ 182,577
-	48,115	-	-	-	63,102
-	28,672	-	-	-	28,672
3,064	267	2,133	-	-	5,724
-	-	-	24	-	695
-	3,435	-	7,388	-	16,940
78	2,454	11,058	901	-	16,779
5,806	120,035	106,880	10,936	42,106	314,490
-	131	-	-	25,553	27,574
-	-	-	3,468	-	5,713
-	1,179	-	-	-	10,079
-	59,873	991,937	2,419	280,439	1,450,990
-	-	-	-	-	4,980
-	100	-	577	-	1,217
681	17,833	-	12,100	-	60,314
(167)	(12,405)	-	(8,876)	-	(39,937)
-	-	-	-	-	102,950
514	5,527	-	3,801	-	124,544
-	8,512	26,346	-	-	34,858
514	75,222	1,018,283	9,687	305,993	1,658,738
6,320	195,257	1,125,163	20,623	348,098	1,973,228
-	3,661	1,162	347	11,708	21,719
2,165	19,363	-	907	167	24,091
-	619	-	-	-	2,362
-	-	-	-	-	65
-	-	-	-	4,426	4,443
-	-	-	1,412	-	2,891
37	1,346	67,582	-	-	69,166
2,202	21,328	67,582	2,319	4,593	103,017
-	-	-	-	-	809
-	-	-	-	250,000	251,390
-	27,865	778,837	1,934	12,283	851,864
-	27,865	778,837	1,934	262,283	1,104,063
2,202	49,194	846,419	4,253	266,876	1,207,080
-	6,706	674	253	-	11,218
514	5,527	-	3,801	-	122,680
-	-	-	-	-	3,445
2,443	-	279,231	1,953	-	290,632
-	-	-	-	25,553	25,553
1,161	137,492	-	10,710	67,377	334,339
\$ 4,118	\$ 143,019	\$ 279,231	\$ 16,465	\$ 92,931	\$ 776,649

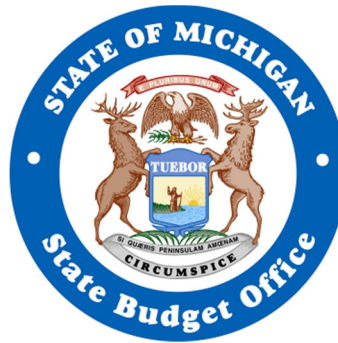
Michigan

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
 FISCAL YEAR ENDED SEPTEMBER 30, 2019
 (In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Farm Produce Insurance Authority	\$ 453	\$ 286	\$ -	\$ -	\$ (167)
Land Bank Fast Track Authority	11,177	-	-	-	(11,177)
Mackinac Bridge Authority	17,431	23,557	-	-	6,126
Mackinac Island State Park Commission	5,038	4,985	26	178	151
Michigan Early Childhood Investment Corporation	13,523	70	14,760	-	1,308
Michigan Economic Development Corporation	199,233	-	188,941	-	(10,292)
Michigan Education Trust	21,641	400	56,033	-	34,791
State Bar of Michigan	13,159	11,897	-	-	(1,262)
Venture Michigan Fund	18,656	-	-	-	(18,656)
Total	<u>\$ 300,310</u>	<u>\$ 41,196</u>	<u>\$ 259,760</u>	<u>\$ 178</u>	<u>\$ 824</u>

GENERAL REVENUES

INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR RESTATE	NET POSITION END OF YEAR
\$ 46	\$ -	\$ -	\$ (120)	\$ 11,051	\$ 10,930
307	2,977	2,676	(5,217)	33,253	28,037
8,976	-	-	15,102	182,445	197,547
173	-	-	324	4,047	4,372
2	-	4	1,314	2,805	4,118
1,936	7,000	4,835	3,479	139,540	143,019
-	-	-	34,791	244,440	279,231
660	-	-	(602)	17,067	16,465
38,162	-	-	19,506	73,425	92,931
<u>\$ 50,262</u>	<u>\$ 9,977</u>	<u>\$ 7,514</u>	<u>\$ 68,577</u>	<u>\$ 708,073</u>	<u>\$ 776,649</u>



COMPONENT UNITS – STATE UNIVERSITIES

The State has 13 legally separate public universities, 10 of which are included in this report as component units and 3 of which are excluded. Included are the 10 universities whose governing boards are appointed by the Governor and for which the State is legally accountable, as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 61. Excluded are those 3 that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The 3 that are excluded are the largest public universities: Michigan State University, University of Michigan, and Wayne State University. Also excluded are the public community colleges, for which local units of government are legally accountable.

The information presented in this report for the 10 universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2019. The universities include Central Michigan University, Eastern Michigan University, and Western Michigan University presented as major component units and the following non-major component units: Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University.

COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES

JUNE 30, 2019

(In Thousands)

	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY
ASSETS			
Current Assets:			
Cash	\$ 25,025	\$ 103,644	\$ 13,252
Amounts due from primary government	12,404	70,560	2,761
Amounts due from federal government	24	6,967	191
Amounts due from local units	-	-	-
Inventories	1,032	1,918	430
Investments	52,973	40,708	9,496
Other current assets	13,444	20,497	1,963
Total Current Assets	104,903	244,293	28,092
Noncurrent Assets:			
Restricted Assets:			
Cash and cash equivalents	-	15,089	-
Investments	46,582	5,786	-
Mortgages and loans receivable	15,541	-	-
Mortgages and loans receivable	-	4,326	2,153
Investments	65,316	280,959	29,041
Capital Assets:			
Land and other non-depreciable assets	6,597	81,182	3,419
Buildings, equipment, and other depreciable assets	516,689	1,046,255	169,374
Less accumulated depreciation	(221,323)	(396,563)	(117,807)
Construction in progress	30,749	38,650	16,686
Total capital assets	332,711	769,524	71,672
Other noncurrent assets	181	12,637	1,179
Total Noncurrent Assets	460,330	1,088,322	104,044
Total Assets	565,233	1,332,616	132,136
DEFERRED OUTFLOWS OF RESOURCES	10,540	21,937	1,294
LIABILITIES			
Current Liabilities:			
Accounts payable and other liabilities	21,902	94,427	4,783
Amounts due to primary government	-	93	37
Bonds and notes payable	7,665	14,708	975
Interest payable	1,160	1,064	564
Unearned revenue	7,988	17,387	623
Current portion of other long-term obligations	395	6,008	533
Total Current Liabilities	39,109	133,687	7,515
Long-Term Liabilities:			
Unearned revenue	569	4,592	-
Bonds and notes payable	97,431	280,918	39,063
Noncurrent portion of other long-term obligations	156,726	58,555	24,029
Total Long-Term Liabilities	254,726	344,064	63,092
Total Liabilities	293,835	477,751	70,607
DEFERRED INFLOWS OF RESOURCES	6,353	3,974	1,158
NET POSITION			
Net investment in capital assets	221,358	498,758	35,665
Restricted For:			
Education	12,164	21,304	19,513
Construction and debt service	-	19,202	2,081
Other purposes	-	-	3,060
Funds Held as Permanent Investments:			
Expendable	18,104	47,091	3,466
Nonexpendable	46,582	74,685	11,405
Unrestricted	(22,623)	211,787	(13,524)
Total Net Position	\$ 275,585	\$ 872,827	\$ 61,665

Michigan

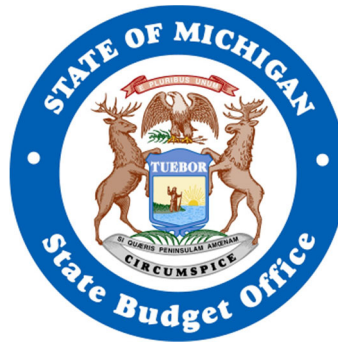
MICHIGAN TECHNOLOGICAL UNIVERSITY	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	TOTALS
\$ 19,196	\$ 23,358	\$ 48,146	\$ 61,154	\$ 293,775
10,065	8,759	9,631	17,915	132,095
4,341	23	1,799	1,567	14,912
-	6,921	38	-	6,959
1,540	1,144	1,158	1,637	8,859
-	1,146	-	1	104,323
8,637	11,673	8,655	10,930	75,798
43,778	53,025	69,427	93,203	636,721
7,310	-	8,470	-	30,869
139,637	-	74,208	-	266,213
-	-	856	-	16,397
9,717	4,749	-	-	20,945
35,599	135,096	204,935	120,641	871,586
17,360	82,663	4,625	2,506	198,351
454,299	454,597	917,896	487,308	4,046,418
(238,221)	(212,472)	(321,153)	(201,575)	(1,709,113)
780	7,922	6,571	6,583	107,941
234,218	332,710	607,940	294,821	2,643,596
19,930	2,130	6,336	10,718	53,111
446,412	474,684	902,744	426,180	3,902,717
490,190	527,709	972,171	519,383	4,539,439
6,563	6,572	12,025	3,990	62,920
14,935	20,109	27,513	25,175	208,845
280	755	629	-	1,794
3,330	5,657	12,091	8,377	52,802
977	-	4,292	-	8,057
5,828	5,340	17,748	5,219	60,134
7,104	1,630	2,753	100	18,522
32,455	33,491	65,026	38,871	350,153
-	-	7,120	1,061	13,342
88,365	85,024	328,738	97,088	1,016,626
98,508	89,475	47,188	4,302	478,783
186,874	174,498	383,046	102,451	1,508,751
219,328	207,990	448,072	141,321	1,858,904
4,261	69,594	9,434	-	94,774
141,106	166,222	275,045	193,347	1,531,501
41,070	3,278	31,095	29,555	157,979
2,048	-	-	159	23,490
-	-	-	2,811	5,871
30,302	39,212	19,687	-	157,862
99,051	912	32,967	56,717	322,320
(40,414)	47,073	167,896	99,463	449,658
\$ 273,164	\$ 256,697	\$ 526,691	\$ 382,051	\$ 2,648,681

Michigan

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 2019
 (In Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Ferris State University	256,341	155,040	7,802	-	(93,499)
Grand Valley State University	471,548	357,685	28,240	16,805	(68,818)
Lake Superior State University	50,863	24,442	10,658	1,740	(14,023)
Michigan Technological University	273,520	136,739	69,160	4,297	(63,323)
Northern Michigan University	174,294	101,809	12,398	-	(60,087)
Oakland University	356,949	258,752	23,015	73	(75,110)
Saginaw Valley State University	145,715	99,316	13,797	-	(32,602)
Total	<u>\$ 1,729,230</u>	<u>\$ 1,133,782</u>	<u>\$ 165,070</u>	<u>\$ 22,915</u>	<u>\$ (407,463)</u>

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	EXTRAORDINARY ITEMS	CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR	NET POSITION END OF YEAR
4,925	62,059	37,747	-	11,231	264,354	275,585
12,119	72,087	44,182	-	59,570	813,258	872,827
508	14,170	-	-	655	61,010	61,665
7,750	49,950	94	507	(5,022)	278,186	273,164
7,276	48,270	10,924	-	6,382	250,314	256,697
17,724	52,829	23,153	-	18,596	508,095	526,691
6,868	30,541	14,067	-	18,874	363,178	382,051
<u>\$ 57,169</u>	<u>\$ 329,904</u>	<u>\$ 130,168</u>	<u>\$ 507</u>	<u>\$ 110,286</u>	<u>\$ 2,538,395</u>	<u>\$ 2,648,681</u>



INDEX

This part of the State of Michigan's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

<u>CONTENTS:</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	
Net Position by Component	280
Changes in Net Position	282
Fund Balances – Governmental Funds	286
Changes in Fund Balances – Governmental Funds	288
Revenue Capacity	
These schedules contain information to help the reader assess the State's most significant revenue sources: personal income and sales taxes.	
Personal Income by Industry	290
Taxable Sales by Industry	292
Personal Income Tax Filers and Liability by Income Level	294
Sales Tax Payers by Industry	295
Debt Capacity	
These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future. The State has no statutory limit on the amount of general obligation debt that may be authorized.	
Ratios of Outstanding Debt by Type	296
Ratios of Net General Obligation Bonded Debt Outstanding	298
Debt Service Coverage – Comprehensive Transportation Fund Related Bonds	300
Debt Service Coverage – State Trunkline Fund Related Bonds	302
Debt Service Coverage – State Building Authority	304
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	
Demographic and Economic Indicators	306
Operating Information	
These schedules contain information about the State's operations and resources to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	
Classified Employees by Function	308
Operating Indicators by Function	310
Capital Assets by Function	314

SOURCES:

Unless otherwise noted, the information in these schedules is derived from the financial statements presented in the comprehensive annual financial reports for the relevant years.

Michigan

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

(In Thousands)

(Accrual Basis of Accounting)

	2010	2011	2012	2013
Governmental activities				
Net investment in capital assets	\$ 16,859,070	\$ 17,782,073	\$ 18,198,345	\$ 19,649,694
Restricted	2,691,477	3,552,062	3,394,212	3,773,962
Unrestricted	(4,860,007)	(5,325,636)	(5,349,668)	(5,192,624)
Total governmental activities net position	<u>\$ 14,690,540</u>	<u>\$ 16,008,499</u>	<u>\$ 16,242,889</u>	<u>\$ 18,231,031</u>
Business-type activities				
Net investment in capital assets	\$ 603	\$ 578	\$ 355	\$ 813
Restricted	145,056	131,453	1,276,713	1,843,965
Unrestricted	(3,163,457)	(2,911,176)	5,926	5,538
Total business-type activities net position	<u>\$ (3,017,798)</u>	<u>\$ (2,779,145)</u>	<u>\$ 1,282,994</u>	<u>\$ 1,850,316</u>
Primary government				
Net investment in capital assets	\$ 16,859,673	\$ 17,782,652	\$ 18,198,700	\$ 19,650,507
Restricted	2,836,533	3,683,515	4,670,926	5,617,926
Unrestricted	(8,023,463)	(8,236,812)	(5,343,743)	(5,187,086)
Total primary government net position	<u>\$ 11,672,743</u>	<u>\$ 13,229,354</u>	<u>\$ 17,525,883</u>	<u>\$ 20,081,347</u>
Reconciliation of net position				
Beginning net position	\$ 12,675,147	\$ 11,672,743	\$ 13,229,354	\$ 17,525,883
Restatement of beginning net position	-	(5,377)	(2,954)	6,459
Beginning net position - restated	12,675,147	11,667,366	13,226,400	17,532,342
Statement of Activities - changes in net position	(1,002,404)	1,561,989	4,299,483	2,549,005
Ending net position	<u>\$ 11,672,743</u>	<u>\$ 13,229,354</u>	<u>\$ 17,525,883</u>	<u>\$ 20,081,347</u>

Michigan

2014	2015	2016	2017	2018	2019
\$ 20,279,584	\$ 20,578,869	\$ 21,162,152	\$ 21,736,440	\$ 21,014,252	\$ 21,599,362
3,824,871	3,647,713	3,772,413	4,152,864	4,218,412	4,267,930
(5,876,457)	(9,942,038)	(11,298,822)	(9,848,197)	(14,946,883)	(14,621,279)
<u>\$ 18,227,998</u>	<u>\$ 14,284,544</u>	<u>\$ 13,635,744</u>	<u>\$ 16,041,107</u>	<u>\$ 10,285,781</u>	<u>\$ 11,246,012</u>
\$ 606	\$ 1,557	\$ 1,257	\$ 1,183	\$ 969	\$ 1,058
2,442,471	2,989,561	3,526,823	3,994,553	4,525,760	5,006,011
5,834	(11,862)	(19,126)	(21,180)	(80,469)	(70,076)
<u>\$ 2,448,910</u>	<u>\$ 2,979,255</u>	<u>\$ 3,508,953</u>	<u>\$ 3,974,556</u>	<u>\$ 4,446,260</u>	<u>\$ 4,936,993</u>
\$ 20,280,190	\$ 20,580,426	\$ 21,163,409	\$ 21,737,623	\$ 21,015,221	\$ 21,600,419
6,267,342	6,637,274	7,299,236	8,147,417	8,744,173	9,273,941
(5,870,623)	(9,953,900)	(11,317,949)	(9,869,376)	(15,027,352)	(14,691,355)
<u>\$ 20,676,909</u>	<u>\$ 17,263,800</u>	<u>\$ 17,144,696</u>	<u>\$ 20,015,664</u>	<u>\$ 14,732,042</u>	<u>\$ 16,183,005</u>
\$ 20,081,347	\$ 20,676,909	\$ 17,263,800	\$ 17,144,696	\$ 20,015,664	\$ 14,732,042
(36,068)	(4,780,332)	(1,712,198)	-	(6,999,392)	(24,796)
20,045,279	15,896,577	15,551,601	17,144,696	13,016,272	14,707,246
631,629	1,367,223	1,593,095	2,870,968	1,715,770	1,475,759
<u>\$ 20,676,909</u>	<u>\$ 17,263,800</u>	<u>\$ 17,144,696</u>	<u>\$ 20,015,664</u>	<u>\$ 14,732,042</u>	<u>\$ 16,183,005</u>

Michigan

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

(In Thousands)

(Accrual Basis of Accounting)

	2010	2011	2012	2013
Expenses				
Governmental activities:				
General government	\$ 1,752,504	\$ 2,286,436	\$ 2,491,270	\$ 2,093,352
Education	14,989,964	15,269,638	14,601,171	14,617,662
Health and human services	19,387,083	20,340,564	19,676,708	19,784,847
Public safety and corrections	2,859,301	2,863,890	2,816,575	2,663,440
Conservation, environment, recreation, and agriculture	577,952	575,118	657,527	593,446
Labor, commerce, and regulatory	1,261,908	1,178,970	956,357	965,696
Transportation	2,947,845	2,460,553	2,840,961	2,914,884
Tax credits (Note 16)	1,351,500	1,271,900	1,226,300	689,900
Intergovernmental-revenue sharing	994,196	1,091,527	1,032,243	1,077,514
Interest on long-term debt	362,626	217,014	196,040	178,561
Total governmental activities	<u>46,484,880</u>	<u>47,555,610</u>	<u>46,495,152</u>	<u>45,579,303</u>
Business-type activities:				
Liquor Purchase Revolving Fund	634,925	660,861	696,723	742,611
State Lottery Fund	1,676,994	1,631,489	1,654,234	1,758,718
Attorney Discipline System	4,733	4,941	4,818	4,846
Michigan Unemployment Compensation Funds	<u>6,803,393</u>	<u>4,350,158</u>	<u>2,991,500</u>	<u>2,188,132</u>
Total business-type activities	<u>9,120,044</u>	<u>6,647,450</u>	<u>5,347,275</u>	<u>4,694,307</u>
Total primary government expenses	<u>\$ 55,604,924</u>	<u>\$ 54,203,060</u>	<u>\$ 51,842,428</u>	<u>\$ 50,273,610</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 775,018	\$ 790,054	\$ 844,661	\$ 678,845
Education	5,320	5,491	15,688	7,206
Health and human services	110,833	125,368	129,069	107,657
Public safety and corrections	168,141	166,034	158,707	164,019
Conservation, environment, recreation, and agriculture	360,261	266,062	269,307	271,119
Labor, commerce, and regulatory	313,368	316,941	548,543	750,517
Transportation	75,466	92,045	91,690	96,842
Operating grants and contributions	19,150,043	19,608,970	17,373,332	17,194,905
Capital grants and contributions	<u>964,605</u>	<u>1,061,715</u>	<u>845,873</u>	<u>867,155</u>
Total governmental activities program revenues	<u>\$ 21,923,056</u>	<u>\$ 22,432,679</u>	<u>\$ 20,276,870</u>	<u>\$ 20,138,265</u>
Business-type activities:				
Charges for services:				
Liquor Purchase Revolving Fund	\$ 780,265	\$ 812,140	\$ 856,717	\$ 912,112
State Lottery Fund	2,379,975	2,357,417	2,430,281	2,491,131
Attorney Discipline System	4,977	5,114	5,166	4,887
Michigan Unemployment Compensation Funds	<u>6,012,375</u>	<u>4,441,664</u>	<u>3,529,515</u>	<u>2,776,790</u>
Operating grants and contributions	<u>79,966</u>	<u>172,038</u>	<u>251,786</u>	<u>21,710</u>
Total business-type activities program revenues	<u>9,257,558</u>	<u>7,788,373</u>	<u>7,073,466</u>	<u>6,206,631</u>
Total primary government program revenues	<u>\$ 31,180,614</u>	<u>\$ 30,221,052</u>	<u>\$ 27,350,336</u>	<u>\$ 26,344,896</u>
Net (Expenses)/Revenues				
Governmental activities	\$ (24,561,824)	\$ (25,122,932)	\$ (26,218,282)	\$ (25,441,038)
Business-type activities	<u>137,514</u>	<u>1,140,924</u>	<u>1,726,190</u>	<u>1,512,324</u>
Total primary government net expenses	<u>\$ (24,424,311)</u>	<u>\$ (23,982,008)</u>	<u>\$ (24,492,092)</u>	<u>\$ (23,928,714)</u>

Michigan

2014	2015	2016	2017	2018	2019
\$ 2,455,999	\$ 3,240,918	\$ 3,044,493	\$ 2,595,165	\$ 3,334,891	\$ 3,210,082
14,941,366	15,452,338	15,831,480	16,114,081	16,727,675	17,059,677
20,544,300	23,190,878	23,441,412	23,020,839	24,071,364	25,613,513
2,638,272	2,685,500	2,664,726	2,686,252	2,899,797	3,269,546
714,019	609,306	753,361	783,971	932,250	990,650
956,256	953,030	746,550	890,781	821,050	951,297
3,309,442	3,325,519	3,377,660	3,483,622	3,891,092	4,460,862
676,500	662,400	672,400	696,500	696,100	895,100
1,120,593	1,210,557	1,213,432	1,259,005	1,289,064	1,327,717
174,522	162,859	415,468	272,742	287,506	259,781
<u>47,531,269</u>	<u>51,493,305</u>	<u>52,160,983</u>	<u>51,802,959</u>	<u>54,950,789</u>	<u>58,038,224</u>
779,276	825,796	872,902	903,150	953,854	1,007,701
1,868,607	1,990,582	2,229,995	2,424,850	2,654,651	2,833,493
4,798	4,710	5,019	4,898	5,077	5,307
<u>1,246,507</u>	<u>952,773</u>	<u>914,081</u>	<u>859,638</u>	<u>793,535</u>	<u>785,553</u>
<u>3,899,188</u>	<u>3,773,861</u>	<u>4,021,996</u>	<u>4,192,536</u>	<u>4,407,117</u>	<u>4,632,053</u>
<u>\$ 51,430,457</u>	<u>\$ 55,267,166</u>	<u>\$ 56,182,979</u>	<u>\$ 55,995,495</u>	<u>\$ 59,357,906</u>	<u>\$ 62,670,277</u>
\$ 688,044	\$ 666,648	\$ 658,741	\$ 694,819	\$ 627,297	\$ 683,878
9,388	(3,752)	6,947	5,662	24,025	11,462
152,511	162,768	155,276	159,544	174,607	166,326
161,447	163,821	169,789	170,323	168,028	167,635
299,073	301,529	296,694	318,319	360,981	328,642
754,054	749,576	788,169	794,170	789,277	784,214
96,727	100,403	105,108	94,683	134,043	100,933
17,981,852	20,431,030	20,660,821	20,244,084	20,636,711	21,581,071
850,174	926,670	878,642	953,635	863,854	1,014,734
<u>\$ 20,993,270</u>	<u>\$ 23,498,693</u>	<u>\$ 23,720,187</u>	<u>\$ 23,435,239</u>	<u>\$ 23,778,822</u>	<u>\$ 24,838,895</u>
\$ 957,054	\$ 1,021,890	\$ 1,082,256	\$ 1,123,654	\$ 1,181,472	\$ 1,252,065
2,608,920	2,785,133	3,118,137	3,347,126	3,591,929	3,897,405
4,867	4,024	4,045	4,082	4,699	5,334
1,809,854	1,461,988	1,383,410	1,291,128	1,276,504	1,207,485
59,881	67,628	78,660	74,694	90,410	132,247
<u>5,440,576</u>	<u>5,340,663</u>	<u>5,666,507</u>	<u>5,840,685</u>	<u>6,145,014</u>	<u>6,494,536</u>
<u>\$ 26,433,845</u>	<u>\$ 28,839,356</u>	<u>\$ 29,386,694</u>	<u>\$ 29,275,924</u>	<u>\$ 29,923,836</u>	<u>\$ 31,333,430</u>
\$ (26,538,000)	\$ (27,994,612)	\$ (28,440,795)	\$ (28,367,720)	\$ (31,171,967)	\$ (33,199,329)
1,541,388	1,566,801	1,644,511	1,648,149	1,737,897	1,862,482
<u>\$ (24,996,612)</u>	<u>\$ (26,427,810)</u>	<u>\$ (26,796,285)</u>	<u>\$ (26,719,571)</u>	<u>\$ (29,434,070)</u>	<u>\$ (31,336,847)</u>

Michigan

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS (Continued)

(In Thousands)

(Accrual Basis of Accounting)

	2010	2011	2012	2013
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes:				
General:				
Sales and use	\$ 2,651,757	\$ 2,784,245	\$ 2,735,674	\$ 2,620,176
Personal income	4,931,508	5,822,443	6,119,213	6,946,947
Single business, Michigan business, and corporate income	1,107,589	1,456,727	1,294,287	859,612
Tobacco products	612,414	593,462	586,108	587,598
Beer, wine, and liquor	126,269	128,574	133,276	139,728
Insurance company	257,359	271,198	290,383	302,015
Quality assurance assessment	845,612	884,412	955,029	974,563
Essential services assessment	-	-	-	-
Penalties and interest	135,939	132,724	163,496	172,049
Insurance provider assessment	-	-	-	-
Other	239,425	239,306	412,904	503,413
Restricted For Educational Purposes:				
Sales and use	5,006,696	5,399,478	5,515,083	5,668,592
Personal income	1,756,587	1,999,556	2,121,630	2,479,897
Michigan business	604,395	611,433	-	-
Education, property, and real estate transfers	2,047,056	2,015,369	1,939,493	1,908,481
Tobacco products	392,113	377,288	371,774	373,296
Beer, wine, and liquor	37,476	39,165	41,065	44,069
Casino Gaming Wagering	101,816	114,017	115,753	110,667
Other	74,083	66,231	59,568	56,503
Restricted For Transportation Purposes:				
Sales and use	76,778	90,025	98,101	212,970
Personal income	-	-	-	-
Gasoline and diesel fuel	956,999	959,479	940,099	953,108
Motor vehicle weight	841,840	859,783	875,952	906,633
Other	5,188	5,621	5,027	5,034
Unrestricted investment and interest earnings	1,464	696	710	1,204
Miscellaneous	495,556	648,297	659,801	628,204
Contributions to permanent fund principal	101,587	28,773	20,359	22,847
Transfers	882,287	917,966	1,000,841	945,115
Total governmental activities	24,289,795	26,446,268	26,455,626	27,422,722
Business-type activities:				
Taxes	14,107	14,855	15,737	-
Investment earnings	276	191	139	112
Miscellaneous	16	649	3,320,915	-
Transfers	(882,287)	(917,966)	(1,000,841)	(945,115)
Total business-type activities	(867,889)	(902,271)	2,335,949	(945,003)
Total primary government	\$ 23,421,906	\$ 25,543,997	\$ 28,791,575	\$ 26,477,719
Changes in Net Position				
Governmental activities	\$ (272,029)	\$ 1,323,336	\$ 237,344	\$ 1,981,683
Business-type activities	(730,375)	238,653	4,062,139	567,322
Total primary government	\$ (1,002,404)	\$ 1,561,989	\$ 4,299,483	\$ 2,549,005

NOTE: In years prior to fiscal year 2012 a portion of the Michigan Business Tax was restricted for educational purposes. Tax law changes enacted during fiscal year 2012 eliminated that restriction.

Michigan

2014	2015	2016	2017	2018	2019
\$ 2,993,426	\$ 3,250,886	\$ 3,281,008	\$ 2,733,120	\$ 2,899,347	\$ 2,898,982
6,078,008	7,260,820	7,332,173	7,435,551	8,109,910	8,526,451
562,739	892,039	760,979	1,427,291	942,942	1,409,618
578,154	586,133	590,507	589,959	567,634	563,157
143,105	144,449	157,421	160,271	164,204	172,133
362,287	322,988	329,871	371,233	393,357	327,420
971,377	1,017,823	1,135,257	1,128,006	1,250,422	1,410,904
-	-	-	-	99,290	111,214
117,734	131,601	120,116	104,375	194,309	128,295
-	-	-	-	-	602,602
514,504	433,640	495,183	592,077	554,313	229,796
5,872,729	5,905,831	6,023,300	6,209,309	6,455,104	6,616,765
2,276,581	2,557,141	2,647,832	2,723,883	2,948,984	2,907,833
-	-	-	-	-	-
2,033,711	2,110,325	2,174,946	2,278,142	2,339,504	2,466,383
357,389	360,645	360,017	357,202	339,070	328,327
45,722	48,706	52,247	54,048	56,405	60,254
106,903	110,785	112,868	113,219	115,423	117,257
65,172	61,643	58,943	63,633	61,328	65,456
102,026	90,806	84,499	95,229	103,275	107,728
-	-	-	-	-	264,000
958,745	1,003,958	1,005,121	1,362,260	1,469,228	1,462,292
940,637	977,958	1,018,280	1,210,628	1,295,268	1,353,613
5,052	6,383	6,133	4,855	4,535	4,702
990	1,187	4,403	11,021	25,327	40,019
517,297	500,891	621,777	545,398	740,953	614,858
23,865	18,261	16,075	19,468	19,675	18,759
942,883	999,812	1,118,001	1,182,908	1,222,917	1,375,539
<u>26,571,035</u>	<u>28,794,710</u>	<u>29,506,957</u>	<u>30,773,084</u>	<u>32,372,724</u>	<u>34,184,356</u>
-	-	-	-	-	-
87	133	423	331	(25)	3,789
3	1	-	31	57	-
<u>(942,883)</u>	<u>(999,812)</u>	<u>(1,118,001)</u>	<u>(1,182,908)</u>	<u>(1,222,917)</u>	<u>(1,375,539)</u>
<u>(942,793)</u>	<u>(999,677)</u>	<u>(1,117,577)</u>	<u>(1,182,545)</u>	<u>(1,222,884)</u>	<u>(1,371,750)</u>
<u>\$ 25,628,241</u>	<u>\$ 27,795,033</u>	<u>\$ 28,389,380</u>	<u>\$ 29,590,539</u>	<u>\$ 31,149,840</u>	<u>\$ 32,812,606</u>
\$ 33,035	\$ 800,098	\$ 1,066,162	\$ 2,405,364	\$ 1,200,757	\$ 985,026
598,595	567,124	526,933	465,604	515,013	490,733
<u>\$ 631,630</u>	<u>\$ 1,367,223</u>	<u>\$ 1,593,095</u>	<u>\$ 2,870,968</u>	<u>\$ 1,715,770</u>	<u>\$ 1,475,759</u>

FUND BALANCES, GOVERNMENTAL FUNDS**LAST TEN FISCAL YEARS**

(In Thousands)

(Modified Accrual Basis of Accounting)

	2010	2011	2012	2013
General Fund				
Nondisposable	\$ -	\$ 267,289	\$ 237,955	\$ 221,614
Restricted	-	351,551	364,497	376,977
Committed	-	463,685	805,402	933,666
Assigned	-	67,021	68,583	137,947
Unassigned	-	553,746	979,205	1,186,647
Total general fund	<u>\$ -</u>	<u>\$ 1,703,292</u>	<u>\$ 2,455,642</u>	<u>\$ 2,856,852</u>
All Other Governmental Funds				
Nondisposable	\$ -	\$ 929,077	\$ 951,453	\$ 968,433
Restricted	-	2,269,086	2,086,927	2,200,564
Committed	-	137,910	196,931	322,056
Unassigned	-	(41,126)	(144,804)	(13,216)
Total all other governmental funds	<u>\$ -</u>	<u>\$ 3,294,948</u>	<u>\$ 3,090,508</u>	<u>\$ 3,477,837</u>
General Fund				
Reserved	\$ 828,553	\$ -	\$ -	\$ -
Unreserved	187,220	-	-	-
Total general fund	<u>\$ 1,015,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
All Other Governmental Funds				
Reserved	\$ 2,048,256	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special revenue funds	379,140	-	-	-
Debt service funds	222,322	-	-	-
Capital projects funds	(161,980)	-	-	-
Permanent funds	75,486	-	-	-
Total all other governmental funds	<u>\$ 2,563,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of governmental fund balances				
Beginning fund balances	\$ 3,584,026	\$ 3,578,997	\$ 4,998,240	\$ 5,546,150
Restatement of beginning fund balances	-	-	(15,602)	-
Beginning fund balances - restated	3,584,026	3,578,997	4,982,638	5,546,150
Excess of revenues and other sources over				
(under) expenditures and other uses	(5,029)	1,419,243	563,512	788,538
Ending fund balances	<u>\$ 3,578,997</u>	<u>\$ 4,998,240</u>	<u>\$ 5,546,150</u>	<u>\$ 6,334,689</u>

NOTE: Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing Governmental Accounting Standards Board Statement No. 54. Fund Balance Reporting and Governmental Fund Type Definitions. Fund balance has not been restated for prior years.

Michigan

2014	2015	2016	2017	2018	2019
\$ 189,095	\$ 115,937	\$ 76,746	\$ 63,135	\$ 17,813	\$ 22,306
383,025	395,945	467,486	598,414	591,065	653,888
998,674	1,108,240	1,378,378	1,482,000	2,128,981	2,425,716
206,875	176,405	151,555	176,986	176,480	135,304
306,382	694,734	604,388	622,538	788,321	916,168
<u>\$ 2,084,052</u>	<u>\$ 2,491,262</u>	<u>\$ 2,678,554</u>	<u>\$ 2,943,074</u>	<u>\$ 3,702,660</u>	<u>\$ 4,153,382</u>
\$ 992,581	\$ 1,016,322	\$ 1,030,282	\$ 1,047,393	\$ 1,063,885	\$ 1,087,207
2,250,773	1,989,423	2,048,762	2,378,356	2,453,833	2,388,941
547,466	352,699	289,534	312,162	363,400	305,419
(106,128)	(56,951)	(62,012)	6,918	(63,301)	(104,507)
<u>\$ 3,684,691</u>	<u>\$ 3,301,493</u>	<u>\$ 3,306,566</u>	<u>\$ 3,744,829</u>	<u>\$ 3,817,817</u>	<u>\$ 3,677,060</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,334,689	\$ 5,768,743	\$ 5,792,755	\$ 5,985,120	\$ 6,687,903	\$ 7,520,477
-	-	24,182	-	-	-
<u>6,334,689</u>	<u>5,768,743</u>	<u>5,816,936</u>	<u>5,985,120</u>	<u>6,687,903</u>	<u>7,520,477</u>
(565,945)	24,011	168,184	702,783	832,574	309,965
<u>\$ 5,768,743</u>	<u>\$ 5,792,755</u>	<u>\$ 5,985,120</u>	<u>\$ 6,687,903</u>	<u>\$ 7,520,477</u>	<u>\$ 7,830,442</u>

Michigan

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(In Thousands)

(Modified Accrual Basis of Accounting)

	2010	2011	2012	2013
Revenues				
Taxes	\$ 23,174,824	\$ 24,691,957	\$ 24,769,943	\$ 25,239,420
From federal agencies	19,832,846	20,401,399	17,830,166	17,800,913
From local agencies	106,172	102,979	102,776	109,771
From services	300,992	321,799	314,059	322,553
From licenses and permits	458,303	464,756	481,994	501,581
Special Medicaid reimbursements	123,205	155,059	186,194	134,353
Miscellaneous	1,575,643	1,523,221	1,896,663	1,721,838
Total revenues	<u>45,571,986</u>	<u>47,661,170</u>	<u>45,581,795</u>	<u>45,830,430</u>
Expenditures				
General government	1,464,412	1,857,989	1,937,876	1,870,041
Education	15,051,983	15,297,255	14,636,439	14,652,527
Health and human services	19,261,585	20,251,675	19,585,310	19,787,851
Public safety and corrections	2,573,093	2,549,993	2,567,504	2,604,520
Conservation, environment, recreation, and agriculture	546,510	516,098	582,955	571,371
Labor, commerce, and regulatory	1,223,197	1,143,962	923,059	961,279
Transportation	2,279,890	2,069,572	2,149,628	2,362,335
Tax credits	1,351,500	1,271,900	1,226,300	689,900
Capital outlay	1,322,304	1,169,458	1,045,060	1,013,461
Intergovernmental - revenue sharing	994,196	1,091,527	1,032,243	1,077,514
Debt service:				
Bond principal retirement	247,532	231,577	342,241	404,396
Bond interest and fiscal charges	316,163	311,955	346,861	339,908
Capital lease and financed purchase payments	50,982	56,146	56,327	58,990
Total expenditures	<u>46,683,346</u>	<u>47,819,108</u>	<u>46,431,804</u>	<u>46,394,092</u>
Excess of revenues over (under) expenditures	(1,111,361)	(157,938)	(850,008)	(563,662)
Other Financing Sources (Uses)				
Bonds and bond anticipation notes issued	-	-	-	-
Bonds and notes issued	177,480	474,278	360,260	377,326
Refunding bonds issued	142,190	543,367	163,035	508,109
Premium on bond issuance	10,569	12,216	22,071	38,495
Discount on bond issuance	-	(150)	(1,339)	(14)
Payment to refunded bond escrow agent	(150,488)	(549,296)	(172,223)	(537,743)
Capital lease and financed purchase acquisitions	39,101	172,111	34,567	18,285
Proceeds from sale of capital assets	1,895	1,797	3,160	4,148
Transfers from other funds	2,834,719	2,616,900	2,956,635	3,115,335
Transfers to other funds	(1,949,134)	(1,694,043)	(1,952,646)	(2,171,741)
Total other financing sources (uses)	<u>1,106,331</u>	<u>1,577,181</u>	<u>1,413,520</u>	<u>1,352,200</u>
Net change in fund balances	<u>\$ (5,029)</u>	<u>\$ 1,419,243</u>	<u>\$ 563,512</u>	<u>\$ 788,538</u>
Debt service as a percentage of noncapital expenditures (1)	1.4%	1.3%	1.6%	1.8%

NOTE: (1) Percentage is calculated by dividing total debt service by total expenditures less capital outlays.

Michigan

2014	2015	2016	2017	2018	2019
\$ 25,335,788	\$ 27,176,341	\$ 27,804,517	\$ 28,530,168	\$ 30,359,702	\$ 31,519,313
18,524,648	21,096,200	21,198,341	20,717,668	21,004,796	22,064,601
100,372	105,270	114,454	103,722	108,513	117,086
326,560	330,508	339,877	358,373	364,475	364,935
511,416	527,500	570,150	577,757	585,765	619,452
133,909	120,904	115,621	188,933	149,350	175,942
1,714,576	1,734,331	2,038,138	1,982,759	2,111,796	2,013,900
46,647,268	51,091,052	52,181,098	52,459,380	54,684,397	56,875,229
2,066,169	2,741,135	2,931,623	2,555,020	2,764,946	2,755,260
14,973,104	15,493,658	15,831,979	16,117,415	16,707,956	17,059,690
20,600,683	23,287,158	23,516,873	23,070,385	23,925,010	25,269,773
2,669,883	2,707,199	2,670,637	2,694,120	2,725,056	2,800,651
681,072	615,656	753,725	787,112	895,072	892,066
961,934	978,003	1,230,828	1,270,025	1,259,349	1,343,644
2,611,213	2,604,129	2,650,069	2,753,765	2,934,340	3,311,343
676,500	662,400	672,400	696,500	696,100	895,100
1,113,770	1,160,142	1,106,163	1,223,968	1,297,519	1,619,894
1,120,593	1,210,557	1,213,432	1,259,005	1,289,064	1,327,717
452,631	468,085	452,695	423,751	415,853	432,071
317,873	305,687	276,369	288,859	281,758	259,750
63,028	66,939	68,982	69,414	72,168	74,334
48,308,452	52,300,750	53,375,775	53,209,340	55,264,192	58,041,294
(1,661,184)	(1,209,697)	(1,194,677)	(749,959)	(579,795)	(1,166,065)
-	177,965	172,195	228,560	149,200	67,478
85,295	-	-	-	-	-
295,085	969,870	1,425,395	-	-	168,102
47,579	156,548	294,178	18,999	4,108	29,111
-	(298)	(2,773)	-	-	-
(299,121)	(1,107,996)	(1,674,399)	-	-	(185,167)
18,846	25,373	19,322	14,480	23,383	10,788
3,466	5,250	3,111	3,764	8,454	5,724
3,354,150	3,024,769	3,184,970	3,586,039	3,515,528	3,814,588
(2,410,062)	(2,017,772)	(2,059,139)	(2,399,099)	(2,288,305)	(2,434,594)
1,095,238	1,233,709	1,362,860	1,452,742	1,412,368	1,476,030
\$ (565,945)	\$ 24,011	\$ 168,184	\$ 702,783	\$ 832,574	\$ 309,965
1.8%	1.6%	1.5%	1.5%	1.4%	1.4%

Michigan

PERSONAL INCOME BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	2009	2010	2011	2012
Farm earnings	\$ 864	\$ 1,288	\$ 2,372	\$ 1,870
Forestry, fishing, and related activities	264	300	294	345
Mining	1,047	934	1,334	1,221
Utilities	2,718	2,672	2,668	2,710
Construction	9,790	9,848	10,163	11,587
Manufacturing	36,609	35,339	38,682	42,205
Wholesale trade	12,127	11,964	12,954	13,717
Retail trade	14,582	14,559	15,065	15,430
Transportation and warehousing	6,544	6,565	6,933	7,312
Information	4,659	4,507	4,476	4,531
Finance and insurance	12,732	12,185	11,958	12,378
Real estate and rental and leasing	3,124	3,707	4,540	5,776
Professional, scientific, and technical services	23,328	22,817	24,842	26,399
Management of companies and enterprises	6,178	6,006	6,308	6,498
Administrative and waste services	10,218	10,635	11,718	12,433
Educational services	2,929	3,017	3,030	3,220
Health care and social assistance	31,136	32,177	32,830	33,671
Arts, entertainment, and recreation	2,224	2,249	2,094	2,078
Accommodation and food services	6,013	6,030	6,419	7,176
Other services, except public administration	8,596	9,305	9,715	10,193
Government and government enterprises	40,690	42,180	41,491	40,420
Total earnings by place of work	236,371	238,281	249,884	261,168
Total earnings by place of work	236,371	238,281	249,884	261,168
less: Contributions for government social insurance	28,726	28,532	27,060	27,419
plus: Adjustment for residence	1,555	1,559	1,699	1,856
Net earnings by place of residence	209,200	211,308	224,523	235,604
Net earnings by place of residence	209,200	211,308	224,523	235,604
plus: Dividends, interest, and rent	55,844	52,213	58,500	63,886
plus: Personal current transfer receipts	74,949	81,663	82,656	82,085
Total Personal Income	\$ 339,992	\$ 345,185	\$ 365,680	\$ 381,574
Statutory Tax Rate (blended rate)	4.4%	4.4%	4.4%	4.4%

NOTES: Earnings presented are blended averages. Due to the use of averages and blended amounts, the totals may not equal the sum of the industry amounts presented.

Earnings includes wages and salaries, supplements to wages and proprietors' income.

Industries are categorized using the North American Industry Classification System.

Fiscal year 2018 is the most recent year for which data is available.

SOURCES: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Michigan

2013	2014	2015	2016	2017	2018
\$ 2,159	\$ 1,497	\$ 1,092	\$ 1,008	\$ 888	\$ 924
346	415	453	510	527	539
1,121	1,261	936	615	593	663
2,753	2,928	2,992	3,197	3,483	3,575
12,839	14,049	15,079	15,972	17,232	18,371
43,658	44,437	47,054	49,556	52,304	55,322
14,284	14,723	15,624	15,869	16,502	17,002
15,683	16,111	17,057	17,724	18,347	18,917
7,603	8,016	8,476	8,831	9,324	9,895
4,786	5,070	5,264	5,312	5,201	5,267
12,874	12,913	13,497	14,519	15,482	16,164
6,542	6,826	7,381	7,783	7,561	7,672
27,778	29,183	31,118	32,723	33,957	35,314
7,000	7,445	7,929	8,317	9,461	10,783
12,674	13,032	13,375	13,478	13,950	14,636
3,270	3,453	3,487	3,668	3,543	3,612
34,081	34,646	35,900	37,793	38,854	40,136
2,205	2,332	2,310	2,442	2,585	2,603
7,574	7,895	8,420	8,987	9,440	9,880
10,190	10,455	10,906	11,112	11,327	11,839
40,738	40,330	42,209	43,143	44,025	45,468
270,156	277,015	290,558	302,556	314,581	328,578
270,156	277,015	290,558	302,556	314,581	328,578
31,177	32,943	34,324	35,444	36,726	38,584
1,920	2,034	2,097	2,184	2,302	2,355
240,900	246,105	258,331	269,295	280,158	292,349
240,900	246,105	258,331	269,295	280,158	292,349
66,978	71,279	78,125	80,890	83,597	90,181
83,065	85,365	90,277	93,211	93,590	96,289
\$ 390,942	\$ 402,748	\$ 426,733	\$ 443,396	\$ 457,344	\$ 478,819
4.3%	4.3%	4.3%	4.3%	4.3%	4.3%

Michigan

TAXABLE SALES BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	2009	2010	2011	2012
Farming	\$ 57.1	\$ 56.1	\$ 58.5	\$ 61.7
Agricultural	226.6	211.8	216.2	238.1
Mining	118.8	116.2	145.7	156.1
Construction	565.0	497.3	534.1	601.6
Manufacturing	2,608.5	2,645.7	2,738.4	3,131.6
Transportation and utilities	12,708.7	12,041.1	12,860.4	12,412.4
Wholesale trade	2,516.5	2,426.9	2,861.1	2,727.9
Retail trade	78,680.5	80,195.7	85,484.6	90,639.0
Finance, insurance, and real estate	356.8	193.0	254.6	263.4
Services	5,696.8	5,405.8	5,831.0	6,092.7
State and local government	154.6	240.0	93.3	178.5
Other classifications	1,802.9	1,007.5	1,048.7	1,290.4
Total	<u>\$ 105,492.7</u>	<u>\$ 105,036.9</u>	<u>\$ 112,126.5</u>	<u>\$ 117,793.5</u>
Direct Sales Tax Rate	6.0%	6.0%	6.0%	6.0%

NOTES: Taxable sales were imputed from fiscal year sales tax cash collections by industry, and do not align with final reported revenue that includes accrual items.

Industries were categorized by using the Standard Industrial Classification through fiscal year 2014, and beginning in fiscal year 2015 using the North American Industry Classification System. The switch in classification system results in a significant increase reported by service firms and less reported by firms classified as retailers.

Fiscal year 2018 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

Michigan

2013	2014	2015	2016	2017	2018
\$ 69.4	\$ 79.2	\$ 32.6	\$ 148.1	\$ 152.8	\$ 134.9
254.3	349.8	330.0	65.4	69.9	81.7
136.2	152.1	139.2	112.9	109.2	173.0
617.9	665.3	1,064.1	1,375.4	1,493.0	1,609.8
3,514.0	3,435.2	5,593.7	4,998.2	5,264.1	5,571.0
12,763.8	11,567.7	11,447.0	10,541.2	10,749.4	11,553.2
2,652.0	2,574.0	5,136.3	6,861.6	7,507.8	11,094.2
94,582.1	93,964.6	79,923.2	73,330.2	75,988.5	78,650.3
355.8	386.7	1,901.3	2,813.5	2,787.3	2,451.9
6,223.3	6,412.5	16,925.4	23,323.8	23,615.8	24,107.3
187.3	187.6	323.6	243.3	252.2	201.8
1,255.7	1,433.4	1,677.0	2,078.5	2,348.8	685.6
<u>\$ 122,611.9</u>	<u>\$ 121,208.3</u>	<u>\$ 124,493.4</u>	<u>\$ 125,892.1</u>	<u>\$ 130,338.9</u>	<u>\$ 136,314.6</u>
6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Michigan

PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL

TAX YEARS 2008 AND 2017

Adjusted Gross Income (AGI) Group	Tax Year 2008				Tax Year 2017			
	Number of Filers	Percentage of Total	Personal Income Tax (In Millions)	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax (In Millions)	Percentage of Total
\$50,000 and under	2,867,783	64.0%	\$ 240	4.2%	2,877,957	60.3%	\$ 735	8.4%
\$50,001 - \$100,000	1,002,397	22.4%	1,871	32.5%	1,077,135	22.6%	2,241	25.6%
\$100,001 - \$250,000	499,731	11.2%	2,080	36.1%	686,370	14.4%	3,202	36.6%
\$250,001 - \$1,000,000	102,386	2.3%	1,148	19.9%	116,479	2.4%	1,569	18.0%
\$1,000,001 and higher	9,214	0.2%	418	7.3%	17,732	0.4%	991	11.3%
Total	<u>4,481,511</u>	<u>100.0%</u>	<u>\$ 5,757</u>	<u>100.0%</u>	<u>4,775,673</u>	<u>100.0%</u>	<u>\$ 8,739</u>	<u>100.0%</u>

NOTES: Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the State's personal income tax revenue.

Tax year 2008 personal income tax amount refers to tax amount net of nonrefundable credits, and net of Home Heating Credits (HHC), Homestead Property Tax Credits (HPTC), Farmland Preservation, Adoption, and Stillbirth Credits.

Tax year 2017 personal income tax amount refers to tax amount net of nonrefundable credits, and net of HHC, HPTC, Michigan Earned Income Tax, Farmland Preservation, and Historic Preservation Credits.

Tax year 2017 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

Michigan

SALES TAX PAYERS BY INDUSTRY

FISCAL YEARS 2009 AND 2018

	2009				2018			
	Number of Filers	Percentage of Total	Tax Liability (In Millions)	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability (In Millions)	Percentage of Total
Farming	614	0.6%	\$ 3.4	0.1%	805	0.7%	\$ 8.1	0.1%
Agricultural	1,350	1.4%	13.6	0.2%	476	0.4%	4.9	0.1%
Mining	258	0.3%	7.1	0.1%	238	0.2%	10.4	0.1%
Construction	2,444	2.5%	33.9	0.6%	3,981	3.2%	96.6	1.2%
Manufacturing	6,526	6.8%	156.5	2.5%	10,733	8.7%	334.3	4.2%
Transportation and utilities	1,241	1.3%	610.0	9.9%	994	0.8%	524.2	6.5%
Wholesale trade	2,124	2.2%	151.0	2.4%	6,379	5.2%	665.7	8.3%
Retail trade	54,979	57.2%	4,720.8	76.4%	42,120	34.2%	4,719.0	58.9%
Finance, insurance, and real estate	455	0.5%	21.4	0.4%	3,777	3.1%	147.1	1.8%
Services	24,409	25.4%	341.8	5.5%	48,918	39.7%	1,446.4	18.1%
State and local government	314	0.3%	9.3	0.2%	343	0.3%	12.1	0.2%
Other classifications	1,391	1.5%	108.2	1.8%	4,487	3.6%	41.1	0.5%
Total	96,105	100.0%	\$ 6,177.0	100.0%	123,251	100.0%	\$ 8,009.9	100.0%

NOTES: Taxable sales were imputed from fiscal year sales tax cash collections by industry, and do not align with final reported revenue that includes accrual items.

Industries were categorized using the Standard Industrial Classification through fiscal year 2014 and beginning in fiscal year 2015 using the North American Industry Classification System. The switch in classification system results in a significant increase in tax reported by service firms and less reported by firms classified as retailers.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the State's sales tax revenue.

Fiscal year 2018 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

Michigan

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

(Dollars In Millions, except Per Capita)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES				
	GENERAL OBLIGATION BONDS	REVENUE BONDS	STATE BUILDING AUTHORITY BONDS	CAPITAL LEASES	DIRECT BORROWING - FINANCED PURCHASES
2010	\$ 1,649.7	\$ 2,455.3	\$ 3,084.6	\$ 345.5	\$ -
2011	1,871.8	2,339.2	3,247.4	407.5	-
2012	1,998.4	2,317.4	3,171.9	416.2	-
2013	2,034.3	2,188.8	3,251.1	407.3	-
2014	1,988.6	2,065.8	3,165.2	393.6	-
2015	1,790.5	1,916.0	3,272.4	453.6	-
2016	1,700.4	1,798.4	3,289.0	527.0	37.9
2017	1,634.4	1,623.7	3,303.1	500.3	64.8
2018	1,607.0	1,446.9	3,199.5	488.6	60.2
2019	1,422.3	1,262.2	3,170.1	453.2	48.9

NOTES: Article 9, Section 15 of the State Constitution allows for long-term borrowing by the State for specific purposes in amounts as may be provided by acts of the Legislature adopted by a vote of two-thirds of the members in each house and approved by a majority of the people voting at a general election. The debts of public bodies corporate and politic created by law are not general obligation debts and liabilities of the State. Details regarding the State's debt can be found in the bonds and notes payable note of the financial statements.

SOURCES: U.S. Census Bureau, Population Division.
Department of Technology, Management and Budget.
U.S. Department of Commerce, Bureau of Economic Analysis.
Department of Treasury.

Michigan

TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF PERSONAL INCOME	PER CAPITA
\$ 7,535.1	2.2%	\$ 762
7,865.9	2.1%	796
7,903.8	2.0%	799
7,881.4	2.0%	795
7,613.2	1.9%	767
7,432.5	1.7%	748
7,352.7	1.6%	739
7,126.4	1.5%	714
6,802.2	1.4%	680
6,356.7	Unavailable	Unavailable

Michigan

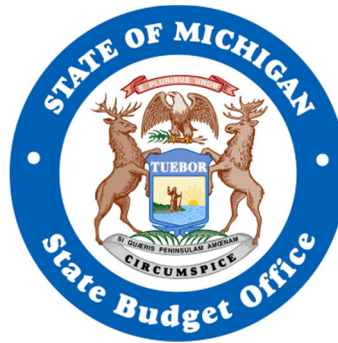
RATIOS OF NET GENERAL OBLIGATION BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

(Dollars In Millions, except Per Capita)

FISCAL YEAR	GENERAL OBLIGATION BONDS	LESS DEBT SERVICE FUNDS	NET GENERAL OBLIGATION BONDS	PERCENTAGE OF PERSONAL INCOME	PER CAPITA
2010	\$ 1,649.7	\$ 1.3	\$ 1,648.4	0.5%	\$ 167
2011	1,871.8	1.4	1,870.5	0.5%	189
2012	1,998.4	1.4	1,997.0	0.5%	202
2013	2,034.3	1.5	2,032.8	0.5%	205
2014	1,988.6	1.6	1,987.0	0.5%	200
2015	1,790.5	1.7	1,788.8	0.4%	180
2016	1,700.4	1.7	1,698.6	0.4%	171
2017	1,634.4	1.8	1,632.6	0.4%	164
2018	1,607.0	3.7	1,603.3	0.3%	160
2019	1,422.3	1.9	1,420.4	Unavailable	Unavailable

SOURCES: U.S. Census Bureau, Population Division.
 Department of Technology, Management and Budget.
 U.S. Department of Commerce, Bureau of Economic Analysis.
 Department of Treasury.



Michigan

DEBT SERVICE COVERAGE COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS LAST TEN FISCAL YEARS (In Millions)

	2010	2011	2012	2013
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 962.1	\$ 957.7	\$ 945.9	\$ 950.9
Registration Taxes	842.1	859.7	876.1	906.5
Miscellaneous Fees	33.8	34.2	35.0	36.1
Total	1,837.9	1,851.5	1,857.0	1,893.5
Less Deductions	138.1	137.4	138.0	133.2
Remaining Balance	1,699.9	1,714.1	1,719.0	1,760.4
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	155.2	156.7	157.0	161.4
Motor Vehicle Related Sales Tax Revenues	\$ 1,182.5	\$ 1,290.7	\$ 1,406.5	\$ 1,476.3
Allocation to Comprehensive Transportation Fund	76.8	90.0	98.1	103.0
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 232.0	\$ 246.7	\$ 255.1	\$ 264.4
Plus Other Revenues (primarily interest)	1.2	1.0	0.6	1.1
Money Available for Debt Service	\$ 233.2	\$ 247.8	\$ 255.8	\$ 265.4
Debt Service:				
Principal	\$ 10.1	\$ 10.2	\$ 14.0	\$ 13.9
Interest	10.5	10.0	9.3	8.6
Actual Annual Debt Service (1)	20.6	20.1	23.4	22.4
Debt Service Coverage	11.3 x	12.3 x	10.9 x	11.8 x

NOTE: (1) The table above does not include debt service on refunded bonds.

SOURCE: Michigan Department of Transportation.

Michigan

2014	2015	2016	2017	2018	2019
\$ 958.8	\$ 1,003.8	\$ 1,011.0	\$ 1,359.5	\$ 1,467.9	\$ 1,460.1
940.6	978.1	1,018.3	1,210.0	1,294.9	1,354.2
37.4	38.8	40.6	44.8	42.0	41.3
1,936.8	2,020.7	2,069.9	2,614.3	2,804.8	2,855.6
135.3	143.5	144.7	161.6	161.6	163.1
1,801.5	1,877.2	1,925.2	2,452.6	2,643.1	2,692.5
165.5	172.5	176.9	229.8	248.7	254.0
\$ 1,462.7	\$ 1,301.9	\$ 1,211.5	\$ 1,255.1	\$ 1,378.0	\$ 1,388.5
102.0	90.8	84.5	87.5	96.1	96.9
\$ 267.5	\$ 263.3	\$ 261.4	\$ 317.4	\$ 344.9	\$ 350.9
1.1	1.5	6.4	1.1	2.6	4.9
\$ 268.6	\$ 264.8	\$ 267.9	\$ 318.5	\$ 347.4	\$ 355.8
\$ 14.5	\$ 15.9	\$ 16.5	\$ 17.2	\$ 18.1	\$ 18.9
7.9	7.3	6.2	5.7	4.8	3.9
22.4	23.2	22.7	22.9	22.9	22.8
12.0 x	11.4 x	11.8 x	13.9 x	15.2 x	15.6 x

Michigan

DEBT SERVICE COVERAGE STATE TRUNKLINE FUND RELATED BONDS LAST TEN FISCAL YEARS (In Millions)

	2010	2011	2012	2013
Constitutionally Restricted Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 962.1	\$ 957.7	\$ 945.9	\$ 950.9
Registration Taxes	842.1	859.7	876.1	906.5
Miscellaneous Fees	33.8	34.2	35.0	36.1
Income Tax Redirection	-	-	-	-
Total	1,838.0	1,851.5	1,857.0	1,893.5
Less Deductions:				
Local Bridge Debt Service	3.3	3.3	3.3	3.0
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Collection Costs	47.9	47.8	48.6	43.9
Recreation Improvement Fund	16.7	16.5	16.4	16.4
Comprehensive Transportation Fund (excluding interest)	155.2	156.7	157.0	161.4
Local Program Fund	33.0	33.0	33.0	33.0
Movable Bridge Fund	-	-	-	-
Local Agency Wetlands Mitigation Fund	-	-	-	-
Local Bridge Fund	27.2	26.9	26.8	26.8
Economic Development Fund	40.3	40.3	40.3	40.3
Miscellaneous	-	-	-	-
Total Deductions	366.6	367.4	368.4	367.8
Constitutionally Restricted Revenues Available for Distribution	1,471.4	1,484.1	1,488.6	1,525.7
Plus Other Revenues (primarily interest)	2.2	0.6	1.2	1.1
Total Money Available for Distribution	1,473.6	1,484.7	1,489.8	1,526.8
Distributions to:				
Cities and Villages	322.4	324.6	326.0	334.2
County Road Commissions	563.8	568.4	569.3	584.5
State Trunkline Fund	587.4	591.7	592.5	607.7
Money Available for Debt Service:				
State Trunkline Fund	587.4	591.7	592.5	607.7
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Economic Development Fund	40.3	40.3	40.3	40.3
Local Program Fund	33.0	33.0	33.0	33.0
Local Bridge Fund	3.3	3.3	3.3	3.0
Miscellaneous	36.4	39.5	35.4	133.0
Total Available for Debt Service	743.4	750.7	747.4	860.1
Debt Service:				
Principal	\$ 79.2	\$ 82.6	\$ 86.3	\$ 88.5
Interest	80.9	77.5	75.6	73.2
Actual Annual Debt Service (1)	160.1	160.1	161.9	161.8
Debt Service Coverage	4.6 x	4.7 x	4.6 x	5.3 x

NOTE: (1) The table above excludes amounts related to refunded bonds and federally funded debt.

SOURCE: Michigan Department of Transportation.

Michigan

2014	2015	2016	2017	2018	2019
\$ 958.8	\$ 1,003.8	\$ 1,011.0	\$ 1,359.5	\$ 1,467.9	\$ 1,460.1
940.6	978.1	1,018.3	1,210.0	1,294.9	1,354.2
37.4	38.8	40.6	44.8	42.0	41.3
-	-	-	-	-	264.0
1,936.8	2,020.7	2,069.9	2,614.3	2,804.8	3,119.6
2.4	2.3	2.4	2.4	2.3	2.3
43.0	43.0	43.0	50.0	50.0	50.0
46.4	53.2	53.1	58.4	56.4	58.2
16.5	17.2	17.6	22.5	24.4	24.3
165.5	172.5	176.9	229.8	248.7	254.0
33.0	33.0	33.0	33.0	33.0	33.0
-	-	5.0	5.0	5.1	5.2
-	-	2.0	2.0	1.0	2.0
26.9	27.8	28.5	28.3	28.5	28.3
40.3	40.3	40.3	40.3	40.3	40.3
-	-	-	-	0.4	-
374.1	389.3	401.9	471.8	490.1	497.6
1,562.8	1,631.5	1,668.0	2,142.5	2,314.7	2,621.9
1.1	1.4	2.4	3.4	3.5	5.2
1,563.8	1,632.9	1,670.4	2,145.9	2,318.1	2,627.1
342.3	357.2	365.9	470.2	509.9	578.2
598.9	625.4	639.6	825.1	891.3	1,011.8
622.6	650.3	664.9	850.5	917.0	1,037.1
622.6	650.3	664.9	850.5	917.0	1,037.1
43.0	43.0	43.0	50.0	50.0	50.0
40.3	40.3	40.3	40.3	40.3	40.3
33.0	33.0	33.0	33.0	33.0	33.0
2.4	2.3	2.4	2.4	2.3	2.3
35.7	26.4	31.8	38.5	62.1	38.8
777.0	795.4	815.4	1,014.7	1,104.6	1,201.4
\$ 106.5	\$ 111.4	\$ 116.4	\$ 121.8	\$ 127.2	\$ 133.9
59.2	48.7	45.8	39.9	33.6	26.8
165.7	160.1	162.2	161.8	160.8	160.7
4.7 x	5.0 x	5.0 x	6.3 x	6.9 x	7.5 x

Michigan

DEBT SERVICE COVERAGE STATE BUILDING AUTHORITY LAST TEN FISCAL YEARS (In Millions)

	2010	2011	2012	2013
Revenue - Lease and Rental Payments	\$ 230.1	\$ 233.1	\$ 234.3	\$ 234.4
Less: Operating Expenses	1.6	1.4	1.6	1.3
Net Available Revenue	<u>228.5</u>	<u>231.7</u>	<u>232.7</u>	<u>233.1</u>
Debt Service:				
Principal	\$ 96.1	\$ 128.9	\$ 96.2	\$ 126.6
Interest	120.0	122.5	121.0	124.8
Actual Annual Debt Service (1)	<u>216.1</u>	<u>251.4</u>	<u>217.2</u>	<u>251.4</u>
Debt Service Coverage	1.1 x	0.9 x	1.1 x	0.9 x

NOTE: (1) The table above excludes amounts related to refunded bonds.

Michigan

2014	2015	2016	2017	2018	2019
\$ 231.0	\$ 230.9	\$ 224.4	\$ 216.7	\$ 225.1	\$ 224.2
1.1	1.0	0.8	1.0	1.6	1.5
<u>229.9</u>	<u>229.9</u>	<u>223.6</u>	<u>215.7</u>	<u>223.5</u>	<u>222.7</u>
\$ 102.2	\$ 139.5	\$ 108.8	\$ 87.1	\$ 95.8	\$ 99.7
118.5	121.7	117.3	133.2	141.6	140.5
<u>220.6</u>	<u>261.2</u>	<u>226.1</u>	<u>220.2</u>	<u>237.4</u>	<u>240.2</u>
1.0 x	0.9 x	1.0 x	1.0 x	0.9 x	0.9 x

Michigan

DEMOGRAPHIC AND ECONOMIC INDICATORS

LAST TEN CALENDAR YEARS

	2009	2010	2011	2012
Population (a) (in thousands)				
Michigan	9,902	9,884	9,882	9,897
United States	306,772	308,746	311,580	313,874
Total Personal Income (b) (in billions)				
Michigan	\$ 337.0	\$ 349.6	\$ 370.7	\$ 386.6
United States	\$ 12,051.3	\$ 12,542.0	\$ 13,315.5	\$ 13,998.4
Per Capita Income (b)				
Michigan	\$ 34,030	\$ 35,391	\$ 37,512	\$ 39,059
United States	\$ 39,284	\$ 40,546	\$ 42,735	\$ 44,599
Unemployment Rate (c)				
Michigan	13.7%	12.6%	10.4%	9.1%
United States	9.3%	9.6%	8.9%	8.1%
Michigan estimated wage and salary employees (c) (in thousands)				
Goods Producing:				
Mining and Logging	6.9	7.1	7.4	7.8
Construction	127.6	121.6	125.3	128.2
Manufacturing	455.1	466.2	501.8	530.5
Total Goods Producing	589.6	594.9	634.6	666.5
Service-Providing:				
Private Service-Providing				
Trade, Transportation, and Utilities:				
Wholesale Trade	152.4	150.1	154.4	158.6
Retail Trade	451.5	446.6	448.6	449.3
Transportation and Utilities	112.9	113.5	118.3	121.7
Information	56.3	54.8	53.2	53.3
Financial Activities:				
Finance and Insurance	142.6	139.8	144.2	148.2
Real Estate and Rental and Leasing	48.8	48.3	48.9	48.2
Professional and Business Services:				
Professional, Scientific, and Technical Services	229.9	231.0	242.8	253.6
Management of Companies and Enterprises	49.9	49.8	52.5	54.4
Administrative, Support Services, and Waste Management	230.6	243.7	267.8	280.9
Educational and Health Services:				
Educational Services	79.2	77.3	73.5	73.1
Health Care and Social Assistance	530.1	534.5	548.2	559.0
Leisure and Hospitality:				
Accommodation and Food Services	330.8	329.0	332.8	341.9
Other	50.9	48.6	47.7	46.9
Other Services	168.8	166.3	167.3	169.3
Total Private Service-Providing	2,634.5	2,633.1	2,700.1	2,758.5
Government	646.8	635.6	617.4	608.5
Total Service-Providing	3,281.3	3,268.7	3,317.5	3,367.0
Total Wage and Salary Employment	3,870.9	3,863.6	3,952.1	4,033.5

NOTES: Wage and Salary Employment based on North American Industry Classification System.
 Components in Wage and Salary Employment may not total due to truncation.
 Calendar year 2018 is the most recent year for which data is available.

SOURCES: (a) U.S. Census Bureau, Population Division.
 (b) U.S. Department of Commerce, Bureau of Economic Analysis.
 (c) Michigan Department of Technology, Management and Budget
 and U.S. Department of Labor, Bureau of Labor Statistics.

Michigan

2013	2014	2015	2016	2017	2018
9,913	9,931	9,933	9,952	9,976	9,996
316,058	318,386	320,743	323,071	325,147	327,167
\$ 390.2	\$ 408.6	\$ 432.4	\$ 446.5	\$ 461.5	\$ 484.0
\$ 14,175.5	\$ 14,982.7	\$ 15,709.2	\$ 16,111.6	\$ 16,870.1	\$ 17,813.0
\$ 39,361	\$ 41,147	\$ 43,533	\$ 44,868	\$ 46,258	\$ 48,423
\$ 44,851	\$ 47,058	\$ 48,978	\$ 49,870	\$ 51,885	\$ 54,446
8.8%	7.2%	5.4%	5.0%	4.6%	4.1%
7.4%	6.2%	5.3%	4.9%	4.4%	3.9%
8.0	8.3	7.7	7.2	7.1	7.2
133.5	141.8	148.3	155.1	162.2	169.2
548.7	574.7	591.7	605.7	616.1	629.8
690.2	724.8	747.6	768.0	785.4	806.2
162.5	165.8	167.1	168.5	170.6	172.1
455.4	461.4	467.6	473.2	473.3	470.4
125.7	130.6	135.5	138.7	142.5	148.9
55.3	57.5	56.6	57.3	56.5	55.8
153.4	153.6	155.8	160.0	163.3	163.9
49.4	50.6	51.3	52.8	54.2	55.1
263.3	271.7	277.8	285.8	294.1	299.1
56.9	58.5	61.1	63.8	66.6	68.9
291.6	294.5	298.0	296.4	289.2	292.6
73.4	72.4	72.3	72.0	72.6	74.5
565.3	568.7	577.3	590.9	599.3	604.5
350.3	357.5	363.5	373.5	379.1	381.0
47.9	49.0	50.2	51.7	53.1	52.6
170.5	169.5	167.3	167.7	165.7	166.6
2,820.7	2,861.1	2,901.4	2,952.3	2,980.0	3,006.0
598.5	595.8	594.2	599.4	603.7	606.5
3,419.3	3,456.9	3,495.5	3,551.7	3,583.7	3,612.4
4,109.5	4,181.7	4,243.2	4,319.7	4,369.1	4,418.6

Michigan

CLASSIFIED EMPLOYEES BY FUNCTION

LAST TEN FISCAL YEARS

	2010	2011	2012	2013
General government	6,995	6,645	7,026	7,273
Education	445	446	476	518
Health and human services	14,287	13,813	14,055	14,885
Public safety and corrections	18,388	17,508	16,689	16,561
Conservation, environment, recreation, and agriculture	3,359	3,041	3,049	3,033
Labor, commerce, and regulatory	4,298	3,727	3,756	2,899
Transportation	2,844	2,639	2,632	2,570
Total	50,615	47,818	47,683	47,739

NOTES: This report reflects classified employees who are full-time, part-time, permanent intermittent, limited term, seasonal, non-career, or on worker's compensation in primary positions only, except for the following non-career appointments: student assistant, transportation aide, and state worker.

Each fiscal year in this schedule also includes approximately 2,000 classified employees for the business-type activities and discretely presented component unit authorities. Although the expenses for the business-type activities and component unit authorities are reported separately in the government-wide financial statements, the employee counts were combined in this schedule to ensure consistency with the Civil Service Commission reports and for administrative efficiency.

This schedule includes average employee counts. Employees who job share are divided in half. For this reason, totals may not equal the sum of the employee counts per function.

SOURCE: Michigan Civil Service Commission, Annual Work Force Report.

Michigan

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
7,377	6,888	7,016	7,090	7,155	7,181
518	515	507	504	505	503
14,516	14,046	13,858	14,083	14,273	14,406
16,154	16,019	16,125	15,916	15,716	15,743
3,050	3,119	3,185	3,247	3,305	3,370
2,817	3,431	3,402	3,390	3,405	3,537
<u>2,573</u>	<u>2,570</u>	<u>2,600</u>	<u>2,594</u>	<u>2,597</u>	<u>2,583</u>
47,003	46,588	46,692	46,825	46,956	47,324

Michigan

OPERATING INDICATORS BY FUNCTION

LAST TEN FISCAL YEARS

	2010	2011	2012	2013
General government				
Tax forms processed	8,078,164	8,521,664	8,539,957	8,360,575
Passenger, commercial, and recreational vehicle registrations	8,459,499	8,479,747	8,435,868	8,496,407
Driver licenses issued	1,791,417	1,901,673	1,969,253	1,956,686
Education				
K-12 students	1,592,598	1,565,324	1,550,111	1,533,442
Public university students	262,615	264,903	264,913	263,817
Community college students	177,277	176,370	164,828	154,118
Human services				
Food assistance program recipients (1)	1,776,368	1,928,478	1,828,384	1,775,646
Family independence program recipients (1)	224,651	227,490	154,941	129,185
Day care recipients (1)	63,643	54,049	50,028	43,246
Children in foster care	15,261	14,043	13,504	13,902
State disability assistance recipients (1)	10,628	10,094	8,713	7,845
Finalized adoptions (yearly total) (2)	2,612	2,506	2,554	2,361
Juvenile justice youth served	988	951	801	790
Open child support cases with support orders established	764,388	772,687	774,463	771,108
Public safety and corrections				
Inmates, parolees, and probationers (as of 9/30)	125,231	117,152	112,049	108,738
State police patrol miles driven	16,148,708	15,045,772	17,633,319	18,852,703
Criminal offender DNA samples entered into federal indexing database (calendar year)	20,911	16,475	16,098	21,283
National Guard members (as of 9/30)	11,900	11,504	11,156	10,901
Veteran homes average daily census	852	798	690	665
Conservation, environment, recreation and agriculture				
Hunting and/or fishing license holders (3)	1,934,765	1,912,262	1,851,287	1,919,692
Camping nights in State parks	916,289	899,311	987,189	1,021,712
Population impacted by water purification projects	370,662	725,931	463,457	691,102
Underground storage tank releases closed	231	171	184	285
Scrap tires collected (passenger tire equivalent)	1,121,596	220,508	161,704	522,869
Labor, commerce, and regulatory				
Processed applications for new and renewal occupational licenses	155,035	147,791	125,603	135,734
Building related permits issued	20,078	18,182	19,221	17,783
Building related safety inspections conducted	48,614	46,510	49,614	58,223
Occupational safety and health enforcement inspections conducted	5,202	5,343	5,394	5,267
Alleged occupational safety and health violations identified	14,221	14,333	13,744	12,741
Financial and insurance service providers chartered	331,410	349,269	390,005	225,927
Health services				
Medicaid recipients (1)	1,823,178	1,899,107	1,875,544	1,854,880
Healthy Michigan Plan recipients	-	-	-	-
Women, Infants, and Children Food and Nutrition Program recipients (1)	256,229	252,123	255,954	254,126
Children's special health care services recipients (1)	31,818	31,587	29,958	31,083
Mentally ill/developmental disability service recipients (1)	228,215	231,091	242,884	251,019
Substance abuse service recipients	71,382	70,069	70,145	70,664

NOTES: (1) Monthly average.

(2) Total adoptions were completed by the Department of Health and Human Services (DHHS) and private agencies under contract with DHHS.

(3) The licensing season runs April 1 through March 31. Amounts reported under fiscal year 2019 are for the licensing year ending March 31, 2019.

(4) Amount estimated.

SOURCES: Various State departments.

Michigan

2014	2015	2016	2017	2018	2019
8,432,444	8,253,892	8,843,031	8,957,609	9,517,077	9,316,186
8,543,342	8,604,852	8,726,870	8,828,958	8,778,306	9,081,428
1,811,237	1,907,776	1,995,736	1,998,160	1,877,592	1,985,920
1,522,039	1,506,953	1,494,000	1,489,357	1,481,199	1,467,721
262,537	261,989	260,817	259,711	257,535	256,090
143,829	133,895	125,388	124,868	120,724	116,340
1,680,721	1,571,403	1,473,614	1,375,434	1,281,862	1,180,070
89,957	71,156	55,379	48,120	41,914	36,584
35,501	29,624	30,941	32,217	34,218	35,225
13,209	13,246	13,145	13,329	14,149	13,830
6,723	5,600	4,664	3,991	3,339	3,032
2,185	1,815	2,109	1,998	2,002	2,038 (4)
729	668	639	640	617	560
760,284	683,193	694,706	685,058	674,643	642,177
106,966	104,345	101,853	98,666	96,579	92,954
21,249,946	22,731,503	22,532,597	22,762,373	23,622,792	24,531,668
14,776	20,930	37,856	33,421	32,121	27,003 (4)
10,537	10,001	10,242	10,451	10,532	10,640
649	610	589	499	453	384
1,947,508	1,838,505	1,836,298	1,827,091	1,815,201	1,763,571
939,105	1,022,791	1,034,109	1,155,052	1,163,997	1,151,830 (4)
677,175	821,323	1,181,115	806,760	76,472	4,018,604
488	427	344	249	218	166
183,359	369,305	212,528	203,162	277,578	342,947 (4)
341,132	128,071	148,606	167,118	169,267	206,962
17,066	18,051	16,718	17,747	18,346	19,372
56,098	52,578	55,731	41,649	35,930	35,159
5,231	4,437	5,069	4,862	4,339	4,757
10,693	11,266	13,855	12,566	9,510	9,843
255,121	277,147	298,370	310,436	336,604	338,972
1,842,957	1,706,468	1,710,770	1,775,073	1,769,624	1,742,904
286,311 (10)	544,377	597,225	650,000	671,601	662,818
251,713	244,829	234,546	224,106	213,964	205,364
33,550	33,512	33,206	33,622	35,835	39,163
241,329	236,291	228,444	231,307	240,434	Unavailable
71,248	70,173	72,306	72,627	75,875	76,005 (4)

Michigan

OPERATING INDICATORS BY FUNCTION (Continued)

LAST TEN FISCAL YEARS

	2010	2011	2012	2013
Transportation				
Annual vehicle miles of travel on				
State Trunkline roads (8)	48,700,000,000	49,800,000,000	48,700,000,000	49,400,000,000
Miles of intercity bus travel receiving State funding	1,080,444	1,086,022	1,094,911	1,110,733
Miles of local bus travel receiving State funding	108,426,363	105,267,567	104,317,459	101,203,565
Railroad crossing maintenance/safety inspections	1,454	2,563	2,644	1,970
Tax credits				
Taxpayers claiming refundable credits (5) (7)	2,454,200	2,363,800	1,882,600	1,840,900
Intergovernmental-revenue sharing				
Township grants	1,240	1,240	1,240	1,240
City grants	277	277	277	277
Village grants	256	256	256	256
County grants (6)	20	36	50	62
Liquor Purchase Revolving Fund				
Annual retail liquor licenses issued (9)	15,898	15,870	15,961	16,026
Liquor sales volume (cases)	6,877,873	7,117,299	7,373,714	7,532,846
Beer sales volume (barrels)	6,448,197	6,250,673	6,318,295	6,206,452
Wine sales volume (liters)	79,440,328	81,504,221	84,253,865	88,096,394
Pre-mixed spirit drink sales volume (liters)	983,029	954,712	1,076,369	1,058,511
State Lottery Fund				
Retailers	10,797	10,746	10,879	10,848
Winners greater than \$600	60,543	48,567	44,904	52,365
Millionaire prizewinners	39	28	31	36
Michigan Unemployment Compensation Funds				
Individuals receiving benefits (calendar year)	825,858	636,493	527,507	449,388

- NOTES: (5) Tax credits are reported based on the tax year. Credits claimed during tax year 2018, for example, are reported above in fiscal year 2018.
- (6) County grants were suspended beginning in fiscal year 2005. Instead, each county expends from its revenue sharing reserve fund created by State statute in 2004. Each fiscal year, counties are allowed only to expend from the fund the amount the Department of Treasury certifies them to spend. Once a county has exhausted its revenue sharing reserve fund, the county will return to revenue sharing.
- (7) Amount estimated and rounded to nearest hundred.
- (8) Amount estimated and rounded to nearest one hundred million on a calendar-year basis.
- (9) In fiscal year 2017, the Liquor Control Commission implemented the Alcohol Information Management System which includes Specially Designated Merchant licenses that were issued in conjunction with other license types.
- (10) The first year of the Healthy Michigan plan was fiscal year 2014. Amount is a nine month average for fiscal year 2014.

SOURCES: Various State departments.

Michigan

2014	2015	2016	2017	2018	2019
50,000,000,000	51,100,000,000	51,400,000,000	52,900,000,000	54,300,000,000	54,200,000,000
1,109,738	1,112,920	1,056,684	972,876	960,280	946,945
100,071,938	101,441,015	102,988,003	108,598,150	115,443,928	114,186,209 (4)
1,624	1,787	3,256	2,250	2,379	2,191
1,802,100	1,757,100	1,783,300	1,733,200	1,884,300	Unavailable
1,240	1,240	1,240	1,240	1,240	1,240
277	279	280	280	280	280
256	254	253	253	253	253
63	74	76	78	78	81
15,989	15,940	15,921	25,727	26,351	29,495
7,709,480	8,043,595	8,370,191	8,549,809	8,898,383	9,046,819
6,221,433	6,302,160	6,221,883	6,064,592	6,024,082	5,917,199
92,044,380	92,562,421	95,465,899	96,255,115	97,473,694	98,009,016
1,074,364	1,142,527	1,385,629	1,553,193	1,726,361	2,436,149
10,684	10,654	10,650	10,645	10,792	10,508
56,735	68,359	74,352	82,435	91,984	94,046
39	42	46	38	39	42
370,980	306,158	286,449	272,373	241,828	230,205 (4)

Michigan

CAPITAL ASSETS BY FUNCTION

LAST TEN FISCAL YEARS

	2010	2011	2012	2013
General government				
Buildings (2)	261	247	239	240
Vehicles	812	762	783	927
Education				
Buildings (2)	27	27	27	27
Vehicles	23	24	28	27
Health and Human services				
Buildings (2)	434	429	420	459
Vehicles	1,235	1,297	1,317	1,546
Public safety and corrections				
Buildings (2)	1,389	1,386	1,255	1,254
Vehicles	3,568	3,448	3,433	3,547
Conservation, environment, recreation, and agriculture				
Buildings (2)	340	339	335	325
Vehicles	3,912	3,829	3,853	3,985
Environmental quality air-monitoring instruments	202	202	202	231
Environmental quality lab/analyzing equipment	144	150	156	159
Natural resources acres of land (1)	4,588,442	4,586,891	4,586,922	4,595,866
Harbors	17	18	19	19
Hatcheries	6	6	6	6
State park & recreation areas	98	99	101	101
Labor, commerce, and regulatory				
Buildings (2)	173	166	112	45
Vehicles	492	490	585	484
Transportation				
Buildings (2)	436	435	374	373
Vehicles	1,770	1,729	1,707	1,692
Highway lane miles (calendar year)	27,432	27,439	27,437	27,424
Heavy equipment owned	2,184	2,211	2,150	2,150

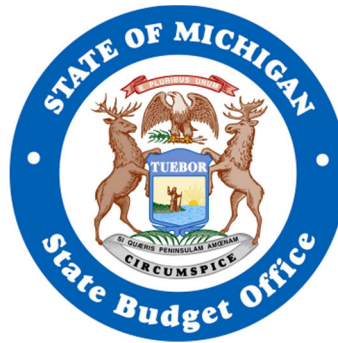
NOTES: (1) Acres of land are on a tax year basis rather than a fiscal year basis.

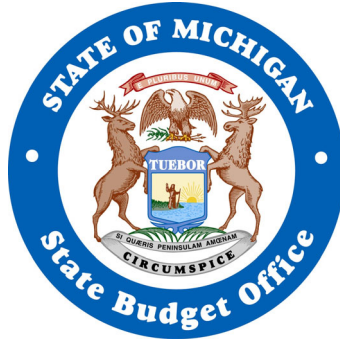
(2) Beginning in fiscal year 2019, amounts only include buildings where costs exceed the \$100.0 thousand threshold for capitalization.

SOURCES: Michigan Departments of Technology, Management and Budget; Natural Resources; Environmental Quality; and Transportation.

Michigan

2014	2015	2016	2017	2018	2019
240	241	240	243	241	201
974	972	988	990	1,059	1,011
28	28	28	28	28	2
29	32	35	33	35	35
443	439	441	442	439	145
1,682	1,708	1,698	1,729	1,746	1,791
1,254	1,253	1,261	1,259	1,254	698
3,700	3,705	3,924	3,977	4,057	4,082
327	330	327	326	326	334
4,053	4,159	4,275	4,528	4,005	4,027
229	229	248	278	294	283
143	147	156	166	217	229
4,592,910	4,597,121	4,590,035	4,594,015	4,594,482	4,590,515
19	19	19	19	19	19
6	6	6	6	6	6
102	102	103	103	102	102
45	70	69	66	65	20
495	493	574	601	636	696
373	372	373	373	374	266
1,682	1,674	1,682	1,691	1,729	1,758
27,459	27,488	27,452	29,702	29,748	29,711
2,156	2,185	2,222	2,258	2,343	2,425





OTHER INFORMATION

Michigan

COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL AND SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
TAXES			
Sales	\$ 8,243,168	\$ 2,138,167	\$ 6,105,001
Personal income	11,327,333	8,218,244	3,109,089
Single business, Michigan business, and corporate income	1,199,866	1,199,866	-
Use	1,358,473	759,626	598,847
State education (property)	2,114,632	-	2,114,632
Real estate transfer	350,113	-	350,113
Tobacco products	889,591	562,046	327,546
Beer and wine	50,163	50,163	-
Liquor	181,836	121,679	60,158
Casino gaming wagering	117,257	-	117,257
Telephone and telegraph company	30,284	30,284	-
Commercial mobile radio service	43,447	43,447	-
Insurance company	327,439	327,439	-
Health insurance claims assessment	1,113	1,113	-
Motor vehicle registration	1,357,510	3,335	1,354,175
Gasoline	1,214,722	-	1,214,722
Diesel fuel	243,835	-	243,835
Gas and oil severance	23,530	23,530	-
Industrial facilities	39,545	-	39,545
Convention hotel accommodation	28,016	28,016	-
Airport parking	31,357	31,357	-
Quality assurance assessment	1,392,069	1,392,069	-
Essential services assessment	111,214	111,214	-
Penalties and interest	128,905	128,905	-
Insurance provider assessment	602,602	602,602	-
Environmental protection regulatory fee	58,937	58,937	-
Michigan State Housing Development Authority payment in lieu of taxes	13,720	-	13,720
Other	23,056	8,783	14,273
	<u>31,503,734</u>	<u>15,840,821</u>	<u>15,662,913</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	16,082,474	16,079,966	2,508
Department of Education	1,367,294	193,855	1,173,439
Department of Agriculture	2,545,409	2,062,145	483,264
Department of Labor	273,541	149,841	123,700
Department of Housing and Urban Development	10,615	10,615	-
Department of Energy	18,320	18,320	-
Department of Transportation	64,059	25,295	38,764
Department of Interior	41,945	36,386	5,559
Department of Defense	75,772	75,772	-
Department of Justice	77,868	77,868	-
Department of Homeland Security	43,568	43,141	427
Department of Veterans Affairs	22,767	22,767	-
Social Security Administration	101,134	101,134	-
Environmental Protection Agency	83,893	83,888	5
Other	18,980	18,965	15
	<u>20,827,638</u>	<u>18,999,959</u>	<u>1,827,680</u>
FROM LOCAL AGENCIES			
Counties	69,555	69,555	-
Cities, villages, and townships	8,095	8,095	-
School districts	3,849	3,849	-
Other	18,133	18,133	-
	<u>99,633</u>	<u>99,633</u>	<u>-</u>
SPECIAL MEDICAID REIMBURSEMENTS	<u>175,942</u>	<u>175,942</u>	<u>-</u>

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 162,658	\$ 158,364	\$ 4,294
Revenues for patient, ward, and inmate care	32,410	32,410	-
Other	166,049	166,008	41
	<u>361,118</u>	<u>356,782</u>	<u>4,335</u>
FROM LICENSES AND PERMITS			
Liquor retailer, manufacturer, and wholesaler licenses	19,731	19,731	-
Motor vehicle operator and chauffeur licenses	52,352	52,035	317
Examination fees - financial institutions and insurance industry	36,400	36,400	-
Motor vehicle related	39,421	2,799	36,622
Hunting, fishing, and trapping licenses	60,443	-	60,443
Public utilities assessment fees	35,563	35,563	-
Regulatory licenses and permits	143,820	127,070	16,750
Corporation franchise fees	27,963	27,963	-
Recreation user fees and permits	107,393	1,725	105,668
Other	78,562	75,234	3,328
	<u>601,648</u>	<u>378,519</u>	<u>223,129</u>
MISCELLANEOUS			
Income from investments	96,095	52,679	43,416
Tobacco settlement proceeds	220,632	17,504	203,129
Various fines, fees, and assessments	104,844	69,554	35,289
Court fines, fees, and assessments	161,127	150,431	10,696
Oil and gas royalties, fees, assignments, and rentals	7,335	5,479	1,856
Sale of forest products on tax reverted land	53,481	-	53,481
Child support	29,699	29,699	-
Unclaimed bottle deposits	32,284	2,018	30,266
Unemployment obligation assessment	454,788	-	454,788
Low-income energy efficiency program	50,712	50,712	-
Unclaimed property proceeds	95,164	95,164	-
School bond loan repayment interest	30,384	30,384	-
Other	395,917	319,551	76,367
	<u>1,732,463</u>	<u>823,176</u>	<u>909,288</u>
Total Revenues	<u>55,302,176</u>	<u>36,674,832</u>	<u>18,627,344</u>
OTHER FINANCING SOURCES			
Capital lease and financed purchase acquisitions	10,275	7,271	3,004
Proceeds from sale of capital assets	5,053	5,053	-
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	248,099	248,099	-
From State Lottery Fund	1,076,965	3,316	1,073,650
From other funds	526,807	74,986	451,821
	<u>1,867,199</u>	<u>338,724</u>	<u>1,528,475</u>
Total Other Financing Sources	<u>1,867,199</u>	<u>338,724</u>	<u>1,528,475</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 57,169,375</u>	<u>\$ 37,013,556</u>	<u>\$ 20,155,819</u>

Michigan

SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
TAXES			
Sales	\$ 2,138,167	\$ 795,047	\$ 1,343,120
Personal income	8,218,244	7,114,386	1,103,858
Single business, Michigan business, and corporate income	1,199,866	698,922	500,944
Use	759,626	757,431	2,195
Tobacco products	562,046	175,738	386,307
Beer and wine	50,163	50,163	-
Liquor	121,679	61,335	60,344
Telephone and telegraph company	30,284	30,284	-
Commercial mobile radio service	43,447	-	43,447
Insurance company	327,439	314,911	12,528
Health insurance claims assessment	1,113	-	1,113
Motor vehicle registration	3,335	-	3,335
Gas and oil severance	23,530	22,280	1,250
Convention hotel accommodation	28,016	-	28,016
Airport parking	31,357	-	31,357
Quality assurance assessment	1,392,069	-	1,392,069
Essential services assessment	111,214	111,214	-
Penalties and interest	128,905	119,521	9,384
Insurance provider assessment	602,602	-	602,602
Environmental protection regulatory fee	58,937	-	58,937
Other	8,783	2,249	6,534
	<u>15,840,821</u>	<u>10,253,480</u>	<u>5,587,341</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	16,079,966	2,147	16,077,818
Department of Education	193,855	1,228	192,627
Department of Agriculture	2,062,145	227	2,061,919
Department of Labor	149,841	29	149,812
Department of Housing and Urban Development	10,615	59	10,556
Department of Energy	18,320	139	18,180
Department of Transportation	25,295	291	25,005
Department of Interior	36,386	-	36,386
Department of Defense	75,772	-	75,772
Department of Justice	77,868	226	77,643
Department of Homeland Security	43,141	-	43,141
Department of Veterans Affairs	22,767	-	22,767
Social Security Administration	101,134	-	101,134
Environmental Protection Agency	83,888	21	83,867
Other	18,965	726	18,238
	<u>18,999,959</u>	<u>5,094</u>	<u>18,994,865</u>
FROM LOCAL AGENCIES			
Counties	69,555	-	69,555
Cities, villages, and townships	8,095	-	8,095
School districts	3,849	-	3,849
Other	18,133	-	18,133
	<u>99,633</u>	<u>-</u>	<u>99,633</u>
SPECIAL MEDICAID REIMBURSEMENTS	<u>175,942</u>	<u>-</u>	<u>175,942</u>

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 158,364	\$ 1	\$ 158,363
Revenues for patient, ward, and inmate care	32,410	3,788	28,622
Other	166,008	869	165,139
	<u>356,782</u>	<u>4,658</u>	<u>352,124</u>
FROM LICENSES AND PERMITS			
Liquor retailer, manufacturer, and wholesaler licenses	19,731	1,914	17,817
Motor vehicle operator and chauffeur licenses	52,035	655	51,380
Examination fees - financial institutions and insurance industry	36,400	-	36,400
Motor vehicle related	2,799	44	2,755
Public utilities assessment fees	35,563	-	35,563
Regulatory licenses and permits	127,070	6,165	120,905
Corporation franchise fees	27,963	-	27,963
Recreation user fees and permits	1,725	353	1,372
Other	75,234	186	75,047
	<u>378,519</u>	<u>9,317</u>	<u>369,202</u>
MISCELLANEOUS			
Income from investments	52,679	10,337	42,342
Tobacco settlement proceeds	17,504	-	17,504
Various fines, fees, and assessments	69,554	832	68,722
Court fines, fees, and assessments	150,431	21,607	128,824
Oil and gas royalties, fees, assignments, and rentals	5,479	-	5,479
Child support	29,699	2	29,697
Unclaimed bottle deposits	2,018	-	2,018
Low-income energy efficiency program	50,712	-	50,712
Unclaimed property proceeds	95,164	84,797	10,367
School bond loan repayment interest	30,384	-	30,384
Other	319,551	20,865	298,686
	<u>823,176</u>	<u>138,440</u>	<u>684,735</u>
Total Revenues	<u>36,674,832</u>	<u>10,410,989</u>	<u>26,263,843</u>
OTHER FINANCING SOURCES			
Capital lease and financed purchase acquisitions	7,271	-	7,271
Proceeds from sale of capital assets	5,053	6	5,047
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	248,099	247,934	165
From State Lottery Fund	3,316	1,898	1,418
From other funds	74,986	-	74,986
Total Other Financing Sources	<u>338,724</u>	<u>249,838</u>	<u>88,886</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>37,013,556</u>	<u>10,660,827</u>	<u>26,352,729</u>
BUDGETARY BASIS ADJUSTMENTS			
Capital lease and financed purchase acquisitions	(7,271)	-	(7,271)
Total Revenue and Other Financing Sources (Budgetary Basis)	<u>\$ 37,006,285</u>	<u>\$ 10,660,827</u>	<u>\$ 26,345,458</u>

Michigan

SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION	BUDGETARY TRANSFERS IN/OUT	BUDGETARY ADJUSTMENT	UNEXPENDED FROM PRIOR YEAR	RESTRICTED REVENUE ADDITIONS	LESS: TIMING DIFFERENCES*
						RESTRICTED REVENUE NOT AUTHORIZED/USED
Legislative Branch	\$ 198,824	\$ -	\$ 836	\$ 34,896	\$ 12,851	\$ (3,425)
Judicial Branch	196,080	-	-	35,259	84,289	(33,084)
Executive Branch:						
Agriculture and Rural Development	64,112	-	-	44,743	44,661	(36,110)
Attorney General	41,842	-	-	15,393	50,276	(7,139)
Civil Rights	13,022	-	-	884	2,217	-
Colleges and Universities Grants	1,061,019	-	-	3,184	110,650	-
Corrections	1,963,841	-	-	184,768	37,515	(18,904)
Education	179,678	-	-	20,346	280,608	(6,865)
Environmental Quality	59,547	-	-	268,064	321,084	(243,971)
Executive Office	6,980	-	-	12	-	-
Health and Human Services	4,528,068	-	-	322,251	21,102,960	(230,644)
Insurance and Financial Services	550	-	-	25,971	53,296	(25,635)
Licensing and Regulatory Affairs	141,056	(238)	-	175,901	331,902	(166,317)
Marshall Plan for Talent	-	-	-	100,027	2,350	(72,203)
Military and Veterans Affairs	75,912	-	-	12,524	122,260	(10,525)
Natural Resources	76,241	-	-	48,300	73,083	(25,908)
State	20,966	-	-	66,263	232,343	(49,341)
State Police	495,265	-	-	82,505	225,689	(53,262)
Talent and Economic Development	286,546	238	-	4,056	245,596	(12,709)
Technology, Management and Budget	657,010	-	-	1,183,688	453,318	(1,174,198)
Transportation	356,791	-	375	128,732	158	(626)
Treasury	236,211	-	1	123,723	3,226,910	(64,408)
Intrafund expenditure reimbursements	-	-	-	-	-	-
Total	<u>\$ 10,659,561</u>	<u>\$ -</u>	<u>\$ 1,212</u>	<u>\$ 2,881,493</u>	<u>\$ 27,014,016</u>	<u>\$ (2,235,275)</u>

* Timing differences are subtracted from Gross Spending Authority in order to show an annualized Budget that is comparable to the current year's Actual uses. Timing differences consist of unused authorizations for multi-year projects (capital outlay and work projects) and restricted revenue not authorized/used, which includes revenues that by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenue is subject to annual legislative appropriation. However, the restricted revenue may also be used in subsequent years to finance expenditures in multi-year appropriations and for encumbrances carried forward.

Restricted revenue balances authorized in the Variances category represent restricted revenue carry-overs that could have been used in the current period but were not.

For budgetary purposes, encumbrance authorization is considered use of spending authority in the year the State incurs an obligation.

NOTE: This schedule was prepared on the Statutory/Budgetary basis.

Michigan

GROSS SPENDING AUTHORITY	LESS: TIMING DIFFERENCES* MULTI-YEAR PROJECTS	"BUDGET"	"ACTUAL"		"VARIANCES"		
		AS PRESENTED IN STATEMENTS	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES AUTHORIZED	LAPSES	OVEREXPENDED
\$ 243,983	\$ (43,602)	\$ 200,381	\$ 198,021	\$ 1,857	\$ 94	\$ 409	\$ -
282,543	(26)	282,517	279,203	2,848	-	465	-
117,406	(3,186)	114,220	96,416	17,307	-	497	-
100,373	(8,306)	92,067	90,737	115	-	1,215	-
16,123	(626)	15,498	15,289	46	-	162	-
1,174,853	(15,006)	1,159,847	1,156,393	797	-	2,657	-
2,167,220	(120,641)	2,046,579	1,969,336	57,947	-	19,296	-
473,767	(10,641)	463,127	451,263	2,963	-	8,900	-
404,724	(6,041)	398,684	388,700	9,949	-	35	-
6,992	-	6,992	5,419	1,246	-	327	-
25,722,634	(78,572)	25,644,063	25,564,678	19,251	-	60,133	-
54,183	-	54,183	53,755	-	-	428	-
482,304	(11,720)	470,585	439,397	2,115	24,598	4,475	-
30,174	-	30,174	30,174	-	-	-	-
200,172	(3,425)	196,746	188,742	5,025	1,175	1,805	-
171,715	(19,513)	152,202	121,072	28,849	-	2,281	-
270,231	(7,643)	262,588	256,223	207	639	5,520	-
750,197	(51,801)	698,396	690,462	6,695	-	1,239	-
523,727	(407)	523,319	518,615	2,194	-	2,511	-
1,119,818	(144,273)	975,545	930,148	15,362	7,086	22,948	-
485,430	(127,718)	357,712	345,958	11,754	-	-	-
3,522,437	(31,824)	3,490,614	3,434,121	11,636	37,457	7,399	-
-	-	(668,558)	(668,558)	-	-	-	-
<u>\$ 38,321,008</u>	<u>\$ (684,970)</u>	<u>\$ 36,967,480</u>	<u>\$ 36,555,563</u>	<u>\$ 198,163</u>	<u>\$ 71,050</u>	<u>\$ 142,704</u>	<u>\$ -</u>
Prior Year encumbrances		(199,254)	(199,254)				
Amount reported on Budgetary Comparison Schedule		<u>\$ 36,768,226</u>	<u>\$ 36,356,309</u>	<u>\$ 198,163</u>	<u>\$ 71,050</u>	<u>\$ 142,704</u>	<u>\$ -</u>

Michigan

**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS**

FISCAL YEAR ENDED SEPTEMBER 30, 2019

(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION*</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>	<u>UNEXPENDED FROM PRIOR YEAR</u>
Legislative Branch	\$ 198,824	\$ -	\$ 836	\$ 32,584
Judicial Branch	196,080	-	-	2,547
Executive Branch:				
Agriculture and Rural Development	64,112	-	-	17,493
Attorney General	41,842	-	-	9,363
Civil Rights	13,022	-	-	884
Colleges and Universities Grants	1,061,019	-	-	3,184
Corrections	1,963,841	-	-	161,421
Education	179,678	-	-	14,422
Environmental Quality	59,547	-	-	30,647
Executive Office	6,980	-	-	12
Health and Human Services	4,528,068	-	-	64,996
Insurance and Financial Services	550	-	-	-
Licensing and Regulatory Affairs	141,056	(238)	-	8,603
Military and Veterans Affairs	75,912	-	-	5,554
Natural Resources	76,241	-	-	35,781
State	20,966	-	-	15,391
State Police	495,265	-	-	40,861
Talent and Economic Development	286,546	238	-	4,056
Technology, Management and Budget	657,010	-	-	140,007
Transportation	356,791	-	375	128,222
Treasury	236,211	-	1	29,933
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 10,659,561</u>	<u>\$ -</u>	<u>\$ 1,212</u>	<u>\$ 745,964</u>

* The amounts in the "Current Legislative Appropriation" column include certain appropriations that do not appear as line-item appropriations in the budget bills. These appropriations are authorized in narrative "boilerplate" language in the budget bills. "Boilerplate" appropriations include interfund borrowing, interest on general obligation notes and bonds, and certain interfund transfers.

"Boilerplate" appropriations accounted for \$100.0 million of the "Current Legislative Appropriation."

Michigan

GROSS SPENDING AUTHORITY	"ACTUAL"			"VARIANCES"	
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
\$ 232,244	\$ 186,375	\$ 1,857	\$ 43,602	\$ 409	\$ -
198,627	195,288	2,848	26	465	-
81,605	60,616	17,307	3,186	497	-
51,205	41,569	115	8,306	1,215	-
13,906	13,072	46	626	162	-
1,064,203	1,045,743	797	15,006	2,657	-
2,125,263	1,927,379	57,947	120,641	19,296	-
194,100	171,596	2,963	10,641	8,900	-
90,195	74,170	9,949	6,041	35	-
6,992	5,419	1,246	-	327	-
4,593,064	4,435,108	19,251	78,572	60,133	-
550	122	-	-	428	-
149,422	131,112	2,115	11,720	4,475	-
81,466	71,212	5,025	3,425	1,805	-
112,022	61,378	28,849	19,513	2,281	-
36,357	22,988	207	7,643	5,520	-
536,126	476,392	6,695	51,801	1,239	-
290,840	285,728	2,194	407	2,511	-
797,016	614,432	15,362	144,273	22,948	-
485,388	345,916	11,754	127,718	-	-
266,145	215,286	11,636	31,824	7,399	-
<u>\$ 11,406,737</u>	<u>\$ 10,380,900</u>	<u>\$ 198,163</u>	<u>\$ 684,970</u>	<u>\$ 142,704</u>	<u>\$ -</u>

Michigan

REVENUE, BOND PROCEEDS, AND CAPITAL LEASE AND FINANCED PURCHASE ACQUISITIONS

GENERAL AND SPECIAL REVENUE FUNDS

LAST TEN YEARS

SEPTEMBER 30, 2019

(In Thousands)

<u>SOURCE</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
TAXES				
Sales	\$ 6,176,843	\$ 6,710,882	\$ 6,955,198	\$ 7,050,204
Personal Income (net of tax credits)	5,531,348	6,417,078	6,921,033	8,271,838
Amount reported as tax credits	1,351,500	1,271,900	1,226,300	689,900
Single Business, Michigan Business, and Corporate Income	1,853,557	2,098,407	1,321,782	721,602
Use	1,573,667	1,548,914	1,428,284	1,300,590
State Education (Property)	1,930,480	1,845,086	1,789,672	1,771,083
Real Estate Transfer	121,632	123,254	150,106	202,323
Tobacco Products	1,006,527	968,512	963,181	957,485
Beer, Wine, and Liquor	164,071	167,487	175,181	182,878
Casino Gaming Wagering	101,816	114,017	115,753	110,667
Insurance Company	257,511	271,257	290,385	301,883
Health Insurance Claims Assessment	-	-	176,419	270,489
Motor Vehicle and Fuel	1,807,185	1,820,367	1,825,091	1,860,582
Quality Assurance Assessment	840,254	882,600	959,267	969,767
Penalties and Interest	137,793	139,251	167,882	171,092
Insurance Provider Assessment	-	-	-	-
Other	315,218	307,324	299,383	292,011
Total Taxes	23,169,402	24,686,336	24,764,916	25,124,393
FEDERAL AGENCIES	18,351,960	18,972,659	16,612,723	16,598,202
LOCAL AGENCIES	89,633	85,674	85,394	87,578
SPECIAL MEDICAID REIMBURSEMENTS	123,205	155,059	186,194	134,353
SERVICES	300,362	320,469	310,275	318,403
LICENSES AND PERMITS	452,620	448,012	464,072	484,059
MISCELLANEOUS	1,293,772	1,387,068	1,716,779	1,594,097
Total Revenue	43,780,955	46,055,277	44,140,354	44,341,085
PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES	60,583	211,001	270,001	200,000
CAPITAL LEASE AND FINANCED PURCHASE ACQUISITIONS	39,101	171,094	34,567	17,224
PROCEEDS FROM SALE OF CAPITAL ASSETS	1,576	1,742	2,848	3,064
Total Revenue, Bond Proceeds, Capital Lease and Financed Purchase Acquisitions, and Proceeds from Sale of Capital Assets	\$ 43,882,215	\$ 46,439,114	\$ 44,447,770	\$ 44,561,373

NOTES: (1) Effective January 1, 2008, the State replaced the Single business tax with the Michigan business tax.

Effective January 1, 2012, the State replaced the Michigan business tax with the Corporate income tax.

(2) Legislation established the Health Insurance Claims Assessment, effective January 1, 2012. Effective October 1, 2018, the State replaced the Health Insurance Claims Assessment with the Insurance Provider Assessment.

Michigan

2014	2015	2016	2017	2018	2019
\$ 7,362,620	\$ 7,246,989	\$ 7,299,628	\$ 7,791,774	\$ 8,074,032	\$ 8,243,168
8,020,054	8,987,939	9,372,028	9,454,968	10,162,211	10,432,233
676,500	662,400	672,400	696,500	696,100	895,100
419,554	891,594	763,498	900,848	1,036,594	1,199,866
1,639,442	2,062,838	2,056,124	1,266,699	1,486,178	1,358,473
1,804,238	1,857,684	1,897,292	1,964,780	1,989,481	2,114,632
233,416	258,398	289,314	317,056	350,281	350,113
940,337	954,481	946,651	946,048	917,994	889,591
189,792	194,692	208,689	214,028	222,938	231,999
106,903	110,785	112,868	113,219	115,423	117,257
362,397	322,999	329,806	371,279	393,367	327,439
271,861	225,888	228,475	300,111	331,920	1,113
1,902,612	1,985,186	2,032,947	2,573,013	2,766,327	2,816,068
975,786	1,007,464	1,138,810	1,136,099	1,245,149	1,392,069
115,439	128,723	124,391	115,911	178,622	128,905
-	-	-	-	-	602,602
309,781	271,896	325,461	355,297	381,389	403,107
25,330,732	27,169,955	27,798,384	28,517,631	30,348,004	31,503,734
17,259,668	19,800,600	20,027,958	19,508,727	19,957,136	20,827,638
89,644	90,672	93,888	90,457	91,962	99,633
133,909	120,904	115,621	188,933	149,350	175,942
322,271	326,488	335,812	354,324	360,831	361,118
494,595	510,359	551,984	567,595	568,448	601,648
1,558,174	1,629,833	1,847,842	1,711,460	1,831,961	1,732,463
45,188,992	49,648,811	50,771,488	50,939,127	53,307,693	55,302,176
97,651	-	100,215	138,395	151,484	-
18,371	25,373	18,423	14,473	22,994	10,275
1,626	3,008	2,543	2,656	6,236	5,053
\$ 45,306,640	\$ 49,677,192	\$ 50,892,669	\$ 51,094,652	\$ 53,488,407	\$ 55,317,504

Michigan

SCHEDULE OF EXPENDITURES BY FUNCTION
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS
 LAST TEN YEARS
 SEPTEMBER 30, 2019
 (In Thousands)

	2010	2011	2012	2013
Current:				
General government	\$ 1,463,926	\$ 1,856,935	\$ 1,935,857	\$ 1,868,138
Education	14,995,595	15,216,151	14,540,137	14,604,622
Health and human services	19,261,585	20,251,675	19,585,310	19,787,851
Public safety and corrections	2,571,390	2,547,868	2,564,921	2,601,307
Conservation, environment, recreation, and agriculture	528,387	501,050	563,310	545,565
Labor, commerce, and regulatory	1,223,197	1,143,962	923,059	961,279
Transportation	1,154,659	1,149,640	1,180,615	1,395,444
Tax credits	1,351,500	1,271,900	1,226,300	689,900
Capital outlay	38,136	21,659	26,765	35,676
Intergovernmental - revenue sharing	994,196	1,091,527	1,032,243	1,077,514
Debt service:				
Capital lease and financed purchase payments	50,811	55,803	55,867	58,357
Total Expenditures	<u>\$ 43,633,381</u>	<u>\$ 45,108,168</u>	<u>\$ 43,634,383</u>	<u>\$ 43,625,653</u>

Michigan

2014	2015	2016	2017	2018	2019
\$ 2,064,016	\$ 2,738,104	\$ 2,927,185	\$ 2,551,534	\$ 2,761,629	\$ 2,751,034
14,909,901	15,366,390	15,726,589	16,078,445	16,673,594	16,995,495
20,600,683	23,287,158	23,516,873	23,070,385	23,925,010	25,269,773
2,666,541	2,704,901	2,668,747	2,692,527	2,723,546	2,798,756
656,061	586,028	721,772	748,228	842,420	831,194
961,934	978,003	1,230,828	1,270,025	1,259,349	1,343,644
1,532,228	1,527,057	1,617,799	1,703,525	1,854,936	2,203,682
676,500	662,400	672,400	696,500	696,100	895,100
70,695	237,442	212,705	55,534	122,461	194,591
1,120,593	1,210,557	1,213,432	1,259,005	1,289,064	1,327,717
62,237	66,295	68,377	68,826	71,700	73,740
<u>\$ 45,321,388</u>	<u>\$ 49,364,335</u>	<u>\$ 50,576,708</u>	<u>\$ 50,194,535</u>	<u>\$ 52,219,810</u>	<u>\$ 54,684,725</u>

INDEX OF FUNDS AND COMPONENT UNITS

	<u>Page</u>
21 st Century Jobs Trust Fund	210
Advance Financing Funds	225
Attorney Discipline System	238
Bottle Deposits Fund	193
Central Michigan University	51
Child Support Collection Fund	263
Children's Trust Fund	210
City Income Tax – Trust Fund	263
Combined Comprehensive Transportation Bond and Interest Redemption Fund	218
Combined Comprehensive Transportation Bond Proceeds Fund	224
Combined State Trunkline Bond and Interest Redemption Fund	218
Combined State Trunkline Bond Proceeds Fund	224
Community District Education Trust Fund	211
Comprehensive Transportation Fund	186
Correctional Industries Revolving Fund	242
Eastern Michigan University	51
Environmental Quality Deposits Fund	263
Escheats Fund	258
Farm Produce Insurance Authority	268
Ferris State University	274
Forest Development Fund	193
General Fund	34
Gifts, Bequests, and Deposits Investment Fund	258
Grand Valley State University	274
Homeowner Construction Lien Recovery Fund	200
Hospital Patients' Trust Fund	259
Information Technology Fund	242
Insurance Carrier Deposits Fund	263
Judges' Other Postemployment Benefits Fund	252
Judges' Pension Benefits Fund	251
Lake Superior State University	274
Land Bank Fast Track Authority	268
Legislative Other Postemployment Benefits Fund	250
Legislative Pension Benefits Fund	250
Liquor Purchase Revolving Fund	238
Mackinac Bridge Authority	268
Mackinac Island State Park Commission	268
Michigan Achieving a Better Life Experience	259
Michigan Conservation and Recreation Legacy Fund	192
Michigan Early Childhood Investment Corporation	269
Michigan Economic Development Corporation	269
Michigan Education Savings Program	258
Michigan Education Trust	269
Michigan Employment Security Act – Administration Fund	200
Michigan Finance Authority	50
Michigan Game and Fish Protection Trust Fund	192
Michigan Merit Award Trust Fund	210

Michigan

	<u>Page</u>
Michigan Natural Resources Trust Fund	232
Michigan Nongame Fish and Wildlife Trust Fund	193
Michigan State Housing Development Authority	50
Michigan State Parks Endowment Fund	232
Michigan Strategic Fund.....	50
Michigan Technological University	275
Michigan Transportation Fund.....	186
Michigan Unemployment Compensation Funds	40
Michigan Veterans' Trust Fund	232
Military Family Relief Fund	211
Military Pension Benefits Fund	252
Miscellaneous Special Revenue Funds.....	211
Motor Transport Fund.....	243
Northern Michigan University	275
Oakland University	275
Office Services Revolving Fund	243
Public School Employees' Other Postemployment Benefits Fund	251
Public School Employees' Pension Benefits Fund	251
Recreation and Environmental Protection Bond Redemption Fund	218
Risk Management Fund	243
Safety Education and Training Fund	200
Saginaw Valley State University.....	275
School Aid Fund.....	34
School Loan Bond Redemption Fund.....	219
Second Injury Fund	200
Self-Insurers' Security Fund	200
Silicosis, Dust Disease, and Logging Industry Compensation Fund	201
Social Welfare Fund	263
State Aeronautics Fund.....	224
State Bar of Michigan	269
State Building Authority	219 & 225
State Casino Gaming Fund	201
State Construction Code Fund	201
State Employees' Other Postemployment Benefits Fund.....	251
State Employees' Pension Benefits Fund	251
State Lottery Fund.....	40
State of Michigan 401K Plans	252
State of Michigan 457 Plans.....	250
State Police Other Postemployment Benefits Fund	251
State Police Pension Benefits Fund	250
State Sponsored Group Insurance Fund.....	242
State Trunkline Fund.....	224
Transportation Related Trust Funds.....	225
Utility Consumer Representation Fund.....	201
Unemployment Obligation Trust Fund.....	201
Venture Michigan Fund	269
Western Michigan University.....	51

ACKNOWLEDGMENTS

The *State of Michigan Comprehensive Annual Financial Report* is prepared by the Office of Financial Management, Accounting and Financial Reporting Divisions. Staff of the divisions for the fiscal year 2019 report included:

Management:

Shawna M. Hessling, Director
Daniel T. Jaroche, CPA, Director
Derek R. Childs, CPA, Manager
Robin E. Garity, CPA, Manager
Anna C. Lewis, Manager
Brandon M. McAndrew, CPA, Manager
Scott J. Simon, CPA, Assistant Administrator
Anthony J. Thelen, Manager

Staff:

Aaron M. Abood, CPA
Rachelle L. Breeden
Tony J. Bush
Matthew J. Clark
Matthew L. Engels
Chelsea W. Holmberg
Angela K. McNulty
John P. Miller-Purrenhage, Ph.D.
Kathleen R. Pietila
Jovon R. Potter
Susan K. Ruff
Myrica V. Simmons
Rachel M. Spohn, CPA

Special thanks are also extended to the State's CFO Council; the Financial Management Users Group; financial management personnel throughout Michigan State Government; Internal Audit Services, SIGMA Operations and Support, and the staff of the Office of the Auditor General. Preparation of this report would not have been possible without the efforts of these individuals.



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

State of Michigan
Comprehensive Annual Financial Report
State Budget Office

Fiscal Year Ended September 30, 2019

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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



OAG

Office of the Auditor General

Report Summary

Report on Internal Control, Compliance, and Other Matters

State of Michigan Comprehensive Annual Financial Report (SOMCAFR)

State Budget Office

Fiscal Year Ended September 30, 2019

Report Number:
071-0010-20

Released:
May 2020

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 *SOMCAFR* dated March 6, 2020.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
The State should enhance its oversight of third party service organizations. State departments did not effectively apply the Office of Internal Audit Services' guidance (Finding #1).	X		Agree
Various State agencies did not sufficiently limit access to confidential information to appropriate users of the information in the Statewide Integrated Governmental Management Applications (SIGMA). This may put the State at risk for sanctions and penalties for noncompliance (Finding #2).		X	Agree
The Department of Treasury and the Office of Financial Management (OFM) should continue to enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of tax accruals (Finding #3).		X	Agree
Various State agencies should improve the Michigan Cashiering and Receivable System (MiCARS) internal control to help ensure the completeness and accuracy of the <i>SOMCAFR</i> . State agencies interfaced \$1.3 billion in revenue between MiCARS and SIGMA in fiscal year 2019 (Finding #4).		X	Agree

Findings Related to Internal Control, Compliance, and Other Matters (Continued)	Material Weakness	Significant Deficiency	Agency Preliminary Response
The Michigan Department of Transportation (MDOT) and the Michigan Department of State Police did not establish and implement complete interface controls over SIGMA to ensure that all data exchanged between SIGMA and other State information systems was processed completely, accurately, and timely (Finding #5).		X	Agree
Various State agencies and OFM did not have sufficient internal control to help ensure the accuracy of the accounting information recorded in the <i>SOMCAFR</i> (Finding #6).		X	Partially agree
Various State agencies and OFM did not have sufficient internal control in place to help ensure the existence and accuracy of the State's capital assets recorded in the <i>SOMCAFR</i> (Finding #7).		X	Agree
MDOT did not have sufficient internal control in place to evaluate the dates of service when processing payments and liquidating prior year accounts payable estimates (Finding #8).		X	Agree
The Michigan Department of Health and Human Services should enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of Medicaid accruals (Finding #9).		X	Agree

Obtain Audit Reports

Online: audgen.michigan.gov

Phone: (517) 334-8050

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

May 12, 2020

Mr. Chris Kolb, State Budget Director
State Budget Office
George W. Romney Building
Lansing, Michigan

Dear Mr. Kolb:

This report on internal control, compliance, and other matters is being issued in conjunction with our financial audit of the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 2019.

Certain findings included in this report specifically relate to other State agencies. Although the Office of Financial Management, State Budget Office, may not be directly responsible for these functions, we have addressed these findings to you for corrective action, consistent with your responsibility for financial accounting and reporting under Sections 18.1141 and 18.1421 of the *Michigan Compiled Laws*.

The Office of Financial Management provided preliminary responses to the recommendations 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

STATE OF MICHIGAN COMPREHENSIVE ANNUAL FINANCIAL REPORT

	<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 2019 Findings, Recommendations, and Agency Preliminary Responses	
1. Third party service organization monitoring.	12
2. Access limitations for confidential information in SIGMA.	15
3. Establishment and monitoring of tax receivables and payables.	18
4. MiCARS internal control improvements.	22
5. MDOT and MSP interface controls.	24
6. Various departments' financial accounting practices.	26
7. Financial accounting practices related to capital assets.	32
8. MDOT accounts payable.	34
9. Accuracy of Medicaid receivables and payables.	36
Fiscal Year 2018 Report on Internal Control, Compliance, and Other Matters Follow-Up	40
Glossary of Abbreviations and Terms	42

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Chris Kolb, State Budget Director
State Budget Office
George W. Romney Building
Lansing, Michigan

Dear Mr. Kolb:

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan principally as of and for the fiscal year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 6, 2020. Our report includes a reference to other auditors who audited the financial statements of the:

- State Lottery Fund (a major fund)
- Michigan Unemployment Compensation Funds (a major fund)
- Michigan Employment Security Act - Administration Fund
- Unemployment Obligation Trust Fund
- State Building Authority - Debt Service Fund
- State Building Authority - Capital Projects Fund
- Attorney Discipline System
- State Sponsored Group Insurance Fund
- Michigan Education Savings Program
- Michigan Achieving a Better Life Experience Program
- Michigan Finance Authority
- Michigan State Housing Development Authority
- Farm Produce Insurance Authority
- Mackinac Bridge Authority
- Mackinac Island State Park Commission
- Michigan Early Childhood Investment Corporation
- Michigan Education Trust
- State Bar of Michigan
- Venture Michigan Fund
- Central Michigan University
- Eastern Michigan University
- Western Michigan University
- Ferris State University
- Grand Valley State University
- Lake Superior State University
- Michigan Technological University
- Northern Michigan University
- Oakland University
- Saginaw Valley State University

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the body of our report, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in Finding #1 to be a material weakness.

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. We consider the deficiencies described in Findings #2 through #9 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's basic 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 determination of financial statement amounts. 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*.

Office of Financial Management's Response to Findings

Certain findings included in this report specifically relate to other State agencies. Although the Office of Financial Management, State Budget Office, may not be directly responsible for these functions, we have addressed these findings to you for corrective action, consistent with your responsibility for financial accounting and reporting under Sections 18.1141 and 18.1421 of the *Michigan Compiled Laws*.

The Office of Financial Management's preliminary responses to the findings identified in our audit are included in the body of our report. The responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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
March 6, 2020

FISCAL YEAR 2019
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING #1

Improved guidance and oversight needed for third party service organization monitoring.

The State should enhance its oversight of third party service organizations. The State Budget Office (SBO), through its Office of Internal Audit Services (OIAS), issued guidance to the State departments on how to assess and manage risks associated with the departments' service organizations. However, in many instances, the departments have not effectively applied this guidance. Because of the risk associated with the use of third party service providers and the lack of sufficient oversight, we consider this to be a material internal control* weakness.

The State of Michigan Financial Management Guide (FMG) (Part VII, Chapter 1, Section 1000) requires each department to establish and maintain a sound internal control system over activities and transactions, including those managed by service organizations. Departments can utilize the results of reports issued in accordance with the American Institute of Certified Public Accountants' (AICPA's) System and Organization Controls* (SOC) reporting framework or customized AICPA examination reports to gain assurances that service organization controls are present and functioning as intended. The FMG also provides templates that the State agencies can use to help in their determination of whether SOC or other third party review reports are necessary and assist with the review of any reports obtained. Further, OIAS provides specific guidance to departments on request.

We reviewed monitoring controls for judgmentally selected third party service organizations and noted:

- a. The Michigan Department of Treasury (Treasury) did not ensure that the security review obtained for the State's bank provided sufficient assurance of the existence and effectiveness of controls over the State's bank account for the entire fiscal year. Treasury did not obtain a SOC 1 report for the State's bank applicable to fiscal year 2019.

Treasury did obtain an AT-C 205 report. However, this report covered only the last 4 months of fiscal year 2019.

- b. SBO did not sufficiently assess the level of coverage obtained in the SOC report for the Statewide Integrated Governmental Management Applications* (SIGMA). Our IT performance audit of SIGMA - Selected Application Controls and Service Level Requirements, issued in March 2019, and located at <https://audgen.michigan.gov/wp-content/uploads/2019/03/r071059518-2222.pdf>, identified concerns in Finding #6, parts a., b., and c. We reported that the SOC 2 report for fiscal year 2017 did not include coverage of the confidentiality, privacy, and processing integrity trust principles and did not include an assessment of the database administration controls. We reviewed the SIGMA SOC reports for fiscal year 2019 and determined that the same conditions still exist.

* See glossary at end of report for definition.

c. State agencies did not:

- (1) Obtain SOC reports that provided sufficient coverage during the audit period for all high risk third party service providers. We noted:
 - (a) An agency did not obtain a SOC report for one service provider because the service provider was not considered high risk, even though the agency did obtain a SOC report for the subservice provider, which was considered high risk.
 - (b) An agency obtained a SOC 1 Type 1 report from one third party service provider. Type 1 reports are "as of" a specific date and the independent auditors do not test the operating effectiveness of the controls. As a result, these reports do not provide sufficient assurances to address the State's needs.
 - (c) Agencies did not provide 4 (9%) of the 45 SOC reports requested because the reports providing coverage during fiscal year 2019 were not available.
- (2) Obtain bridge letters in appropriate circumstances for 10 (56%) of 18 SOC reports. Also, 2 (25%) of the 8 bridge letters obtained covered a period greater than 3 months. A bridge letter is an assertion from the service provider that controls have not changed significantly since the SOC report was issued. The OIAS guidance states that if the report covers a period of less than 6 months, it provides minimal assurance that the controls are in place and that if the gap period is greater than 90 days, the State agency should evaluate if a bridge letter is sufficient or if additional procedures are needed.
- (3) Document their review of 3 (8%) of the 40 fiscal year 2019 SOC reports. Also, 23 (62%) of the 37 documented reviews were not done within 60 days. In three cases, an entire year passed before the State agencies reviewed the SOC reports. Timely review is essential to ensure that the SOC does not identify weaknesses that require the State's immediate attention.
- (4) Consider the need to obtain SOC reports for the vendor's subservice providers for 8 (35%) of the 23 SOC reports reviewed that referenced subservice providers.

Timely review of SOC reports enables agencies to take action on identified weaknesses, limiting the State's risk.

- (5) Document the State agencies' review of complementary user-entity controls for 4 (11%) of the 35 SOC reports that included these controls. SOC reports usually state that the user can rely on the controls tested in the SOC report only if the user-entity (State) has implemented the complementary user-entity controls.

We commented on these issues during the fiscal year 2018 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* audit. OIAS stated that it would continue to enhance the FMG and facilitate discussions between key agency stakeholders to identify opportunities for improved guidance and oversight that will improve practices to obtain proper assurances from third party service organizations. Also, SBO agreed with the need to continually assess the level of coverage obtained in the annual security review for SIGMA but did not agree that the level of coverage obtained was not sufficiently assessed. FMG updates had not been finalized as of the fiscal year 2019 *SOMCAFR* opinion date.

RECOMMENDATION

We recommend that the State enhance its oversight of third party service organizations.

AGENCY PRELIMINARY RESPONSE

The Office of Financial Management (OFM) provided us with the following response:

State agencies, OIAS and OFM agree that oversight of third-party service organizations should continue to be enhanced. OIAS will review all 2019 SOC report review templates for correct scope and reporting periods and collaborate with the departments to address these areas prior to the fiscal year 2020 CAFR audit cycle. In addition, OIAS will review these templates on an annual basis prior to submission to the OAG.

Regarding part b, database administration controls have been added to the scope of the SOC review for fiscal year 2020 and will remain in scope going forward. SBO agrees with the need to continually assess the level of coverage obtained in the annual security review security level requirement but does not agree with the assertion that the level of coverage obtained was not sufficiently assessed. Processing integrity, confidentiality and privacy principles do not need to be covered in the SOC 2 review because we have enough assurances as a result of compensating controls and the additional controls provided by the Annual 3rd Party Vulnerability Exam and FEDRamp Certification processes.

FINDING #2

Improvements needed to limit access to confidential information in SIGMA.

Various State agencies did not sufficiently limit access to confidential information to appropriate users of the information in SIGMA. As a result, the State may be at risk for sanctions and penalties for noncompliance with data protection requirements.

State of Michigan Administrative Guide to State Government policy 1340 states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure the confidentiality, integrity, and availability of State of Michigan information. Also, Section 205.28(1)(f) of the *Michigan Compiled Laws* strictly prohibits employees of Treasury from disclosing confidential tax information to anyone other than the individual taxpayer or his or her authorized representative.

The SIGMA Project communicated to departments the restrictions on the inclusion of legally protected data in SIGMA "...unless the agency has demonstrated a compelling need and has a written agreement in place with SIGMA." However, agencies included confidential information in SIGMA without a written agreement.

We noted:

- a. State agencies did not provide sufficient guidance to staff to ensure the omission of confidential information in SIGMA transaction support.

We noted:

- (1) The Michigan Department of Corrections (MDOC) included certain confidential information related to prisoners.

MDOC informed us that it will redact confidential information from future SIGMA transaction support. We identified 1,307 Statewide SIGMA users with access to view MDOC transactions in SIGMA.

- (2) Treasury included certain confidential information related to taxpayer information. We identified 615 Statewide SIGMA users with access to view Treasury transactions. Title 5, section 552a of the *United States Code* states that each agency shall establish appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records. Treasury informed us that it will redact taxpayer information from future SIGMA transaction support.

- b. The ability to view confidential information interfaced from State agency systems to SIGMA was not limited to users with a business need to view the information.

The State may be at risk for sanctions and penalties for noncompliance with data protection requirements.

The Michigan Department of Health and Human Services (MDHHS) interfaced transactions from the Adult Services Authorized Payments (ASAP) system to SIGMA that displayed certain identifying information within the check description field in SIGMA. We identified 1,510 Statewide SIGMA users with access to view MDHHS transactions in SIGMA. Federal and State regulations protect the confidentiality of information the State retains. For example, Title 45, part 205, section 50 of the *Code of Federal Regulations** (CFR) states that the release or use of information concerning individuals applying for or receiving financial assistance is restricted to persons or agency representatives that require it for a specific purpose, including the administration of the program, employment verifications, or audit activity. The federal grantor agency could issue sanctions or disallowances related to noncompliance with the program's State plan. MDHHS informed us that the check description field is viewed by vendors and providers to identify which beneficiary the payment relates to and is working to fix the issue.

RECOMMENDATION

We recommend that State agencies limit access to confidential information to appropriate users of the information.

AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

DOC, Treasury, MDHHS and OFM agree that State agencies should limit access to confidential information to appropriate users of the information.

- a. (1) *MDOC has provided notification to staff to remove or redact Personally Identifiable Information (PII), Protected Health Information, or any other confidential information from attachments in SIGMA. MDOC has completed a review of SIGMA attachments and successfully removed or redacted affected attachments for most documents identified by the review. Certain documents cannot be modified after they have been recorded and, as such, require technical intervention to remove the attachments. MDOC notified the SIGMA Center of Excellence of the document codes requiring technical assistance and SIGMA Operations and Support is working on a solution.*

* See glossary at end of report for definition.

- a. (2) *Treasury has updated its processes and is now redacting the confidential information. The documents that already have confidential information included as support cannot be modified after they have been recorded and, as such, require technical intervention to remove the attachments. Treasury notified the SIGMA Center of Excellence of the document codes requiring technical assistance and SIGMA Operations and Support is working on a solution.*
- b. *MDHHS' Financial Support Division has continued to work collaboratively with subsystem leads, MDHHS Compliance, the Department of Technology, Management, and Budget (DTMB), DataStage, and SIGMA to discuss the best approach to mitigate PII information in SIGMA Financials. MDHHS has determined the most efficient and cost-effective way to mitigate PII information within SIGMA is with modifications to the data by Data Stage and not the individual subsystems. In addition, modifications will be made to SIGMA Vendor to accommodate the EFT remittance advice. Statement of Work, Business Requirements, and other required documents have been completed. MDHHS is currently working with all parties to establish a timeline for coordinating the necessary efforts to mitigate displaying of any PII information within SIGMA Financials.*

FINDING #3

Continued improvements needed to processes for establishing and monitoring tax receivables and payables.

Treasury and OFM, within SBO, should continue to enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of tax accruals.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using generally accepted accounting principles* (GAAP). These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures. In addition, Sections 2250.109 and 2250.110 of the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) published by the Governmental Accounting Standards Board* (GASB) require that all information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any material changes in estimates resulting from actual results.

Our review of tax accruals for fiscal year 2019 disclosed:

- a. Treasury and OFM did not ensure that GASB Statement No. 34 estimated receivables were properly calculated for various taxes. As a result, assets and deferred inflows of resources were overstated by \$10.8 million in the General Fund and \$44.8 million in the School Aid Fund. Also, assets, revenue, and net position were overstated by \$55.5 million in the governmental activities of the government-wide financial statements.

Treasury provides tax receivable information that OFM uses to reverse the prior year receivables and record the current year receivables. This information consists of complex calculations to estimate percentages of taxpayer liability that is expected to be collected by the State in future fiscal years based on historical tax return data. OFM applies these estimated percentages to current fiscal year tax collections to estimate future tax collections. In fiscal year 2019, Treasury and OFM improperly calculated the reversal amounts for individual income tax (IIT), corporate income tax (CIT), and withholding tax and improperly calculated the current year use and withholding tax receivables. Treasury and OFM recorded correcting entries prior to the *SOMCAFR*'s issuance.

- b. Treasury had not developed a detailed GASB Statement No. 34 receivable estimation methodology that was consistently applied each year. This resulted in significant reporting changes that were not always documented and communicated in a timely manner.

* See glossary at end of report for definition.

Treasury developed reports to extract CIT and sales, use, and withholding collection data from multiple database tables in the SAP and legacy systems to calculate the GASB Statement No. 34 receivables estimate. Treasury informed us late in audit fieldwork that it has made significant changes to improve the accuracy of the collection activity extracted from SAP. However, Treasury did not incorporate the changes made into the report methodology.

- c. Treasury had not completed a process to revise significant accounting estimation methodologies after comparing prior year estimates to subsequent activity for business taxes and IIT accruals.

In its approval of accrual methodologies, OFM instructs State departments that it is important to evaluate the reliability of the estimated accruals in the subsequent year and adjust the estimation methodology accordingly.

We first commented on this issue during the fiscal year 2013 *SOMCAFR* audit. OFM and Treasury have agreed with our prior audit recommendations. Treasury began evaluating assessed taxes receivable during fiscal year 2017 and plans to determine if methodology revisions are necessary now that three years of comparison data is available. In fiscal year 2019, Treasury began comparing the IIT payable backlogs estimate with subsequent activity, noting that the fiscal year 2018 IIT payable backlog was understated by \$10.2 million (86%). Treasury informed us that it will continue to review this estimate for the next two fiscal years before determining whether to make any adjustments to the current methodology once three years of comparison data is available. Treasury is currently refining a process to evaluate business tax payable backlogs.

- d. Treasury did not ensure that October and November estimated IIT collections were properly recorded in fiscal year 2019. Therefore, assets, revenues, and fund balance/net position were overstated by a known amount of \$31,364 and a projected amount of \$4.1 million in the General Fund and governmental activities of the government-wide financial statements.

Treasury records a receivable at fiscal year-end for IIT collections received in October and November related to tax periods ending prior to October 1. Several IIT taxpayers remit their calendar year fourth quarter estimated payments early, which may also include their September tax liability. When determining the amount of October and November IIT collections to accrue, Treasury initially accrues the entire amount collected. Beginning in fiscal year 2018, Treasury reviewed a sample of estimated IIT payments collected during October and November to

identify payments for tax periods after September 30 and to adjust the month-end IIT accrued receivable accordingly. Based on Treasury's sample, it identified and reduced IIT collections receivable by \$1.3 million. However, Treasury did not project an additional reduction based on its sample and testing results.

- e. Treasury did not adjust November tax estimates when actual amounts were known, which caused assets to be overstated by \$0.6 million, liabilities to be overstated by \$1.7 million, and revenues and fund balance/net position each to be understated by \$1.1 million in the Michigan Transportation Fund and governmental activities of the government-wide financial statements.

Treasury records estimated November tax receivable and payable amounts for various taxes based on a percentage of known historical October amounts. However, Treasury does not compare the estimated and actual amounts and adjust the November estimated tax receivables and payables even though the actual collection amounts are known prior to the *SOMCAFR*'s issuance.

- f. Treasury did not ensure that the State Education Tax (SET) estimated receivables were properly recorded. As a result, assets, revenues, and fund balance were overstated by \$1.6 million in the School Aid Fund and in the governmental activities of the government-wide financial statements.

Each year in early December, Treasury conducts a survey of local units of government that collect SET on behalf of the State to determine the amount of SET collections in their possession as of the last business day of November. Treasury uses the survey information to estimate the State's SET receivable. In fiscal year 2019, Treasury transposed a portion of the data used to estimate the receivable, which overstated the estimated SET collections in possession of the local units. Treasury corrected this overstatement prior to the *SOMCAFR*'s issuance.

- g. Treasury had not developed a process to identify how much sales tax revenue should be accrued to the Comprehensive Transportation Fund (CTF) at the end of the fiscal year. This results in revenues, receivables, and fund balance to be misstated in the General Fund and CTF by an undetermined amount.

The General Sales Tax Act (Public Act 167 of 1933, as amended) requires a portion of the sales tax money collected shall be deposited into the CTF. Not less than 27.9% of 25% of the collections of the general sales tax imposed at a rate of 4% directly or indirectly on fuels sold to propel motor vehicles upon highways, on the sale of

motor vehicles, and on the sale of parts and accessories of motor vehicles by new car businesses, used car businesses, accessory dealer businesses, and gasoline station businesses shall be deposited each year into the CTF.

As part of the tax accrual process, Treasury accrued sales tax revenue amounts attributable to the CTF in the General Fund. We initially identified this issue during the fiscal year 2011 *SOMCAFR* audit. Prior to fiscal year 2018, Treasury did not have the necessary purchase date information needed to accrue a CTF receivable by fiscal year-end closing; however, this information was available beginning in fiscal year 2018. Treasury informed us that it intends to review this issue further during fiscal year 2020.

- h. Treasury did not have sufficient internal control in place to ensure that the November payables for business taxes included refunds pending issuance as of November 30. As part of the year-end process, Treasury runs several custom reports from its business tax system to determine the total payable that should be accrued to the prior fiscal year. We noted that the refunds pending issuance report combined two distinct data fields into one column, resulting in a misstatement of the November payable amount. Treasury informed us that it was in the process of correcting the report to separately display the two distinct data fields.

RECOMMENDATION

We recommend that Treasury and OFM continue to enhance internal control to prevent, or detect and correct, misstatements and help ensure the reasonableness and accuracy of tax accruals.

AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

Treasury and OFM agree that internal controls related to tax accruals should continue to be improved and will work to implement needed improvements.

FINDING #4

Improvements needed to MiCARS internal control.

Various State agencies should improve the Michigan Cashiering and Receivable System (MiCARS) internal control to help ensure the completeness and accuracy of the *SOMCAFR*. State agencies interfaced \$1.3 billion in revenue between MiCARS and SIGMA in fiscal year 2019.

We noted:

- a. The Michigan Department of State Police (MSP) did not maintain sufficient segregation of duties* over the reconciliation of the interface between MiCARS and SIGMA.

Section 18.1485(2)(a) of the *Michigan Compiled Laws* requires each internal accounting and administrative control system to include a plan of organization that provides segregation of duties and responsibilities among employees. Also, the U.S. Government Accountability Office's (GAO's) *Federal Information System Controls Audit Manual** (FISCAM) Section 3.4 states that work responsibilities should be segregated so that one individual does not control all critical stages of a process.

MSP uses MiCARS to establish invoices and record cash receipts, credits, refunds, and other adjustments against those invoices. MiCARS information interfaces daily into SIGMA, and MSP performs a daily reconciliation of the interfaced data. For the 5 months of daily reconciliation logs reviewed, we noted that the MSP head cashier conducted all of the reconciliations while also having the ability to write-off and adjust invoices in MiCARS. Also, the head cashier had the ability to assign user roles in MiCARS.

MSP informed us that resource limitations prevented a sufficient segregation of duties.

- b. State agencies utilizing MiCARS (Michigan Department of Transportation (MDOT); MSP; MDHHS; Michigan Department of Agriculture and Rural Development; Department of Environment, Great Lakes, and Energy; and Department of Natural Resources (DNR)) did not ensure that all MiCARS invoices received management approval prior to creating a receivable in SIGMA.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal control system using GAAP. These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures and a system of practices to be followed in the performance of duties and internal control techniques that are effective and efficient. Also, the GAO's FISCAM Section 4.2 recommends that organizations implement controls to ensure that the transactions are complete, accurate, and

* See glossary at end of report for definition.

valid and that an automated workflow exists to initiate the approval process. These controls would provide assurance that transactions are reviewed and approved by authorized individuals.

Management approval would help ensure that all invoices are authorized, complete, and accurate. State agencies informed us that MiCARS does not allow for invoice approval within MiCARS and a compensating control had not been established to approve invoices outside of MiCARS.

RECOMMENDATION

We recommend that State agencies improve MiCARS internal control to help ensure the completeness and accuracy of the *SOMCAFR*.

AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

Regarding part a., MSP and OFM agree with the finding, however, prior year write-offs have a separation of duties with a different individual completing the write-off in SIGMA. MSP will write additional procedures to ensure that there are compensating controls for segregation of duties for reconciliation of interface transactions between MICARS and SIGMA and invoice adjustments.

Regarding part b., State agencies and OFM agree in part. Many of the invoices are created by customers directly through source systems and would not require management approval. For those invoices not created by customers, some were approved by management, but the approvals were not documented. State agencies will work to ensure all applicable invoices are adequately approved and work to better document existing approvals and related procedures.

AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE*

Regarding part a., the process of reconciling the two systems and initiating write-offs in MiCARS should be completed by two different staff to provide the necessary level of assurance that the write-off was proper before entries are made in SIGMA. The finding stands as written.

* See glossary at end of report for definition.

FINDING #5

Improvements needed for interface controls.

MDOT and MSP did not establish and implement complete interface controls over SIGMA to ensure that all data exchanged between SIGMA and other State information systems was processed completely, accurately, and timely.

The GAO's FISCAM states that interface controls should be established and implemented to reasonably ensure that data transferred from a source system to a receiving system is processed timely, accurately, and completely. Effective interface reconciliation procedures should include the use of control totals, record counts, and other logging techniques. Interfaced data should be reconciled, and reports used in the reconciliation should provide adequate information to reconcile each transaction processed.

SIGMA Operations and Support (SOS) issued Temporary Operating Policy & Procedure No. 0007 on November 9, 2018, requiring agencies to reconcile data transmitted to and from SIGMA and recommending that the reconciliations be performed at the same frequency that the interfaces run in production. However, this procedure does not specify the level of detail that agencies should use when performing reconciliations, for example, record counts, dollar amounts, or fund and appropriation coding. State agencies, as the data owners, are responsible for the implementation of interface reconciliation controls.

Specifically:

- a. MDOT did not ensure that construction contractor expenditure transactions in American Association of State Highway and Transportation Officials software (AASHTOWare) reconciled with SIGMA after daily interface. AASHTOWare interfaced \$1.4 billion in expenditures into SIGMA during fiscal year 2019.

We commented on this issue during the fiscal year 2018 *SOMCAFR* audit. MDOT's Corrective Action Plan reported that it had implemented a reconciliation process and log to address the issue. Although MDOT implemented a weekly comparison of voucher numbers generated from AASHTOWare to the document numbers in SIGMA, MDOT does not have a process to reconcile the dollar amounts or record counts between AASHTOWare and SIGMA after daily interface.

- b. MSP performed reconciliations of the total records interfaced from MiCARS into SIGMA. Control totals and other coding were not included in the reconciliation. MSP interfaced \$38.7 million in revenue from MiCARS into SIGMA during fiscal year 2019.

We commented on MSP system interface during the fiscal year 2018 *SOMCAFR* audit. In response, MSP did implement interface controls between MiCARS and its source systems.

RECOMMENDATION

We recommend that MDOT and MSP establish and implement complete interface controls over SIGMA.

**AGENCY
PRELIMINARY
RESPONSE**

OFM provided us with the following response:

MDOT, MSP and OFM agree that complete interface controls over SIGMA should be established and implemented.

- a. MDOT implemented a daily reconciliation process on January 1, 2020 that reconciles expenditure transactions in AASHTOWare to expenditure transactions in SIGMA. This new process reconciles both dollar amounts and record counts.*
- b. MSP agrees with the finding and will establish and implement additional interface controls.*

FINDING #6

Improvements needed to various departments' financial accounting practices.

Various State agencies and OFM, within SBO, did not have sufficient internal control to help ensure the accuracy of all accounting information recorded in the *SOMCAFR*.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using GAAP. 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 that the system functions as intended.

We noted:

- a. OFM did not ensure that the data used for calculating the compensated absence liabilities was complete and accurate. Expenditure data for fiscal year 2018 was included with the fiscal year 2019 data, resulting in a \$41.7 million overstatement of accounts payable and other liabilities and an understatement of the non-current portion of other long-term obligations. Also, the formula used to calculate sick leave reductions was incorrect, resulting in the \$16.9 million overstatement of the non-current portion of other long-term obligations. OFM corrected these issues prior to the *SOMCAFR*'s issuance.
- b. DTMB did not:
 - (1) Properly classify \$26.2 million in unearned revenue in the Information Technology Fund, resulting in an overstatement of noncurrent unearned revenue and an understatement in current unearned revenue. DTMB omitted certain types of capital assets while determining the current portion of the total unearned revenue. DTMB corrected this issue prior to the *SOMCAFR*'s issuance.
 - (2) Properly classify \$16.7 in prepaid expenditures in the Information Technology Fund, resulting in an overstatement of other current assets and an understatement of other noncurrent assets. DTMB treated all prepaid expenditures as current assets, including prepayments that extended over multiple fiscal years. DTMB corrected this issue prior to the *SOMCAFR*'s issuance.
- c. The Michigan Department of Education (MDE) did not record a \$13.9 million accounts payable in the School Aid Fund (SAF) because of an oversight while recording the SAF year-end accruals. MDE corrected this issue prior to the *SOMCAFR*'s issuance.

d. Treasury did not:

- (1) Perform a reconciliation of the offset fund to ensure that the fiscal year-end balance of \$7.5 million was accurate and complete.

We first commented on this issue during the fiscal year 2017 *SOMCAFR* audit. Treasury and OFM agreed with our prior recommendations, and Treasury planned to implement a comprehensive reconciliation process; however, that process was not completed during fiscal years 2018 or 2019.

- (2) Comprehensively evaluate the accuracy of the estimated amount of sales tax revenue received for residential utilities to the actual amounts received, which may impact an aspect of the annual allocation of sales tax revenue among the statutory funds.

We first commented on this issue during the fiscal year 2018 *SOMCAFR* audit. Treasury and OFM agreed with the prior recommendation, and Treasury planned to review the estimation methodology in comparison with the actual residential utility amounts received by August 31, 2019 and determine if changes need to be made to the estimation methodology for the fiscal year 2019 year-end sales tax revenue allocation. However, Treasury did not complete this comparison until our request in January 2020.

- (3) Ensure that contingent liabilities were properly accounted for. Treasury did not have a process to ensure that all payments made after September 30 were included in the liability calculation, resulting in a \$14.3 million understatement of entity-wide governmental activities expenditures and liabilities. Treasury corrected this issue prior to the *SOMCAFR*'s issuance.

We first commented on this issue during the fiscal year 2018 *SOMCAFR* audit. Treasury and OFM agreed with the prior recommendation, and Treasury planned to enhance communication with major business areas related to information provided to OFM for contingencies.

e. MDHHS did not:

- (1) Have a process in place to evaluate the appropriateness of the estimates provided by county contract managers for the Supplemental Nutrition Assistance Program - Education year-end payable. In fiscal year 2019, MDHHS provided

additional training and guidance to county contract managers to improve the accuracy of the year-end estimate; however, based on historical data, the guidance does not appear to be sufficient because the year-end payable is not consistent with actual activity. Monthly costs from October 2018 through August 2019 averaged \$1.1 million while the year-end payable for September 2019 was recorded at \$3.1 million. The actual payable write-off in fiscal year 2020 was \$2.2 million. MDHHS corrected this overstatement prior to the *SOMCAFR*'s issuance.

- (2) Validate the accuracy of the data warehouse query results used to establish a payable and a receivable for the year-end Child Support. A review of the query by SBO, through OIAS, identified 2 errors in a review of 45 sampled records. MDHHS and DTMB informed us that the query did not always pull the correct value when certain conditions existed. As a result of the 2 errors, we estimated that the payable and the receivable were overstated by \$2.2 million and \$3.5 million, respectively.
 - (3) Maintain sufficient documentation to support reimbursement payments for the Adult Home Help Program. Our testing of a sample of 25 payments identified 7 payments for which documentation did not support the full payment that was made. MDHHS informed us that the current system does not have the capability of tracking services provided by hours, which is how MDHHS pays its providers. The only documentation MDHHS has to support the payment is a work verification that tracks the number of days the services were provided. This error also impacted the Medicaid accruals.
- f. MDOC did not ensure that contingent liabilities were properly accounted for. MDOC recorded a \$2.2 million payable related to estimated lawsuit settlements within the General Fund for cases that were still pending. MDOC corrected this issue prior to the *SOMCAFR*'s issuance.
 - g. MSP did not sufficiently evaluate and write-off prior year outstanding accounts payable at fiscal year-end, resulting in a \$1.8 million overstatement of accounts payable. MSP corrected this issue prior to the *SOMCAFR*'s issuance.
 - h. MDOT did not:
 - (1) Record amounts due from local transit authorities (LTAs) on September 30, 2019. Rather, MDOT netted amounts due from LTAs against amounts due to other LTAs where no right of offset exists.

GASB Statement No. 62 (Section 501) states that "assets and liabilities should not be offset in the statement of net assets (net position) except where a right of offset exists." We estimate the netting of these amounts due to and due from LTAs resulted in a \$1.5 million understatement of MDOT's reported assets and liabilities.

- (2) Limit access to submit and approve inspector daily reports (IDRs) in the Field Manager System to users with a documented business need. IDRs report the quantity of material used each day on a specific project and support the bi-weekly payments made to construction contractors. DTMB Technical Standard 1340.00.020.01 states that the State employs the concept of least privilege which permits only authorized accesses for users who are necessary to accomplish assigned tasks in accordance with roles and responsibilities of job functions. We noted that MDOT did not maintain documentation to support a business need for 16 (64%) of 25 selected users with access to submit and approve IDRs.
- (3) Ensure the proper segregation of duties over the approval and submission of IDRs. Section 18.1485(2)(a) of the *Michigan Compiled Laws* requires each internal accounting and administrative control system to include a plan of organization that provides segregation of duties and responsibilities among employees. Also, the GAO's FISCAM Section 3.4 states that work responsibilities should be segregated so that one individual does not control all critical stages of a process. We noted that 11 (17%) of 66 IDRs selected were approved by the submitter.

RECOMMENDATION

We recommend that State agencies establish sufficient internal control to help ensure the accuracy of the accounting information recorded in the *SOMCAFR*.

AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

State agencies and OFM agree that internal controls should be enhanced and will work to implement needed improvements.

Regarding part d(2), Treasury and OFM agree that comparing the estimated amount of sales tax revenue for residential utilities to actual amounts received would help support the established estimation methodology. However, a comparison to actual could not have been completed until the majority of tax returns were received and processed which was in January 2020. Once the

comparison to actual was completed, the results further supported that the estimation methodology used was accurate and reliable.

Regarding part h(1)., MDOT and OFM disagree that a receivable based on an estimate to the various LTA's should be recorded. There are certain factors that make it difficult to determine what the actual grant receivable from the applicable LTA's would be for a given fiscal year. The primary factor is that the actual receivable from an individual LTA will not be known until the expenditures have been audited, which is completed at least a couple years after the end of the grant award period. Also, the amount available for redistribution changes significantly from one grant period to the next. Therefore, the overall gross receivables from the LTA's are not consistent and can fluctuate significantly from year to year. In addition, MDOT has procedures in place to limit overpayments, which limits the amount of funds that need to be collected and redistributed from the LTA's and prevents any material misstatements to the financial statements. Due to these factors, recording an estimate would not be reliable or practical.

Regarding part h(3)., MDOT partially agrees with the finding. Although there may be instances in the IDR creation and approval tasks that gives the perception that there is not a separation of duties, that perception is incorrect if one considers the process as a whole.

After IDRs are approved, the office technician prepares the construction payment estimate by collecting the pay item quantities from approved IDRs. The office technician reviews the estimate prior to submission to the engineer for approval. The engineer must review and approve each estimate and, ultimately, each estimate is processed by someone else. Pay item quantities are reviewed several times by several different staff members during the overall process and no contractor payments can be made unilaterally by a single individual. However and regardless, MDOT is developing specific controls in the new software, AASHTOWare Construction and Materials, that will prevent an individual from approving their own IDR. This software is being piloted and statewide rollout is targeted for fiscal year 2022.

**AUDITOR'S
COMMENTS TO
AGENCY
PRELIMINARY
RESPONSE**

Regarding part d.(2), Treasury had processed all but two of the most significant returns by October 17, 2019. In December 2019, Treasury provided the rationale behind the estimation methodology but had not compared actual results with prior estimates. Upon our request in January 2020, Treasury compared the estimate with the actual revenue. Treasury did not provide any information regarding the dates that the remaining two returns were received and processed. The finding stands as written.

Regarding part h.(1), MDOT and OFM state that a receivable should not be recorded because certain factors make it difficult, amounts can fluctuate from year to year, and it has procedures to prevent material overpayments to an LTA. The OAG believes

that the procedures designed to contain overpayments provide MDOT with information necessary to identify and record the appropriate receivable and payable by individual LTA at the close of the fiscal year. These initial recordings could then be adjusted as more finalized LTA expenditure amounts are received. Therefore, the finding stands as written.

Regarding part h.(3), the MDOT Construction Manual states that the single most important type of project documentation is the IDR. The person reviewing the IDR should not be the author of the IDR. The finding stands as written.

FINDING #7

Improvement needed for financial accounting practices related to capital assets.

Various State agencies and OFM, within SBO, did not have sufficient internal control in place to help ensure the existence and accuracy of the State's capital assets recorded in the *SOMCAFR*.

The FMG (Part II, Chapter 21, Section 120) requires departments to perform an annual physical inventory of equipment for all locations to ensure the accuracy of capital asset listings. Also, OFM's year-end capital asset reporting memorandum instructs State agencies to review SIGMA asset and lease reports to confirm the accuracy of capital asset and lease information and update SIGMA for any changes and/or corrections noted during the review of capital assets and leases. In addition, State agencies must sign and submit the Asset Certification Statement to OFM certifying that they completed all necessary changes required to accurately reflect asset ending balances and classifications.

We noted:

- a. Various State agencies (DTMB, DNR, Department of Labor and Economic Opportunity, and MDHHS) did not ensure that equipment was removed from SIGMA upon disposal. We noted 9 (24%) of 38 randomly and judgmentally sampled SIGMA equipment assets, from a population of assets with no acquisition date or acquisition dates prior to October 1, 2013, were no longer State assets at September 30, 2019. We estimated that buildings, equipment, and other depreciable assets and related accumulated depreciation were overstated by \$199.4 million and \$185.0 million, respectively.
- b. Various State agencies (DOC, DTMB, Department of State, MDHHS, and MSP), in conjunction with OFM, did not ensure the existence and accuracy of the capital lease asset inventory in SIGMA. Our review disclosed that 13 (22%) of 59 closed Statewide capital lease assets were not properly removed from SIGMA, resulting in an \$18.4 million overstatement of buildings, equipment, and other depreciable assets and a \$17.4 million overstatement of related accumulated depreciation. We noted:
 - (1) State agencies did not process the fixed asset disposal documents in SIGMA to remove the capital asset balances for the 13 closed leases.

When a capital lease closes, the fixed asset associated with the lease requires removal from SIGMA to properly reflect capital asset balances. However, all five State agencies certified to OFM that they made all necessary changes required to accurately reflect lease balances and that all fixed assets linked to closed leases had been removed from SIGMA.

- (2) OFM's SIGMA report did not properly identify closed leases with linked assets that needed to be removed from SIGMA.

The State agencies and OFM corrected these issues prior to the *SOMCAFR*'s issuance.

RECOMMENDATION

We recommend that State agencies and OFM establish sufficient internal control to ensure the existence and accuracy of the State's capital assets recorded in the *SOMCAFR*.

**AGENCY
PRELIMINARY
RESPONSE**

OFM provided us with the following response:

State agencies and OFM agree that internal controls should be enhanced and will work to implement the needed improvements.

FINDING #8

Improvements needed to MDOT accounts payable.

MDOT did not have sufficient internal control in place to evaluate the dates of service when processing payments and liquidating prior year accounts payable estimates. Consequently, expenditures were recorded in the wrong fiscal year.

The FMG (Part II, Chapter 14, Section 100) requires agencies to record payables for goods or services received by September 30. Local agencies, MDOT project managers, and external consultants submit estimated accounts payable work sheets for compilation by MDOT staff at the end of the fiscal year. MDOT's practice is to apply payments made during the current fiscal year against the established payable until the balance is reduced to zero. The actual work date of service is not taken into consideration. If payments in the current fiscal year are less than the estimated payable, the remaining payable balance is written off.

MDOT wrote off an average of 20% (\$33.9 million) of the estimated payables established for fiscal years 2016 through 2018. The write-off percentage is most likely understated because of MDOT's practice of applying payments made during the current fiscal year against the estimated payable regardless of the work date of service. Also, MDOT records an associated receivable for the federal and local share of the estimated payable, when applicable. MDOT wrote off an average of \$16.2 million of the associated receivable in fiscal years 2017 through 2019 that was established in the prior year based upon the estimated payable:

	Write Off	
	Payable	Associated Receivable
2017	\$25,827,634	\$11,699,754
2018	\$47,255,897	\$26,235,355
2019	\$28,742,826	\$10,741,054
Average	\$33,942,119	\$16,225,388

We evaluated selected payable service dates and noted:

- a. MDOT overstated an estimated payable by \$5.3 million for fiscal year 2019 expenditures. We randomly and judgmentally sampled fiscal year 2019 estimated consultant payables and reviewed the actual payments made in fiscal year 2020.
- b. MDOT overstated an estimated payable by \$10.5 million for fiscal year 2019 expenditures. We randomly and judgmentally sampled fiscal year 2019 estimated contractor payables and reviewed the fiscal year 2020 payment dates of service.

In fiscal year 2018, MDOT and OFM agreed that comprehensive consideration of the dates of service when processing contractor payments might lead to accounts payable transactions that are more accurate. MDOT also indicated that it would continue to review the methodology used to estimate and track contractor payables and determine if there were opportunities for improvements where the cost to implement the improvements did not significantly exceed the benefits derived. However, MDOT made no changes to the fiscal year 2019 payable estimation methodology.

RECOMMENDATION

We recommend that MDOT improve internal control to help ensure the evaluation of dates of service when processing payments and liquidating prior year accounts payable estimates.

AGENCY PRELIMINARY RESPONSE

OFM provided us with the following response:

MDOT and OFM agree that the process used to establish these payables should be refined. As it relates to Construction Contract payables, MDOT will be incorporating a report into the payable establishment process that identifies work that the contractor has performed, but MDOT has either not yet accepted or paid for. As it relates to Consultant Contract payables, MDOT has reached out to the Consultant community stakeholders and will be providing additional guidance and direction to them to ensure that they are estimating payables in accordance with established accounting standards.

FINDING #9

Improvements needed to processes for establishing and monitoring Medicaid payables and receivables.

MDHHS should enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of Medicaid accruals.

Section 18.1485 of the *Michigan Compiled Laws* states that each department shall establish and maintain an internal accounting and administrative control system using GAAP. These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures. In addition, GASB Codification Sections 2250.109 and 2250.110 require that all information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any material changes in estimates resulting from actual results.

Our review disclosed:

- a. MDHHS did not ensure that its methodology for the inpatient hospital accrual component was evaluated based upon a comparison of prior year accruals with subsequent activity, resulting in a \$20.9 million overstatement of the accounts payable. MDHHS recorded correcting entries prior to the *SOMCAFR*'s issuance.
- b. MDHHS had not developed a sufficient process to evaluate and adjust the financial statements as additional information became available prior to the issuance of the *SOMCAFR*. MDHHS estimated a \$126.7 million fiscal year 2019 Special Needs Access Fund (SNAF) payable based on an average of \$108.4 million SNAF payments made for the first three quarters of fiscal year 2019 and \$18.3 million fiscal year 2019 SNAF payments not yet made to one public entity. Prior to the issuance of the *SOMCAFR*, the fourth quarter fiscal year 2019 SNAF payments were known to be \$113.1 million and revised fiscal year 2019 SNAF payments not yet made of \$17.2 million, resulting in an understatement of the payable of \$3.6 million. MDHHS recorded correcting entries prior to the *SOMCAFR*'s issuance.
- c. MDHHS did not ensure that the health plans services (HPS) accrual workbook was properly completed, resulting in a \$4.9 million payable overstatement. MDHHS estimates a payable for the HPS performance bonus withheld from payments made during the fiscal year and estimates an additional amount to be withheld from future payments related to fiscal year 2019. When estimating the additional amount withheld from future payments, MDHHS used the incorrect rates. MDHHS recorded correcting entries prior to the *SOMCAFR*'s issuance.

d. MDHHS did not ensure that the full cost clinic accrual workbook was properly completed. We noted:

- (1) A \$1.1 million receivable overstatement and a \$227 thousand payable understatement due to an incorrect estimated liability for three fiscal year settlements for one clinic. MDHHS recorded correcting entries prior to the *SOMCAFR*'s issuance.
- (2) A \$843 thousand payable and receivable overstatement due to a mismatch of interim payments reported for multiple clinics over multiple fiscal years. MDHHS recorded correcting entries prior to the *SOMCAFR*'s issuance.

RECOMMENDATION

We recommend that MDHHS enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of Medicaid accruals.

**AGENCY
PRELIMINARY
RESPONSE**

OFM provided us with the following response:

MDHHS and OFM agree that internal controls related to Medicaid accruals should be enhanced and will work to implement needed improvements.

FISCAL YEAR 2018
REPORT ON INTERNAL CONTROL,
COMPLIANCE, AND OTHER MATTERS
FOLLOW-UP

Below is the status of the reported findings from the 2018 *SOMCAFR* report on internal control, compliance, and other matters:

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Third Party Service Organization Oversight	Repeated*	1
2	Treasury - Cash Deposits	Complied	Not applicable
3	Confidential Information in SIGMA	Repeated	2
4	Capital Asset Financial Accounting Practices	Rewritten*	7
5a(1)	SIGMA Fund Balance Conversions	Not applicable	
5a(2)	Federal Receivable Classification	Complied	Not applicable
5b	Interface Controls	Repeated	5
5c	Transaction Approvals	Complied	Not applicable
5d	OFM - Closing Procedure Compliance with GAAP	Complied	Not applicable
6a	Tax Accruals - Evaluation of Accounting Estimates	Rewritten	3c
6b - 6c	Tax Accruals - Various Tax Collections, Liabilities, and Overpayments	Complied	Not applicable
6d	Treasury - IIT Collections	Repeated	3d
6e	Treasury - Sales Tax Revenue	Repeated	3g
6f	Treasury - Tax Refund Interest	Complied	Not applicable
7a - 7c	MDHHS - Accounts Payable and Receivable Errors	Complied	Not applicable
7d	MDHHS - Child Support Accrual	Repeated	6e(2)
7e - 7g	MDHHS - Transaction Errors	Complied	Not applicable
7h	MDHHS - Adult Home Help Program Documentation	Repeated	6e(3)
8a(1)	Treasury - Tobacco Settlement Accrual	Complied	Not applicable
8a(2)	Treasury - Offset Fund Reconciliation	Repeated	6d(1)

* See glossary at end of report for definition.

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
8a(3)	Treasury - Contingent Liabilities - Tax Credits	Repeated	6d(3)
8b - 8c	Various Agencies - Financial Accounting Practices	Complied	Not applicable
8b(1)	MDOT - Expenditure Classification	Complied	Not applicable
8b(2)	MDOT - Miscellaneous Revenue Classification	Complied	Not applicable
8b(3)	MDOT - Expenditure Credit Classification	Complied	Not applicable
8b(4)	MDOT - Pass-Through Fund Classification	Complied	Not applicable
8c(1)	MDE - CCDF Provider Overpayments	Complied	Not applicable
8c(2)	MDE - CCDF Federal Accounts Receivable	Complied	Not applicable
9	MDOT - Accounts Payable	Repeated	8
10	Treasury/MDOT - Allocation of Tax Revenues	Complied	Not applicable
11	Treasury - Accuracy of Sales Tax Revenue Collections	Rewritten	6d(2)

GLOSSARY OF ABBREVIATIONS AND TERMS

AASHTOWare	American Association of State Highway and Transportation Officials software.
AICPA	American Institute of Certified Public Accountants.
ASAP	Adult Services Authorized Payments.
auditor's comments to agency preliminary response	Government auditing standards require auditors to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement. Therefore, when this situation arises, the OAG includes auditor's comments to comply with this standard.
CCDF	Child Care Development Fund.
CIT	corporate income tax.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
CTF	Comprehensive Transportation Fund.
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.
DNR	Department of Natural Resources.
DTMB	Department of Technology, Management, and Budget.
Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are

presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

FMG	State of Michigan Financial Management Guide.
GAO	U.S. Government Accountability Office.
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.
IDR	inspector daily report.
IIT	individual income tax.
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.
IT	information technology.
LTA	local transit authority.
material misstatement	A misstatement in the basic 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 basic financial statements will not be prevented, or detected and corrected, on a timely basis.
MDE	Michigan Department of Education.

MDHHS	Michigan Department of Health and Human Services.
MDOC	Michigan Department of Corrections.
MDOT	Michigan Department of Transportation.
MiCARS	Michigan Cashiering and Receivable System.
MSP	Michigan Department of State Police.
OAG	Office of the Auditor General.
OFM	Office of Financial Management.
OIAS	Office of Internal Audit Services.
PII	personally identifiable information.
repeated	The same problem was noted in the current audit, and the wording of the current recommendation remains essentially the same as the prior audit recommendation.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.
SAF	School Aid Fund.
SBO	State Budget Office.
segregation of duties	Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Proper segregation of duties requires separating the duties of reporting, review and approval of reconciliations, and approval and control of documents.
SET	State Education Tax.

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.
---	---

SNAF	Special Needs Access Fund.
------	----------------------------

SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
---------	---

SOS	SIGMA Operations and Support.
-----	-------------------------------

Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.
---	---

System and Organization Controls (SOC) report	Designed to help organizations that provide services to user entities build trust and confidence in their delivery processes and controls through a report by an independent certified public accountant (CPA). Each type of SOC report is designed to meet specific user needs:
---	--

- SOC 1 (Report on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting) - Intended for user entities and the CPAs auditing their financial statements in evaluating the effect of the service organization's controls on the user entities' financial statements.
- SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) - Intended for a broad range of users that need information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.

There are two types of SOC 1 and SOC 2 reports:

- Type 1 - Reports on the fairness of management's description of a service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description, as of a specified date.
- Type 2 - Includes the information in a type 1 report and also addresses the operating effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.
- SOC 3 (Trust Services Report for a Service Organization) - Intended for those needing assurance about a service organization's controls that affect the security, availability, or

processing integrity of the systems a service organization employs to process user entities' information, or the confidentiality or privacy of that information, but do not have the need for or the knowledge necessary to make effective use of a SOC 2 report.

- SOC for Cybersecurity. Intended to communicate relevant information about the effectiveness of an organization's cybersecurity risk management programs.

Treasury

Department of Treasury.

unmodified opinion

The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.



Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud

Hotline: (517) 334-8060, Ext. 1650

Office of the Auditor General

**State of Michigan
Single Audit Report**

Fiscal Year Ended September 30, 2019

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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.



A single audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial statements are fairly presented, considers internal control over financial reporting and internal control over federal program compliance, determines compliance with requirements material to the financial statements, and assesses compliance with direct and material requirements of the major federal programs.

Identification of Major Federal Programs, Type of Opinion Issued on Compliance, Questioned Costs, and Audit Finding Numbers [(M) denotes a material weakness and/or material noncompliance finding]:

CFDA Number(s)	Name of Major Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
10.551 and 10.561	SNAP Cluster	Qualified	Undeterminable	<u>2019-002 (M)</u> <u>2019-003 (M)</u> <u>2019-004 (M)</u> <u>2019-005</u> <u>2019-011</u> <u>2019-012</u> <u>2019-020 (M)</u>
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Qualified	\$0	<u>2019-008</u> <u>2019-014</u> <u>2019-021</u> <u>2019-022</u> <u>2019-023 (M)</u>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unmodified	\$1,033,909	<u>2019-024</u> <u>2019-025</u> <u>2019-026</u> <u>2019-027</u> <u>2019-028</u> <u>2019-029</u>
16.575	Crime Victim Assistance	Unmodified	Undeterminable	<u>2019-008</u> <u>2019-011</u> <u>2019-012</u> <u>2019-014</u>
64.005	Grants to States for Construction of State Home Facilities	Qualified	\$31,875	<u>2019-030</u> <u>2019-031</u> <u>2019-032 (M)</u>
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Qualified	\$349,971 known plus an undeterminable amount	<u>2019-001</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-033 (M)</u> <u>2019-034</u>
84.367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	Unmodified	\$0	<u>2019-009</u> <u>2019-010</u> <u>2019-035</u>
84.424	Student Support and Academic Enrichment Program	Unmodified	Undeterminable	<u>2019-009</u> <u>2019-010</u> <u>2019-036</u>
93.044, 93.045, and 93.053	Aging Cluster	Unmodified	Undeterminable	<u>2019-011</u> <u>2019-012</u> <u>2019-037</u>
93.558	TANF Cluster	Qualified	\$2,086,254 known plus an undeterminable amount	<u>2019-001</u> <u>2019-002 (M)</u> <u>2019-003 (M)</u> <u>2019-004 (M)</u> <u>2019-006</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-014</u> <u>2019-038 (M)</u> <u>2019-039</u> <u>2019-040 (M)</u> <u>2019-041</u> <u>2019-042</u> <u>2019-043</u> <u>2019-044</u> <u>2019-045</u>

CFDA Number(s)	Name of Major Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.575 and 93.596	CCDF Cluster	Qualified	\$374 known plus an undeterminable amount	<u>2019-001</u> <u>2019-002 (M)</u> <u>2019-003 (M)</u> <u>2019-009</u> <u>2019-010</u> <u>2019-011</u> <u>2019-012</u> <u>2019-046</u> <u>2019-047 (M)</u> <u>2019-048 (M)</u> <u>2019-049 (M)</u> <u>2019-050</u>
93.775, 93.777, and 93.778	Medicaid Cluster	Qualified	\$3,961,816 known plus an undeterminable amount	<u>2019-001</u> <u>2019-002 (M)</u> <u>2019-003 (M)</u> <u>2019-004 (M)</u> <u>2019-005</u> <u>2019-007</u> <u>2019-011</u> <u>2019-012</u> <u>2019-015 (M)</u> <u>2019-016</u> <u>2019-017</u> <u>2019-018</u> <u>2019-019</u> <u>2019-051</u> <u>2019-052</u> <u>2019-053</u> <u>2019-054</u> <u>2019-055</u> <u>2019-056</u> <u>2019-057</u> <u>2019-058</u> <u>2019-059</u>
93.268	Immunization Cooperative Agreements	Unmodified	\$363,694	<u>2019-008</u> <u>2019-060</u> <u>2019-061</u> <u>2019-062</u>
93.563	Child Support Enforcement	Qualified	\$5,802,618 known plus an undeterminable amount	<u>2019-005</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-014</u> <u>2019-063</u>
93.568	Low-Income Home Energy Assistance	Qualified	\$5,577	<u>2019-002 (M)</u> <u>2019-003 (M)</u> <u>2019-013 (M)</u> <u>2019-064 (M)</u>
93.658	Foster Care - Title IV-E	Qualified	\$1,157 known plus an undeterminable amount	<u>2019-001</u> <u>2019-005</u> <u>2019-006</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-065</u> <u>2019-066</u>
93.659	Adoption Assistance	Qualified	\$57,417 known plus an undeterminable amount	<u>2019-001</u> <u>2019-006</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-067</u> <u>2019-068</u> <u>2019-069 (M)</u>

CFDA Number(s)	Name of Major Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.667	Social Services Block Grant	Qualified	Undeterminable	<u>2019-001</u> <u>2019-006</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u>
93.767	Children's Health Insurance Program	Adverse	\$291,230 known plus an undeterminable amount	<u>2019-002 (M)</u> <u>2019-003 (M)</u> <u>2019-007</u> <u>2019-011</u> <u>2019-012</u> <u>2019-015 (M)</u> <u>2019-016 (M)</u> <u>2019-017</u> <u>2019-018</u> <u>2019-019</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Qualified	Undeterminable	<u>2019-008</u> <u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-014</u> <u>2019-070 (M)</u> <u>2019-071</u>
96.001	Disability Insurance/SSI Cluster	Qualified	Undeterminable	<u>2019-011</u> <u>2019-012</u> <u>2019-013 (M)</u> <u>2019-072</u>

Major Federal Programs Audited by Others

CFDA Number(s)	Name of Major Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
14.871 and 14.879	Housing Voucher Cluster	Unmodified	\$0	Not Applicable
14.239	Home Investment Partnerships Program	Unmodified	\$0	Not Applicable
17.225	Unemployment Insurance	Qualified	Undeterminable	<u>2019-073 (M)</u> <u>2019-074 (M)</u> <u>2019-075 (M)</u> <u>2019-076</u>

Obtain Audit Reports

Online: audgen.michigan.gov

Phone: (517) 334-8050

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

October 22, 2020

Mr. Chris Kolb, State Budget Director
State Budget Office
George W. Romney Building
Lansing, Michigan

Dear Mr. Kolb:

This is our single audit report for the State of Michigan for the fiscal year ended September 30, 2019.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. Management's corrective action plan is included within the auditee section of this report. 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

STATE OF MICHIGAN SINGLE AUDIT REPORT

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	5
SUPPLEMENTAL FINANCIAL SCHEDULE	
Schedule of Expenditures of Federal Awards	14
Notes to the Schedule of Expenditures of Federal Awards	31
INDEPENDENT AUDITOR'S REPORT	
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Section I: Summary of Auditor's Results	46
Section II: Findings Related to the Financial Statements and Schedule of Expenditures of Federal Awards	47
Section III: Findings and Questioned Costs Related to Federal Awards	48
2019-001 Access Limitations for Confidential Information in SIGMA	48
2019-002 Bridges Interface Controls	51
2019-003 Bridges Security Management and Access Controls	55
2019-004 Income Eligibility and Verification System	59
2019-005 ADP Security Program	63
2019-006 MiSACWIS Security Management and Access Controls	66
2019-007 CHAMPS Security Management and Access Controls	69
2019-008 EGrAMS Security Management and Access Controls	71
2019-009 MDE, IT General Controls	73

2019-010	MDE, IT Security Management and Access Controls	76
2019-011	MDHHS, PACAP - Completeness and Accuracy of the PACAP	78
2019-012	MDHHS, PACAP - Inappropriate PACAP Allocation	83
2019-013	MDHHS, Cash Management - Cash Management Process	88
2019-014	MDHHS, Subrecipient Monitoring - Subaward Information	93
2019-015	MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Beneficiary Eligibility	95
2019-016	MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; and Matching, Level of Effort, and Earmarking - Expenditure Processing for Medical Payments	98
2019-017	MDHHS - Transitional Medicaid and CHIP Eligibility	100
2019-018	MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Eligibility Interface Errors	101
2019-019	MDHHS, Allowable Costs/Cost Principles and Special Tests and Provisions - Provider Eligibility	103
2019-020	SNAP Cluster, <i>CFDA</i> 10.551 and 10.561, Special Tests and Provisions - System and Organization Controls	104
2019-021	WIC Special Supplemental Nutrition Program for Women, Infants, and Children, <i>CFDA</i> 10.557, Allowable Costs/Cost Principles - MI-WIC IT General Controls	106
2019-022	WIC Special Supplemental Nutrition Program for Women, Infants, and Children, <i>CFDA</i> 10.557, Allowable Costs/Cost Principles - MI-WIC User Access	107
2019-023	WIC Special Supplemental Nutrition Program for Women, Infants, and Children, <i>CFDA</i> 10.557, Special Tests and Provisions - Compliance Buys of High-Risk Vendors	108
2019-024	National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Period of Performance - Propriety of Expenditures	109
2019-025	National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401, Cash Management - Timeliness of Cash Draws	112
2019-026	National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401, Period of Performance - Requests for Reimbursement	115
2019-027	National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401, Period of Performance - Notifications for Appendices Exceeding 90% Threshold	117
2019-028	National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401, Period of Performance - Disclosure of Obligations	120

2019-029	National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401, Period of Performance - Timeliness of Appendix Final Accounting	122
2019-030	Grants to States for Construction of State Home Facilities, <i>CFDA</i> 64.005, Cash Management - Overdrawn Funds	125
2019-031	Grants to States for Construction of State Home Facilities, <i>CFDA</i> 64.005, Procurement and Suspension and Debarment - Required Provisions	126
2019-032	Grants to States for Construction of State Home Facilities, <i>CFDA</i> 64.005, Special Tests and Provisions - Wage Rate Requirements	127
2019-033	Rehabilitation Services - Vocational Rehabilitation Grants to States, <i>CFDA</i> 84.126, Cash Management - Cash Management Process	128
2019-034	Rehabilitation Services - Vocational Rehabilitation Grants to States, <i>CFDA</i> 84.126, Matching, Level of Effort, and Earmarking - Pre-Employment Transition Services Earmarking Threshold	130
2019-035	Supporting Effective Instruction State Grants, <i>CFDA</i> 84.367, Subrecipient Monitoring - Management Decisions	131
2019-036	Student Support and Academic Enrichment Program, <i>CFDA</i> 84.424, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Use of Funds	133
2019-037	Aging Cluster, <i>CFDA</i> 93.044, 93.045, and 93.053, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; Subrecipient Monitoring; and Special Tests and Provisions - AIS FIRST User Access	134
2019-038	TANF Cluster, <i>CFDA</i> 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Non-Financial Eligibility Documentation	135
2019-039	TANF Cluster, <i>CFDA</i> 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - Income Eligibility Documentation	137
2019-040	TANF Cluster, <i>CFDA</i> 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Eligibility Redeterminations for TANF-Funded Adoption Subsidy	138
2019-041	TANF Cluster, <i>CFDA</i> 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Foster Care Assistance	140
2019-042	TANF Cluster, <i>CFDA</i> 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Emergency Foster Care Assistance	143
2019-043	TANF Cluster, <i>CFDA</i> 93.558, Special Tests and Provisions - Child Support Non-Cooperation	145
2019-044	TANF Cluster, <i>CFDA</i> 93.558, Special Tests and Provisions - Penalty for Refusal to Work	146
2019-045	TANF Cluster, <i>CFDA</i> 93.558, Special Tests and Provisions - Lack of Child Care for Single Custodial Parent of Child Under Age Six	148

2019-046	CCDF Cluster, <i>CFDA</i> 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - MWBC Child Care System User Access	149
2019-047	CCDF Cluster, <i>CFDA</i> 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Client Eligibility	150
2019-048	CCDF Cluster, <i>CFDA</i> 93.575 and 93.596, Cash Management - Cash Management Process	152
2019-049	CCDF Cluster, <i>CFDA</i> 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Provider Health and Safety Requirements	154
2019-050	CCDF Cluster, <i>CFDA</i> 93.575 and 93.596, Special Tests and Provisions - Fraud Detection and Repayment	156
2019-051	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments on Behalf of Ineligible Beneficiaries	157
2019-052	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - MiAIMS User Access	158
2019-053	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Ineligible HHP Payments	160
2019-054	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Home Health Services and Documentation	161
2019-055	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Home Help Payment Oversight	162
2019-056	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Agency Provider Overpayments	164
2019-057	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Practitioner Reimbursement	165
2019-058	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Special Tests and Provisions - MARIS User Access	167
2019-059	Medicaid Cluster, <i>CFDA</i> 93.775, 93.777, and 93.778, Special Tests and Provisions - Long-Term Care Facility Audits	169
2019-060	Immunization Cooperative Agreements, <i>CFDA</i> 93.268, Period of Performance - Expenditures Incurred Outside the Period of Performance	170
2019-061	Immunization Cooperative Agreements, <i>CFDA</i> 93.268, Special Tests and Provisions - MCIR General Controls	171

2019-062	Immunization Cooperative Agreements, <i>CFDA</i> 93.268, Special Tests and Provisions - MCIR User Access Controls	173
2019-063	Child Support Enforcement, <i>CFDA</i> 93.563, Period of Performance - Use of Incorrect Federal Grant Funds for Reimbursement	174
2019-064	Low-Income Home Energy Assistance, <i>CFDA</i> 93.568, Eligibility - Eligibility Determinations	175
2019-065	Foster Care - Title IV-E, <i>CFDA</i> 93.658, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Background Checks	177
2019-066	Foster Care - Title IV-E, <i>CFDA</i> 93.658, Reporting - Accuracy of Financial Reports	178
2019-067	Adoption Assistance, <i>CFDA</i> 93.659, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments to Ineligible Participants	179
2019-068	Adoption Assistance, <i>CFDA</i> 93.659, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Adoption Assistance Payments	180
2019-069	Adoption Assistance, <i>CFDA</i> 93.659, Matching, Level of Effort, and Earmarking and Reporting - Annual Adoption Savings Calculation and Accounting Report	181
2019-070	Block Grants for Prevention and Treatment of Substance Abuse, <i>CFDA</i> 93.959, Matching, Level of Effort, and Earmarking - Maintenance of Effort - State Expenditures	183
2019-071	Block Grants for Prevention and Treatment of Substance Abuse, <i>CFDA</i> 93.959, Subrecipient Monitoring - Risk Assessments	184
2019-072	Disability Insurance/SSI Cluster, <i>CFDA</i> 96.001, Reporting - Accuracy of Reports	185
2019-073	Unemployment Insurance, <i>CFDA</i> 17.225	186
2019-074	Unemployment Insurance, <i>CFDA</i> 17.225	187
2019-075	Unemployment Insurance, <i>CFDA</i> 17.225	187
2019-076	Unemployment Insurance, <i>CFDA</i> 17.225	187

AUDITEE SECTION

Summary Schedule of Prior Audit Findings	190
Management Views and Corrective Action Plan	233

GLOSSARY

List of Abbreviations	284
Glossary of Terms	287

SUPPLEMENTAL FINANCIAL SCHEDULE

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
U.S. Department of Agriculture							
SNAP Cluster:							
Supplemental Nutrition Assistance Program	10.551			\$ 1,703,051,022	\$	\$	\$ 1,703,051,022
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			140,066,126	25,160,461		165,226,587
Total SNAP Cluster				\$ 1,843,117,148	\$ 25,160,461	\$ 0	\$ 1,868,277,609
Child Nutrition Cluster:							
School Breakfast Program	10.553			\$ 83,691	\$ 120,895,936	\$	\$ 120,979,627
National School Lunch Program	10.555			152,313	380,221,440		380,373,753
National School Lunch Program (Note 6)	10.555			4,538			4,538
Special Milk Program for Children	10.556				176,082		176,082
Summer Food Service Program for Children	10.559			437,689	10,664,235		11,101,924
Summer Food Service Program for Children (Note 6)	10.559				24,057		24,057
Total Child Nutrition Cluster				\$ 678,231	\$ 511,981,750	\$ 0	\$ 512,659,981
Food Distribution Cluster:							
Commodity Supplemental Food Program	10.565			\$ 126,939	\$ 5,626,786	\$	\$ 5,753,725
Commodity Supplemental Food Program (Note 6)	10.565				19,293,161		19,293,161
Emergency Food Assistance Program (Administrative Costs)	10.568			51,661	5,397,130		5,448,791
Emergency Food Assistance Program (Food Commodities) (Note 6)	10.569				20,517,202		20,517,202
Total Food Distribution Cluster				\$ 178,600	\$ 50,834,279	\$ 0	\$ 51,012,879
Forest Service Schools and Roads Cluster:							
Schools and Roads - Grants to States	10.665			\$	\$ 3,203,653	\$	\$ 3,203,653
Total Forest Service Schools and Roads Cluster				\$ 0	\$ 3,203,653	\$ 0	\$ 3,203,653
Plant and Animal Disease, Pest Control, and Animal Care	10.025			\$ 328,964	\$ 193,874	\$	\$ 522,838
Voluntary Public Access and Habitat Incentive Program	10.093			242,045			242,045
Market Protection and Promotion	10.163			1,471,986			1,471,986
Specialty Crop Block Grant Program - Farm Bill	10.170			244,512	1,834,411		2,078,923
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178				945,514		945,514
Trade Mitigation Program Eligible Recipient Agency Operational Funds (Note 6)	10.178				28,127,426		28,127,426
Total 10.178				\$ 0	\$ 29,072,940	\$ 0	\$ 29,072,940
Food Safety Cooperative Agreements	10.479			\$ 228,215	\$	\$	\$ 228,215
CACFP Meal Service Training Grants	10.534			30,069			30,069
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557			104,624,418	45,074,827		149,699,245
Child and Adult Care Food Program	10.558			1,308,544	72,124,056		73,432,600
State Administrative Expenses for Child Nutrition	10.560			7,046,062			7,046,062
WIC Farmers' Market Nutrition Program (FMNP)	10.572			437,278			437,278

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Team Nutrition Grants	10.574			\$ 781,822	\$	\$	\$ 781,822
Senior Farmers Market Nutrition Program	10.576			244,861			244,861
Child Nutrition Discretionary Grants Limited Availability	10.579			2,179,900	823,776		3,003,676
Fresh Fruit and Vegetable Program	10.582			113,124	4,436,444		4,549,568
Child Nutrition Direct Certification Performance Awards	10.589			2,009			2,009
Cooperative Forestry Assistance	10.664			927,875	211,984		1,139,859
Urban and Community Forestry Program	10.675			184,701	274,852		459,553
Forest Legacy Program	10.676			31,548			31,548
Forest Stewardship Program	10.678			193,400	37,025		230,425
Forest Health Protection	10.680			199,885			199,885
Forest Health Protection	10.680	The Gypsy Moth Slow the Spread Foundation Inc.	19-DG-11083150-004	8,345			8,345
Total 10.680				\$ 208,230	\$ 0	\$ 0	\$ 208,230
Good Neighbor Authority	10.691			\$ 961,564	\$	\$	\$ 961,564
State & Private Forestry Cooperative Fire Assistance	10.698			248,494	211,126		459,620
Partnership Agreements	10.699			10,638			10,638
Soil and Water Conservation	10.902			214	470,857		471,071
Environmental Quality Incentives Program	10.912				112,442		112,442
Conservation Stewardship Program	10.924				2,151		2,151
Agricultural Conservation Easement Program	10.931				13,027		13,027
Regional Conservation Partnership Program	10.932			156,097			156,097
Wetlands Mitigation Banking Program	10.933			163,935			163,935
Forest Service Drug Team	10.14-LE-11091000-004**			2,139			2,139
Total U.S. Department of Agriculture				\$ 1,966,346,623	\$ 746,073,935	\$ 0	\$ 2,712,420,558
U.S. Department of Commerce							
Interjurisdictional Fisheries Act of 1986 (Note 15)	11.407			\$ 14,126	\$	\$	\$ 14,126
Coastal Zone Management Administration Awards	11.419			1,543,491	1,305,280		2,848,771
Habitat Conservation	11.463			5,130,513			5,130,513
State and Local Implementation Grant Program	11.549			540,793			540,793
Total U.S. Department of Commerce				\$ 7,228,923	\$ 1,305,280	\$ 0	\$ 8,534,203
U.S. Department of Defense							
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113			\$ 546,403	\$	\$	\$ 546,403
Military Construction, National Guard	12.400			(6,441)			(6,441)
National Guard Military Operations and Maintenance (O&M) Projects (Note 13)	12.401			69,830,849		4,915,728	74,746,577
National Guard Challenge Program	12.404			4,029,065	1,310,310		5,339,375

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Community Economic Adjustment Assistance for Reductions in Defense Industry Employment	12.611	Macomb/St. Clair Workforce Development Board, Inc.	HQ00051710056	\$ 511,959			\$ 511,959
Troops to Teachers Grant Program	12.620			139,675			139,675
Total U.S. Department of Defense				\$ 75,051,510	\$ 1,310,310	\$ 4,915,728	\$ 81,277,548
U.S. Department of Housing and Urban Development							
Section 8 Project-Based Cluster:							
Section 8 - Contract Administration	14.182			\$ 239,451,965	\$	\$	\$ 239,451,965
Section 8 - New Construction/Substantial Rehabilitation	14.182			117,348,267			117,348,267
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856			1,303,710			1,303,710
Total Section 8 Project-Based Cluster				\$ 358,103,942	\$ 0	\$ 0	\$ 358,103,942
Housing Voucher Cluster:							
Section 8 Housing Choice Vouchers	14.871			\$ 204,157,867	\$	\$	\$ 204,157,867
Mainstream Vouchers	14.879			267,669			267,669
Total Housing Voucher Cluster				\$ 204,425,536	\$ 0	\$ 0	\$ 204,425,536
Housing Counseling Assistance Program	14.169			\$ 61,889	\$ 452,936	\$	\$ 514,825
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228			872,107	32,873,947		33,746,054
Emergency Solutions Grant Program	14.231				4,331,117		4,331,117
Supportive Housing Program	14.235			(210)	(29,261)		(29,471)
Home Investment Partnerships Program	14.239			19,501,240	1,846,854		21,348,094
Housing Opportunities for Persons with AIDS	14.241			11,472	1,346,712		1,358,184
Continuum of Care Program	14.267			106,355	5,798,930		5,905,285
Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities	14.326			164,072	145,239		309,311
Fair Housing Assistance Program State and Local	14.401			1,278,373			1,278,373
Family Self-Sufficiency Program	14.896			1,003,278			1,003,278
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900			117,808	41,946		159,754
Total U.S. Department of Housing and Urban Development				\$ 585,645,862	\$ 46,808,420	\$ 0	\$ 632,454,282
U.S. Department of the Interior							
Fish and Wildlife Cluster:							
Sport Fish Restoration (Note 15)	15.605			\$ 11,390,102	\$	\$	\$ 11,390,102
Wildlife Restoration and Basic Hunter Education (Note 15)	15.611			23,577,417	475,978		24,053,395
Enhanced Hunter Education and Safety	15.626			264,353			264,353
Total Fish and Wildlife Cluster				\$ 35,231,872	\$ 475,978	\$ 0	\$ 35,707,850
Fish and Wildlife Management Assistance	15.608			\$ 402,207	\$ 8,504	\$	\$ 410,711
Cooperative Endangered Species Conservation Fund	15.615			145,431	207,926		353,357
Clean Vessel Act	15.616			2,525	42,075		44,600

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Sportfishing and Boating Safety Act	15.622			\$ 645,752	\$	\$	\$ 645,752
Coastal	15.630			30,866			30,866
State Wildlife Grants (Note 15)	15.634			1,503,729	101,774		1,605,503
Endangered Species Conservation - Recovery Implementation Funds	15.657			108,851			108,851
Natural Resource Damage Assessment and Restoration	15.658			47,391			47,391
Great Lakes Restoration	15.662			1,166,150	216,932		1,383,082
Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	15.666			5,492			5,492
Historic Preservation Fund Grants-In-Aid	15.904			2,526,037	174,341		2,700,378
Outdoor Recreation Acquisition, Development and Planning	15.916			551,041	1,091,354		1,642,395
Natural Resource Stewardship	15.944			35,847			35,847
Total U.S. Department of the Interior				\$ 42,403,191	\$ 2,318,884	\$ 0	\$ 44,722,075
<u>U.S. Department of Justice</u>							
Sexual Assault Services Formula Program	16.017			\$ 553	\$ 275,628	\$	\$ 276,181
Justice Systems Response to Families	16.021			21,915	182,130		204,045
Services for Trafficking Victims	16.320			405	173,009		173,414
OVW Technical Assistance Initiative	16.526	Northern Arizona University	2015-TA-AX-K072	(5,034)			(5,034)
Juvenile Justice and Delinquency Prevention	16.540			603,978	85,245		689,223
Missing Children's Assistance	16.543			343,651			343,651
National Criminal History Improvement Program (NCHIP)	16.554			2,032,844	81,645		2,114,489
Crime Victim Assistance	16.575			1,240,574	45,770,726		47,011,300
Crime Victim Compensation	16.576			1,017,366			1,017,366
Crime Victim Assistance/Discretionary Grants	16.582			1	291,026		291,027
Violence Against Women Formula Grants	16.588			1,478,613	2,370,131		3,848,744
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589			1,151	157,508		158,659
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590			190,053			190,053
Residential Substance Abuse Treatment for State Prisoners	16.593			4,503	276,231		280,734
State Criminal Alien Assistance Program	16.606			1,607,863			1,607,863
Project Safe Neighborhoods	16.609	Black Family Development	2016-GP-BX-0002	14,153			14,153
Public Safety Partnership and Community Policing Grants	16.710			1,155,330			1,155,330
Edward Byrne Memorial Justice Assistance Grant Program	16.738			2,291,421	4,659,518		6,950,939
DNA Backlog Reduction Program	16.741			1,767,058			1,767,058
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742			537,037	19,444		556,481
Support for Adam Walsh Act Implementation Grant Program	16.750			311,244			311,244
Edward Byrne Memorial Competitive Grant Program	16.751			250,703			250,703
Harold Rogers Prescription Drug Monitoring Program	16.754			301,692	44,995		346,687
Second Chance Act Reentry Initiative	16.812			137,966			137,966
Innovations in Community-Based Crime Reduction	16.817			126,389			126,389
Postconviction Testing of DNA Evidence	16.820			216,464			216,464
National Sexual Assault Kit Initiative	16.833			141,677	306,507		448,184

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Equitable Sharing Program	16.922			\$ 27,575	\$	\$	\$ 27,575
Equitable Sharing of Federally Forfeited Property	16.**			147,340			147,340
ATF	16.**			90,362			90,362
Safe Trails Task Force	16.**			101,857			101,857
Violent Crimes Task Force	16.**			56,363			56,363
Detroit Major Crimes Task Force (DMCTF)	16.**			63,392			63,392
Oakland County Violent Gang Task Force	16.**			18,539			18,539
DEA - Tactical Diversion Task Force	16.**			41,251			41,251
Joint Terrorism Task Force	16.**			49,290			49,290
USMS Eastern District Fugitive Apprehensive Task Force	16.**			186,803			186,803
USMS Western District Fugitive Apprehensive Task Force	16.**			62,357			62,357
USMS Eastern District Sex Offender Sweeps	16.**			9,222			9,222
Child Exploitation Task Force	16.**			45,407			45,407
Trafficking and Exploitation Crimes Task Force	16.**			19,488			19,488
Safe Streets Task Force	16.**			128,033			128,033
Detroit Cyber Task Force	16.**			5,569			5,569
Detroit Area Corruption Task Force	16.**			7,165			7,165
Domestic Cannabis Eradication/Suppression Program (DCE/SP)	16.2019-76**			88,874	21,403		110,277
OCDETF	16.GL-MIE-0577**			24,285			24,285
FBI Detroit Metropolitan Identity Theft & Financial Crimes Task Force (DMIFT)	16.196-DE-C4520066**			257			257
Total U.S. Department of Justice				\$ 16,962,999	\$ 54,715,146	\$ 0	\$ 71,678,145
U.S. Department of Labor							
Employment Service Cluster:							
Employment Service/Wagner-Peyser Funded Activities	17.207			\$ 7,480,837	\$ 13,349,633	\$	\$ 20,830,470
Jobs for Veterans State Grants	17.801			4,641,321	442,531		5,083,852
Total Employment Service Cluster				\$ 12,122,158	\$ 13,792,164	\$ 0	\$ 25,914,322
WIOA Cluster:							
WIOA Adult Program	17.258			\$ 1,764,768	\$ 23,785,444	\$	\$ 25,550,212
WIOA Youth Activities	17.259			1,907,131	27,509,355		29,416,486
WIOA Dislocated Worker Formula Grants	17.278			3,119,159	26,951,387		30,070,546
Total WIOA Cluster				\$ 6,791,058	\$ 78,246,186	\$ 0	\$ 85,037,244
Labor Force Statistics	17.002			\$ 3,101,014	\$	\$	\$ 3,101,014
Compensation and Working Conditions	17.005			260,300			260,300
Unemployment Insurance	17.225			902,112,534	3,872,706		905,985,240
ARRA - Unemployment Insurance	17.225			(1,813,182)			(1,813,182)
Total 17.225				\$ 900,299,352	\$ 3,872,706	\$ 0	\$ 904,172,058

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Senior Community Service Employment Program	17.235			\$ 63,682	\$ 2,595,275	\$	\$ 2,658,957
Trade Adjustment Assistance	17.245			1,061,407	7,954,894		9,016,301
WIOA Pilots, Demonstrations, and Research Projects	17.261			671,975			671,975
Reentry Employment Opportunities	17.270			23,100			23,100
Work Opportunity Tax Credit Program (WOTC)	17.271			645,927			645,927
Temporary Labor Certification for Foreign Workers	17.273			336,510			336,510
WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277			17,209	463,761		480,970
Apprenticeship USA Grants	17.285			238,846	713,121		951,967
Occupational Safety and Health State Program	17.503			10,159,700			10,159,700
Consultation Agreements	17.504			1,661,800			1,661,800
Total U.S. Department of Labor				\$ 937,454,038	\$ 107,638,107	\$ 0	\$ 1,045,092,145
U.S. Department of Transportation							
Highway Planning and Construction Cluster:							
Highway Planning and Construction (Note 15)	20.205			\$ 1,102,716,257	\$ 39,322,295	\$	\$ 1,142,038,552
Highway Planning and Construction	20.205	Southeast Michigan Council of Governments	NWI Data	9,884	137,004		146,888
Recreational Trails Program	20.219			1,865,333			1,865,333
Total Highway Planning and Construction Cluster				\$ 1,104,591,474	\$ 39,459,299	\$ 0	\$ 1,144,050,773
Federal Transit Cluster:							
Federal Transit Capital Investment Grants	20.500			\$	\$ (46,747)	\$	\$ (46,747)
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526				2,777,936		2,777,936
Total Federal Transit Cluster				\$ 0	\$ 2,731,189	\$ 0	\$ 2,731,189
Transit Services Programs Cluster:							
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513			\$	\$ 5,322,567	\$	\$ 5,322,567
Job Access and Reverse Commute Program	20.516				1,064,174		1,064,174
New Freedom Program	20.521				2,645,540		2,645,540
Total Transit Services Programs Cluster				\$ 0	\$ 9,032,281	\$ 0	\$ 9,032,281
Highway Safety Cluster:							
State and Community Highway Safety	20.600			\$ 3,675,782	\$ 2,061,812	\$	\$ 5,737,594
National Priority Safety Programs	20.616			4,239,037	2,533,262		6,772,299
Total Highway Safety Cluster				\$ 7,914,819	\$ 4,595,074	\$ 0	\$ 12,509,893
Airport Improvement Program (Note 7)	20.106			\$ 20,658,497	\$	\$	\$ 20,658,497
Highway Research and Development Program (Note 15)	20.200			153,038	38,305		191,343
Motor Carrier Safety Assistance	20.218			8,669,181			8,669,181
Commercial Driver's License Program Implementation Grant	20.232			17,967			17,967
Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	20.237			147,948			147,948

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319			\$ 404	\$ 116,935	\$	\$ 117,339
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505			90,083	503,226		593,309
Formula Grants for Rural Areas and Tribal Transit Program	20.509			9,499,441	19,507,320		29,006,761
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614			260,699			260,699
Pipeline Safety Program State Base Grant	20.700			1,679,407			1,679,407
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703			205,314	92,750		298,064
State Damage Prevention Program Grants	20.720				50,891		50,891
PHMSA Pipeline Safety Program One Call Grant	20.721						0
National Infrastructure Investments	20.933			473,779	550,503		1,024,282
Total U.S. Department of Transportation				\$ 1,154,362,051	\$ 76,677,773	\$ 0	\$ 1,231,039,824
<u>U.S. Department of the Treasury</u>							
Equitable Sharing of Federally Forfeited Property	21.**			\$ 36,072	\$	\$	\$ 36,072
Total U.S. Department of the Treasury				\$ 36,072	\$ 0	\$ 0	\$ 36,072
<u>Equal Employment Opportunity Commission</u>							
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002			\$ 548,240	\$	\$	\$ 548,240
Total Equal Employment Opportunity Commission				\$ 548,240	\$ 0	\$ 0	\$ 548,240
<u>General Services Administration</u>							
Donation of Federal Surplus Personal Property (Notes 6 and 8)	39.003			\$	\$ 423,994	\$	\$ 423,994
Total General Services Administration				\$ 0	\$ 423,994	\$ 0	\$ 423,994
<u>National Endowment for the Arts</u>							
Promotion of the Arts Partnership Agreements	45.025			\$	\$ 776,700	\$	\$ 776,700
Total National Endowment for the Arts				\$ 0	\$ 776,700	\$ 0	\$ 776,700
<u>Institute of Museum and Library Services</u>							
Museums for America	45.301			\$ 48,927	\$	\$	\$ 48,927
Grants to States	45.310			4,099,301	241,151		4,340,452
Total Institute of Museum and Library Services				\$ 4,148,228	\$ 241,151	\$ 0	\$ 4,389,379
<u>Small Business Administration</u>							
State Trade Expansion	59.061			\$ 42,600	\$ 757,400	\$	\$ 800,000
Total Small Business Administration				\$ 42,600	\$ 757,400	\$ 0	\$ 800,000

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
U.S. Department of Veterans Affairs							
Grants to States for Construction of State Home Facilities (Note 16)	64.005			\$ 18,376,713	\$	\$	\$ 18,376,713
Veterans State Domiciliary Care	64.014			396,928			396,928
Veterans State Nursing Home Care	64.015			20,699,251			20,699,251
Veterans Information and Assistance	64.115			394,651			394,651
Total U.S. Department of Veterans Affairs				\$ 39,867,543	\$ 0	\$ 0	\$ 39,867,543
U.S. Environmental Protection Agency							
Clean Water State Revolving Fund Cluster:							
Capitalization Grants for Clean Water State Revolving Funds	66.458			\$ 1,585,877	\$ 10,496,085	\$	\$ 12,081,962
Total Clean Water State Revolving Fund Cluster				\$ 1,585,877	\$ 10,496,085	\$ 0	\$ 12,081,962
Drinking Water State Revolving Fund Cluster:							
Capitalization Grants for Drinking Water State Revolving Funds	66.468			\$ 8,688,603	\$ 24,730,764	\$	\$ 33,419,367
Total Drinking Water State Revolving Fund Cluster				\$ 8,688,603	\$ 24,730,764	\$ 0	\$ 33,419,367
Air Pollution Control Program Support (Note 13)	66.001			\$ 4,666,671	\$	\$ 91,578	\$ 4,758,249
State Indoor Radon Grants	66.032			216,424	50,000		266,424
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034			1,007,699			1,007,699
Training, Investigations, and Special Purpose Activities of Federally-Recognized Indian Tribes Consistent With the Clean Air Act (CAA), Tribal Sovereignty and the Protection and Management of Air Quality	66.038	Inter-Tribal Council of Michigan	TX 97522906	1,085			1,085
State Clean Diesel Grant Program	66.040			62,435	353,307		415,742
Water Pollution Control State, Interstate, and Tribal Program Support	66.419			254,999	28,020		283,019
State Public Water System Supervision	66.432			4,054,000			4,054,000
Water Quality Management Planning	66.454			426,111	219,273		645,384
Nonpoint Source Implementation Grants	66.460				1,751,501		1,751,501
Regional Wetland Program Development Grants	66.461			106,068	18,040		124,108
Great Lakes Program	66.469			3,648,646	1,951,219		5,599,865
Great Lakes Program	66.469	Central Michigan University	GL00E01567	9,412			9,412
Great Lakes Program	66.469	Nature Conservancy	010418-1	67,489			67,489
Total 66.469				\$ 3,725,547	\$ 1,951,219	\$ 0	\$ 5,676,766
Beach Monitoring and Notification Program							
Implementation Grants	66.472			\$ 81,112	\$ 167,463	\$	\$ 248,575
Performance Partnership Grants	66.605			11,395,339	19,250		11,414,589
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707			265,808	138,388		404,196
Hazardous Waste Management State Program Support (Note 13)	66.801			2,815,626		167,392	2,983,018

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802			\$ 1,350,177	\$ 62,738	\$	\$ 1,412,915
Underground Storage Tank (UST) Prevention, Detection, and Compliance Program	66.804			600,795			600,795
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805			1,835,147			1,835,147
State and Tribal Response Program Grants	66.817			822,298			822,298
Brownfields Assessment and Cleanup Cooperative Agreements	66.818			200,000			200,000
Total U.S. Environmental Protection Agency				\$ 44,161,821	\$ 39,986,048	\$ 258,970	\$ 84,406,839
U.S. Department of Energy							
State Energy Program	81.041			\$ 1,824,869	\$	\$	\$ 1,824,869
Weatherization Assistance for Low-Income Persons	81.042			2,385,567	12,420,788		14,806,355
State Heating Oil and Propane Program	81.138			2,306			2,306
Total U.S. Department of Energy				\$ 4,212,742	\$ 12,420,788	\$ 0	\$ 16,633,530
U.S. Department of Education							
Student Financial Assistance Cluster:							
Federal Supplemental Educational Opportunity Grants	84.007			\$ 33,981	\$	\$	\$ 33,981
Federal Pell Grant Program	84.063			514,066			514,066
Total Student Financial Assistance Cluster				\$ 548,047	\$ 0	\$ 0	\$ 548,047
Special Education Cluster (IDEA):							
Special Education Grants to States	84.027			\$ 19,941,571	\$ 396,329,271	\$	\$ 416,270,842
Special Education Preschool Grants	84.173			665,936	11,751,044		12,416,980
Total Special Education Cluster (IDEA)				\$ 20,607,507	\$ 408,080,315	\$ 0	\$ 428,687,822
DED Generalist CFDA (9000000100)	84.000			\$ 164,684	\$	\$	\$ 164,684
Adult Education - Basic Grants to States	84.002			2,550,016	11,252,402		13,802,418
Title I Grants to Local Educational Agencies	84.010			5,958,637	495,449,580		501,408,217
Migrant Education State Grant Program	84.011			572,163	7,325,364		7,897,527
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013			1,080,949	(1)		1,080,948
Federal Family Education Loans - Guaranty Agency (Notes 9 and 10)	84.032G			97,345,487			97,345,487
Federal Family Education Loans - Guaranty Agency (Notes 6, 9, and 10)	84.032G			1,234,693,513			1,234,693,513
Total 84.032G				\$ 1,332,039,000	\$ 0	\$ 0	\$ 1,332,039,000
Federal Family Education Loans - Lender (Notes 9 and 11)	84.032L			\$ 7,616	\$	\$	\$ 7,616
Federal Family Education Loans - Lender (Notes 6, 9, and 11)	84.032L			422,718,235			422,718,235
Total 84.032L				\$ 422,725,851	\$ 0	\$ 0	\$ 422,725,851

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Career and Technical Education -- Basic Grants to States	84.048			\$ 2,472,462	\$ 35,236,149	\$	\$ 37,708,611
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126			119,465,802			119,465,802
Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	84.177			885,318			885,318
Special Education-Grants for Infants and Families	84.181			891,617	11,044,898		11,936,515
School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs)	84.184			435,154	411,406		846,560
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187			206,212			206,212
Education for Homeless Children and Youth	84.196			262,686	1,848,902		2,111,588
Charter Schools	84.282			793,975			793,975
Twenty-First Century Community Learning Centers	84.287			1,043,738	33,354,656		34,398,394
Special Education - State Personnel Development	84.323				1,338,862		1,338,862
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			5,984	434,433		440,417
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334			634,295	(35,708)		598,587
Credit Enhancement for Charter School Facilities	84.354			6,886,502			6,886,502
Rural Education	84.358			94,406	2,159,311		2,253,717
English Language Acquisition State Grants	84.365			458,830	10,816,429		11,275,259
Mathematics and Science Partnerships	84.366			276	507,282		507,558
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367			3,057,536	77,160,578		80,218,114
Competitive Grants for State Assessments (formerly Grants for Enhanced Assessment Instruments)	84.368			1,133,062			1,133,062
Grants for State Assessments and Related Activities	84.369			8,230,948			8,230,948
School Improvement Grants	84.377			113,420	7,830,853		7,944,273
Race to the Top - Early Learning Challenge	84.412			4,463,572	2,227,186		6,690,758
Student Support and Academic Enrichment Program	84.424			747,089	20,441,558		21,188,647
Disaster Recovery Assistance for Education	84.938				638,755		638,755
Total U.S. Department of Education				\$ 1,938,529,738	\$ 1,127,523,210	\$ 0	\$ 3,066,052,948
<u>National Archives and Records Administration</u>							
National Historical Publications and Records Grants	89.003			\$ 6,500	\$	\$	\$ 6,500
Total National Archives and Records Administration				\$ 6,500	\$ 0	\$ 0	\$ 6,500
<u>U.S. Election Assistance Commission</u>							
Help America Vote Act Requirements Payments	90.401			\$ 2,533,443	\$	\$	\$ 2,533,443
2018 HAVA Election Security Grants	90.404			300,615			300,615
Total U.S. Election Assistance Commission				\$ 2,834,058	\$ 0	\$ 0	\$ 2,834,058

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
U.S. Department of Health and Human Services							
Aging Cluster:							
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044			\$ 509,188	\$ 12,751,511	\$	\$ 13,260,699
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045			993,296	21,695,429		22,688,725
Nutrition Services Incentive Program	93.053				7,725,703		7,725,703
Total Aging Cluster				\$ 1,502,484	\$ 42,172,643	\$ 0	\$ 43,675,127
TANF Cluster:							
Temporary Assistance for Needy Families	93.558			\$ 625,698,695	\$ 79,583,361	\$	\$ 705,282,056
Total TANF Cluster				\$ 625,698,695	\$ 79,583,361	\$ 0	\$ 705,282,056
CCDF Cluster:							
Child Care and Development Block Grant	93.575			\$ 127,853,698	\$ 11,907,083	\$	\$ 139,760,781
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596			80,038,752			80,038,752
Total CCDF Cluster				\$ 207,892,450	\$ 11,907,083	\$ 0	\$ 219,799,533
Medicaid Cluster:							
State Medicaid Fraud Control Units	93.775			\$ 4,230,243	\$	\$	\$ 4,230,243
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777			12,794,198			12,794,198
Medical Assistance Program	93.778			13,593,909,232	49,519,722		13,643,428,954
Total Medicaid Cluster				\$ 13,610,933,673	\$ 49,519,722	\$ 0	\$ 13,660,453,395
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041			\$	\$ 196,488	\$	\$ 196,488
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042			26,435	569,177		595,612
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043				783,419		783,419
Alzheimer's Disease Demonstration Grants to States	93.051			16,997	121,014		138,011
National Family Caregiver Support, Title III, Part E	93.052			236,681	5,396,677		5,633,358
Chronic Diseases: Research, Control, and Prevention	93.068			136,600			136,600
Public Health Emergency Preparedness	93.069			9,415,721	7,882,373		17,298,094
Public Health Emergency Preparedness (Note 6)	93.069			125,755			125,755
Total 93.069				\$ 9,541,476	\$ 7,882,373	\$ 0	\$ 17,423,849
Environmental Public Health and Emergency Response	93.070			\$ 1,578,438	\$ 163,995	\$	\$ 1,742,433
Medicare Enrollment Assistance Program	93.071			22,152	720,249		742,401
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073			219,133			219,133

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079			\$ 113,859	\$	\$	\$ 113,859
Guardianship Assistance	93.090			3,033,190	138		3,033,328
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			301,047	1,160,178		1,461,225
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094			(12,100)	(8,010)		(20,110)
Food and Drug Administration Research	93.103			2,449,717	523,970		2,973,687
Food and Drug Administration Research	93.103	Association of Food and Drug Officials	G-ME-1905-01783; G-1810-1533; G-1810-1534	18,380			18,380
Total 93.103				\$ 2,468,097	\$ 523,970	\$ 0	\$ 2,992,067
Maternal and Child Health Federal Consolidated Programs	93.110			\$ 193,080	\$ 476,764	\$	\$ 669,844
Maternal and Child Health Federal Consolidated Programs	93.110	Association of Public Health Laboratories, Inc.	56300600-155-17-14	55,175			55,175
Maternal and Child Health Federal Consolidated Programs	93.110	Wayne State University	WSU18013		20,999		20,999
Total 93.110				\$ 248,255	\$ 497,763	\$ 0	\$ 746,018
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			\$ 796,394	\$ 326,579	\$	\$ 1,122,973
Emergency Medical Services for Children	93.127			82,925			82,925
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130			367,550	43,162		410,712
Injury Prevention and Control Research and State and Community Based Programs	93.136			1,450,847	2,505,993		3,956,840
Projects for Assistance in Transition from Homelessness (PATH)	93.150			130,610	1,133,948		1,264,558
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			161,459	1,104,376		1,265,835
Grants to States for Loan Repayment	93.165			994,987			994,987
Disabilities Prevention	93.184			43,111	306,507		349,618
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197			81,709	307,117		388,826
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	Michigan State University	RC107653-MDHHS	7,341	130,846		138,187
Total 93.197				\$ 89,050	\$ 437,963	\$ 0	\$ 527,013

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Family Planning Services	93.217			\$ 1,531,767	\$ 6,918,869	\$	\$ 8,450,636
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	93.235			552,353	1,351,771		1,904,124
Grants to States to Support Oral Health Workforce Activities	93.236				(3,042)		(3,042)
State Capacity Building	93.240			100,127	135,156		235,283
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243			938,185	6,639,745		7,577,930
Early Hearing Detection and Intervention	93.251			175,213	80,087		255,300
Occupational Safety and Health Program	93.262	Michigan State University	RC105035-MDHHS	111,222			111,222
Immunization Cooperative Agreements	93.268			5,067,098	5,141,110		10,208,208
Immunization Cooperative Agreements (Note 6)	93.268			98,787,971			98,787,971
Total 93.268				\$ 103,855,069	\$ 5,141,110	\$ 0	\$ 108,996,179
Viral Hepatitis Prevention and Control	93.270			\$ 396,667	\$	\$	\$ 396,667
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283			626,259	98,683		724,942
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	Council of State and Territorial Epidemiologists	20171613-01; P.O. 6718	229,334	3,770		233,104
Total 93.283				\$ 855,593	\$ 102,453	\$ 0	\$ 958,046
PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	93.305			\$ 1,027,246	\$ 300,773	\$	\$ 1,328,019
PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF) (Note 6)	93.305			1,127			1,127
Total 93.305				\$ 1,028,373	\$ 300,773	\$ 0	\$ 1,329,146
Trans-NIH Research Support (Note 15)	93.310	Michigan State University	20171476-00 MSU	\$ 68,254	\$	\$	\$ 68,254
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314			176,280	5,126		181,406
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323			7,684,488	1,061,400		8,745,888
State Health Insurance Assistance Program	93.324			35,516	1,417,962		1,453,478
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354			1,865,390	1,079,624		2,945,014
Sickle Cell Treatment Demonstration Program	93.365	Sickle Cell Disease Association of America	20153529-00	5,000			5,000
ACL Independent Living State Grants	93.369			328,639	2,381,352		2,709,991
The State Flexibility to Stabilize the Market Grant Program	93.413			90,438			90,438
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	Council of State and Territorial Epidemiologists	P.O. 6788	63,572			63,572

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations	93.424	Council of State and Territorial Epidemiologists	REV19-99110	\$ 11,680	\$	\$	\$ 11,680
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	93.426			1,302,820	981,741		2,284,561
Every Student Succeeds Act/Preschool Development Grants	93.434			921,114			921,114
Innovative State and Local Public Health Strategies to prevent and Manage Diabetes and Heart Disease and Stroke-	93.435			820,975	1,135,213		1,956,188
Well-Integrated Screening and Evaluation for Women Across the Nation (WISEWOMAN)	93.436			477,979	371,294		849,273
Food Safety and Security Monitoring Project	93.448			223,938			223,938
ACL Assistive Technology	93.464			660,266			660,266
Pregnancy Assistance Fund Program	93.500			218,185	749,575		967,760
Promoting Safe and Stable Families	93.556			7,212,648	394,908		7,607,556
Promoting Safe and Stable Families	93.556	University of Maryland, Baltimore	1701229B	30,986	430,613		461,599
Total 93.556				\$ 7,243,634	\$ 825,521	\$ 0	\$ 8,069,155
Child Support Enforcement	93.563			\$ 28,604,721	\$ 111,986,744	\$	\$ 140,591,465
Child Support Enforcement Research	93.564			59,023	199,211		258,234
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566			21,597,132	(42,697)		21,554,435
Low-Income Home Energy Assistance (Note 12)	93.568			160,190,764	12,769,495		172,960,259
Community Services Block Grant	93.569			1,705,404	23,982,108		25,687,512
Refugee and Entrant Assistance Discretionary Grants	93.576			85,367			85,367
Refugee and Entrant Assistance Targeted Assistance Grants	93.584			(250,084)			(250,084)
State Court Improvement Program	93.586			771,322			771,322
Community-Based Child Abuse Prevention Grants	93.590			172,287	518,301		690,588
Grants to States for Access and Visitation Programs	93.597			242,324			242,324
Chafee Education and Training Vouchers Program (ETV)	93.599			1,326,774	21		1,326,795
Head Start	93.600			169,218			169,218
Adoption and Legal Guardianship Incentive Payments	93.603			415,656			415,656
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624			1,497,616	16,929,148		18,426,764
Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	93.628			38,844	(231,400)		(192,556)
Developmental Disabilities Basic Support and Advocacy Grants	93.630			1,636,458	1,189,945		2,826,403
Support for Ombudsman and Beneficiary Counseling Programs for States Participating in Financial Alignment Model Demonstrations for Dually Eligible Individuals	93.634				632,828		632,828
Children's Justice Grants to States	93.643			388,678	113		388,791
Adult Medicaid Quality: Improving Maternal and Infant Health Outcomes in Medicaid and CHIP	93.644			896	42,508		43,404

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Stephanie Tubbs Jones Child Welfare Services Program (Note 12)	93.645			\$ 5,668,881	\$ 973,398	\$	\$ 6,642,279
Foster Care Title IV-E	93.658			118,823,711	7,523,091		126,346,802
Adoption Assistance	93.659			104,718,711	1,218,633		105,937,344
Social Services Block Grant (Note 12)	93.667			123,964,587	3,376,861		127,341,448
Child Abuse and Neglect State Grants	93.669			1,378,521	(3,745)		1,374,776
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671			83,915	2,672,966		2,756,881
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674			4,111,011	31,320		4,142,331
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)	93.733			15,845			15,845
State Public Health Approaches for Ensuring Qitline Capacity - Funded in part by Prevention and Public Health Funds (PPHF)	93.735			75,080	546,757		621,837
PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Func	93.745			505,536	7,195		512,731
PPHF - Public Health Laboratory Infrastructure - financed solely by Prevention and Public Health Fund	93.749	Council of State and Territorial Epidemiologists	PO#6709	30,000			30,000
Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	93.753			(2,787)	1,714		(1,073)
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757			58,971	(74,977)		(16,006)
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758			21,791	(164,611)		(142,820)
Children's Health Insurance Program	93.767			288,052,209	10,501,937		298,554,146
Opioid STR	93.788			7,452,935	20,918,757		28,371,692
Money Follows the Person Rebalancing Demonstration	93.791			273,877	(1,146)		272,731
State Survey Certification of Health Care Providers and Suppliers (Title XIX) Medicaid	93.796			8,171,286			8,171,286
Organized Approaches to Increase Colorectal Cancer Screening	93.800			723,689	920,198		1,643,887
Increasing the Implementation of Evidence-Based Cancer Survivorship Interventions to Increase Quality and Duration of Life Among Cancer Patients	93.808			788	(2,364)		(1,576)
Paul Coverdell National Acute Stroke Program National Center for Chronic Disease Prevention and Health Promotion	93.810			699,202			699,202
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815			690,850	(417,149)		273,701
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817			77,223	335,272		412,495
Child Health and Human Development Extramural Research	93.865	University of Utah	10036366-MDCH	9,151			9,151
Maternal, Infant and Early Childhood Home Visiting Grant	93.870			1,163,153	6,719,986		7,883,139

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
National Bioterrorism Hospital Preparedness Program	93.889			\$ 2,357,706	\$ 3,875,564	\$	\$ 6,233,270
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898			3,208,682	2,723,749		5,932,431
HIV Care Formula Grants	93.917			14,763,109	5,423,423		20,186,532
HIV Prevention Activities Health Department Based (Note 12)	93.940			2,013,424	3,977,610		5,991,034
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944			1,142,894	(25,528)		1,117,366
Assistance Programs for Chronic Disease Prevention and Control	93.945			11,919			11,919
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946			143,361	34,330		177,691
Block Grants for Community Mental Health Services	93.958			936,982	15,981,886		16,918,868
Block Grants for Prevention and Treatment of Substance Abuse (Note 12)	93.959			1,675,338	59,358,746		61,034,084
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977			553,659	1,873,450		2,427,109
Preventive Health and Health Services Block Grant	93.991			1,494,053	4,960,351		6,454,404
Maternal and Child Health Services Block Grant to the States (Note 12)	93.994			9,011,271	10,227,491		19,238,762
Vital Statistics - CDC - NCHS Contract	93.200-2012-50823**			532,644			532,644
Vital Statistics - CDC - National Death Index Contract	93.200-2015-M-62296**			64,283			64,283
Genotyping TB Contract	93.200-213-57461**			93,510			93,510
FDA Tobacco Retail Inspection Contract	93.HHSF223201400074C**			945,926	30,036		975,962
Behavioral Health Services Information System Contract (Mental Health - Treatment Episode Data Set)	93.283-07-4803**	Eagle Technologies, Inc.	283-07-4803	28,627	107,353		135,980
Michigan Pregnancy Risk Assessment Monitoring System (PRAMS)	93.20171644**	Abt Associates Inc.	20171644.000	3,906			3,906
Total U.S. Department of Health and Human Services				\$ 15,524,219,062	\$ 569,333,377	\$ 0	\$ 16,093,552,439
U.S. Corporation for National and Community Service							
State Commissions	94.003			\$ 366,639	\$ 6,744	\$	\$ 373,383
AmeriCorps	94.006			23,125	7,800,750		7,823,875
Training and Technical Assistance	94.009			182,995	232,194		415,189
Volunteers in Service to America	94.013			145	10,000		10,145
Volunteer Generation Fund	94.021			30,921	187,995		218,916
Total U.S. Corporation for National and Community Service				\$ 603,825	\$ 8,237,683	\$ 0	\$ 8,841,508
Executive Office of the President							
High Intensity Drug Trafficking Areas Program	95.001			\$ 2,291,387	\$	\$	\$ 2,291,387
Total Executive Office of the President				\$ 2,291,387	\$ 0	\$ 0	\$ 2,291,387

This schedule continued on next page.

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Entity	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 13)	Total Expended, Distributed, and In-Kind Assistance
Social Security Administration							
Disability Insurance/SSI Cluster:							
Social Security Disability Insurance	96.001			\$ 87,379,451	\$ 77,474	\$	\$ 87,456,925
Total Disability Insurance/SSI Cluster				\$ 87,379,451	\$ 77,474	\$ 0	\$ 87,456,925
Social Security Administration - Birth Record Contract	96.00-14-61006**			\$ 464,517	\$	\$	\$ 464,517
Social Security Administration - Death Record Contract	96.SS00-09-60016**			104,444			104,444
Total Social Security Administration				\$ 87,948,412	\$ 77,474	\$ 0	\$ 88,025,886
U.S. Department of Homeland Security							
Non-Profit Security Program	97.008			\$	\$ 1,029,566	\$	\$ 1,029,566
Boating Safety Financial Assistance	97.012			4,742,906	664,935		5,407,841
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023			256,087			256,087
Flood Mitigation Assistance	97.029			959	(1,299)		(340)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036			57,521	5,063,626		5,121,147
Hazard Mitigation Grant	97.039			111,502	3,098,606		3,210,108
National Dam Safety Program	97.041			95,368			95,368
Emergency Management Performance Grants	97.042			6,768,602	2,355,398		9,124,000
State Fire Training Systems Grants	97.043			16,709			16,709
Assistance to Firefighters Grant	97.044			447,838			447,838
Cooperating Technical Partners	97.045			462,918	19,111		482,029
Pre-Disaster Mitigation	97.047			35,863	636,776		672,639
Port Security Grant Program	97.056			129,253			129,253
Homeland Security Grant Program	97.067			2,695,462	8,229,412		10,924,874
Homeland Security Biowatch Program	97.091			1,586,602			1,586,602
HSI - Task Force Officer	97.**			23,531			23,531
Total U.S. Department of Homeland Security				\$ 17,431,121	\$ 21,096,131	\$ 0	\$ 38,527,252
Total Financial Assistance				\$ 20,696,005,407	\$ 2,749,335,971	\$ 5,174,698	\$ 23,450,516,076
Total Non-Cash Assistance				\$ 1,756,331,139	\$ 68,385,840	\$ 0	\$ 1,824,716,979
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 22,452,336,546	\$ 2,817,721,811	\$ 5,174,698	\$ 25,275,233,055

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

** CFDA number not available. Number derived from federal agency number or contract number, if available.

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Reporting Entity

For federal reporting purposes, the State of Michigan's reporting entity includes the primary government and its component units with the exception of those noted in the following paragraph. The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. They include Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State. For purposes of presenting the schedule of expenditures of federal awards (SEFA), the State's ten public universities have been excluded from the reporting entity for fiscal year 2019. The universities obtained separate audits in accordance with Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 Fiscal Year-Ends

The State of Michigan and discretely presented component units included within the fiscal year 2019 reporting entity are reported using fiscal years that end on September 30, except for the Michigan State Housing Development Authority (MSHDA), which utilizes a June 30 year-end.

The following programs include MSHDA expenditures, which are reported as of June 30, 2019. In addition, some of the programs noted below also include Michigan Department of Environment, Great Lakes, and Energy; Michigan Department of Health and Human Services; and Michigan Department of Transportation (Other State Agencies) expenditures, which are reported as of September 30, 2019.

<u>CFDA Number</u>	<u>Federal Program Title</u>	<u>MSHDA Expenditures as of June 30, 2019</u>	<u>Other State Agencies' Expenditures as of September 30, 2019</u>	<u>Total (as Reported on the SEFA)</u>
14.169	Housing Counseling Assistance Program	\$ 514,825	\$ 0	\$ 514,825
14.182	Section 8 - Contract Administration	\$ 239,451,965	\$ 0	\$ 239,451,965
14.182	Section 8 - New Construction/ Substantial Rehabilitation	\$ 117,348,267	\$ 0	\$ 117,348,267

<u>CFDA Number</u>	<u>Federal Program Title</u>	<u>MSHDA Expenditures as of June 30, 2019</u>	<u>Other State Agencies' Expenditures as of September 30, 2019</u>	<u>Total (as Reported on the SEFA)</u>
14.231	Emergency Solutions Grant Program	\$ 4,331,117	\$ 0	\$ 4,331,117
14.239	Home Investment Partnerships Program	\$ 21,348,094	\$ 0	\$ 21,348,094
14.267	Continuum of Care Program	\$ 1,153,982	\$ 4,751,303	\$ 5,905,285
14.326	Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities	\$ 309,311	\$ 0	\$ 309,311
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	\$ 1,303,710	\$ 0	\$ 1,303,710
14.871	Section 8 Housing Choice Vouchers	\$ 204,157,867	\$ 0	\$ 204,157,867
14.879	Mainstream Vouchers	\$ 267,669	\$ 0	\$ 267,669
14.896	Family Self-Sufficiency Program	\$ 1,003,278	\$ 0	\$ 1,003,278
15.904	Historic Preservation Fund Grants-In-Aid	\$ 2,700,378	\$ 0	\$ 2,700,378
20.205	Highway Planning and Construction	\$ 27,539	\$ 1,142,157,901	\$1,142,185,440

Note 3 Basis of Presentation

The SEFA presents the federal grant activity of the State of Michigan in accordance with the requirements of the Uniform Guidance.

Note 4 Summary of Significant Accounting Policies

The expenditures for each of the federal financial assistance programs are presented in the SEFA on the accounting basis as presented on the fund financial statements. For entities with governmental funds, expenditures are presented on the modified accrual basis of accounting. For entities with proprietary or fiduciary funds, expenditures are presented on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Differences will exist between federal expenditures shown on the SEFA and related federal expenditures on federal financial reports because of additional accrual amounts recorded after the preparation of federal financial reports for the fiscal year. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The State of Michigan has not elected to use the 10% de minimis indirect cost rate, except for the Michigan Early Childhood Investment Corporation, a discretely presented component unit, which has elected to use the 10% de minimis indirect cost rate.

- Note 5 Pass-Through Expenditures Between State Agencies
Federal funds received by one State grantee agency and redistributed to another State grantee agency (i.e., pass-through of funds by the primary recipient State grantee agency to a subrecipient State grantee agency) are reported in the SEFA as federal expenditures of the subrecipient State grantee agency. This is to avoid duplication and the overstatement of the aggregate level of federal financial assistance expended by the State.
- Note 6 Non-Cash Assistance
The State of Michigan is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed "non-cash programs." The distributions under these programs are included in the SEFA.
- Note 7 Airport Improvement Program
Federal expenditures of \$45,155,311 for the Airport Improvement Program (CFDA 20.106) channeled to primary airports for fiscal year 2019 are not included in the SEFA. The Federal Aviation Administration (FAA) determined that the Michigan Department of Transportation (MDOT) has no oversight responsibility for grants to primary airports. Also, compliance with federal regulations is the responsibility of the primary airports and not MDOT. Therefore, MDOT is channeling the FAA funds to the primary airports in accordance with Public Act 327 of 1945.
- Note 8 Donation of Surplus Property
The amount distributed to subrecipients for the Donation of Federal Surplus Personal Property (CFDA 39.003) is 37.7% of the acquisition value of donated property sold during the fiscal year. The value does not include service charges that are the basis for the sale of inventory items. The valuation method follows General Services Administration guidelines. The service charges on property donated (sold) in fiscal year 2019 were \$134,824.
- Note 9 Federal Family Education Loans (FFEL) Program - Loans Outstanding
The Michigan Finance Authority, a discretely presented component unit of the State of Michigan, administers the Federal Family Education Loans Program (CFDA 84.032). As of September 30, 2019, the outstanding original principal balance of loans guaranteed under the Federal Family Education Loans Program - Guaranty Agency (CFDA 84.032G) by the Michigan Finance Authority was \$1,011,049,795. In addition, as of September 30, 2019, \$355,166,656 in loans were outstanding under the Federal Family Education Loans Program - Lender (CFDA 84.032L).
- The Health Care and Education Reconciliation Act of 2010, Public Law No. 111-152, eliminated the authorization to originate the FFEL Program loans after June 30, 2010 and, as a result, the Michigan Finance Authority did not issue or guarantee any new FFEL Program loans in fiscal year 2019.

Note 10 Federal Family Education Loans (FFEL) Program - Guaranty Agency

The Michigan Finance Authority receives federal loan reinsurance revenue from the U.S. Department of Education (USDOE) according to the following schedule for all eligible default claims purchased by the Authority:

<u>Annual Default Rate</u>	<u>Federal Reinsurance</u>
0% to less than 5%	100%
5% to less than 9%	95% of claims up to 5%, 85% of claims equal to or greater than 5% but less than 9%
9% or greater	95% of claims up to 5%, 85% of claims equal to or greater than 5% but less than 9%, and 75% of claims equal to or greater than 9%

The FFEL Program - Guaranty Agency activity for fiscal year 2019 was:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Federal Family Education Loans - Guaranty Agency	84.032G	
Beginning of fiscal year balance - Loans from prior years		\$1,234,693,513
Loan loss reinsured by USDOE		86,586,265
Account maintenance fees		822,941
Loan recoveries - Net of amounts returned to USDOE		2,999,410
Loans repurchased and rehabilitated		6,936,871
Total Federal Family Education Loans - Guaranty Agency		<u>\$1,332,039,000</u>

Note 11 Federal Family Education Loans (FFEL) Program - Lender

The FFEL Program provides the Michigan Finance Authority with interest on subsidized student loans during the period a student is attending school or during certain other allowable grace and deferment periods. In addition, the FFEL Program provides funding (special allowance) that is primarily an incentive payment to ensure that money market conditions or interest rates will not impede the origination of student loans. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the negative special allowance must be paid to USDOE.

The FFEL Program - Lender activity for fiscal year 2019 was:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Federal Family Education Loans - Lender	84.032L	
Beginning of fiscal year balance - Loans from prior years		\$ 422,718,235
Interest subsidy payments		1,415,792
Special allowance payments		(1,408,176)
Total Federal Family Education Loans - Lender		<u>\$ 422,725,851</u>

Note 12 Michigan Department of Health and Human Services (MDHHS) Federal Claims

- a. Federal claims exceeded their grant award authorizations by more than \$500,000 in the following program areas and were not reimbursed for the amounts in excess of the grant award. The expenditures not reimbursed could be reimbursed if program disallowances occur. The SEFA reports the net federal claim amounts (total federal claims less the amounts in excess of the grant awards).

Low-Income Home Energy Assistance (CFDA 93.568)	\$ 12,642,895
Stephanie Tubbs Jones Child Welfare Services Program (CFDA 93.645)	\$ 18,363,673
Social Services Block Grant (CFDA 93.667)	\$115,521,144
HIV Prevention Activities Health Department Based (CFDA 93.940)	\$ 796,660
Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959)	\$ 5,638,713
Maternal and Child Health Services Block Grant to the States (CFDA 93.994)	\$ 29,997,887

- b. MDHHS moved \$77,279,419 of the TANF Cluster (CFDA 93.558) grant award to the Social Services Block Grant (CFDA 93.667) and \$8,300,000 of the TANF Cluster grant award to the CCDF Cluster (CFDA 93.575) as allowed by the Welfare Reform Plan.

Note 13 In-Kind Assistance

- a. As part of the National Guard Bureau Cooperative Agreement, the U.S. Department of Defense provided in-kind assistance in the form of direct federal payment for services and supplies for National Guard Military Operations and Maintenance (O&M) Projects (CFDA 12.401). The in-kind assistance dollar amounts reported in the SEFA were determined and obtained from the United States Property and Fiscal Office for Michigan.
- b. As part of the Senior Environmental Employment Program, the U.S. Environmental Protection Agency provided in-kind assistance in the form of payment to aging organizations for workers' salaries for the Air Pollution Control Program Support (CFDA 66.001) and the Hazardous Waste Management State Program Support (CFDA 66.801) programs. The in-kind assistance dollar amounts reported in the SEFA were determined and obtained from the U.S. Environmental Protection Agency.

Note 14 Medicare and Medicaid Revenue

The Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans received federal Medicare revenue totaling \$1,130,825 and Medicaid revenue totaling \$436,445 in fiscal year 2019. Medicare and Medicaid revenues are not considered federal assistance but rather a purchase of services provided by the Homes and, therefore, are not included in the SEFA.

Note 15 Research and Development Expenditures

Section 200.87 of the Uniform Guidance states that research and development (R&D) means all research activities, both basic and applied, and all development activities

that are performed by a non-federal entity. The expenditures presented in the SEFA include R&D expenditures. The R&D portion of the expenditures for each program is listed below:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Interjurisdictional Fisheries Act of 1986	11.407	\$ 14,126
Sport Fish Restoration	15.605	51,227
Wildlife Restoration and Basic Hunter Education	15.611	1,067,888
State Wildlife Grants	15.634	300,000
Highway Research and Development Program	20.200	191,343
Highway Planning and Construction	20.205	4,735,263
Trans-NIH Research Support	93.310	68,254
Total R&D Expenditures		<u>\$ 6,428,101</u>

Note 16 Grants to States for Construction of State Home Facilities

The SEFA amount reported for the Grants to States for Construction of State Home Facilities (CFDA 64.005) includes \$2,415,563 of expenditures incurred prior to fiscal year 2019. These expenditures were originally State funded, incurred after application approval, and reimbursed by the U.S. Department of Veterans Affairs in fiscal year 2019.

INDEPENDENT AUDITOR'S REPORT



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance

The Honorable Gretchen Whitmer, Governor
Members of the Legislature

Report on Compliance for Each Major Federal Program

We have audited the State of Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State of Michigan's major federal programs for the fiscal year ended September 30, 2019. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The State's basic financial statements include the operations of Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University, which expended \$1.2 billion in federal awards that are not included in the schedule of expenditures of federal awards for the fiscal year ended September 30, 2019. Our audit, described below, did not include the operations of these universities because they obtained separate audits in accordance with the audit requirements of Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

We did not audit the major federal programs or percentages of federal programs listed below. These programs were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to compliance requirements for these programs, is based on the reports of the other auditors except for the CCDF Cluster, which was based on our audit work.

CFDA Number(s)	Program or Cluster	Percent Audited by Other Auditors	Total Expenditures
14.871 and 14.879	Housing Voucher Cluster	100%	\$204,425,536
14.239	Home Investment Partnerships Program	100%	\$ 21,348,094
17.225	Unemployment Insurance	100%	\$904,172,058
93.575 and 93.596	CCDF Cluster	5%	\$219,799,533

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit and the reports of other auditors of the types of compliance requirements referred to above. We conducted our audit of compliance 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit and the reports of the other auditors provide a reasonable basis for our adverse, qualified, and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.

Basis for Adverse Opinion on Children's Health Insurance Program

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirements	Finding Number(s)
U.S. Department of Health and Human Services	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; and Matching, Level of Effort, and Earmarking	2019-015 2019-016

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

Adverse Opinion on Children's Health Insurance Program

In our opinion, because of the significance of the matters identified in the Basis for Adverse Opinion section, the State of Michigan did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Children's Health Insurance Program for the fiscal year ended September 30, 2019.

Basis for Qualified Opinion on Certain Major Federal Programs

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirements	Finding Number(s)
U.S. Department of Agriculture	10.551 and 10.561	SNAP Cluster	Special Tests and Provisions - ADP System for SNAP	2019-004

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirements	Finding Number(s)
U.S. Department of Agriculture	10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Special Tests and Provisions - Compliance Investigations of High-Risk Vendors	2019-023
U.S. Department of Labor	17.225	Unemployment Insurance	Allowable Costs/Cost Principles and Eligibility	2019-075
U.S. Department of Veterans Affairs	64.005	Grants to States for Construction of State Home Facilities	Special Tests and Provisions - Wage Rate Requirements	2019-032
U.S. Department of Education	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Cash Management	2019-013 2019-033
U.S. Department of Health and Human Services	93.558	TANF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Special Tests and Provisions - Income Eligibility and Verification System	2019-004 2019-013 2019-038 2019-040
U.S. Department of Health and Human Services	93.575 and 93.596	CCDF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety Requirements	2019-047 2019-048 2019-049
U.S. Department of Health and Human Services	93.775, 93.777, and 93.778	Medicaid Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	2019-004 2019-015
U.S. Department of Health and Human Services	93.563	Child Support Enforcement	Cash Management	2019-013
U.S. Department of Health and Human Services	93.568	Low-Income Home Energy Assistance	Cash Management and Eligibility	2019-013 2019-064

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirements	Finding Number(s)
U.S. Department of Health and Human Services	93.658	Foster Care - Title IV-E	Cash Management	2019-013
U.S. Department of Health and Human Services	93.659	Adoption Assistance	Cash Management	2019-013
U.S. Department of Health and Human Services	93.667	Social Services Block Grant	Cash Management	2019-013
U.S. Department of Health and Human Services	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management	2019-013
Social Security Administration	96.001	Disability Insurance/SSI Cluster	Cash Management	2019-013

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on Certain Major Federal Programs

In our opinion, based on our audit and the reports of other auditors, except for the noncompliance identified in the Basis for Qualified Opinion section, the State of Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion section for the fiscal year ended September 30, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, based on our audit and the reports of other auditors, the State of Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs in Findings 2019-012, 2019-017, 2019-026, 2019-028, 2019-030, 2019-034, 2019-036, 2019-039, 2019-041, 2019-042, 2019-051, 2019-053, 2019-054, 2019-055, 2019-056, 2019-057, 2019-059, 2019-060, 2019-063, 2019-065, and 2019-067. Our opinion on each major federal program is not modified with respect to these matters.

The State's response to the noncompliance findings identified in our audit is presented in the accompanying corrective action plan and management views sections of the schedule of findings and questioned costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the

circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2019-002, 2019-003, 2019-004, 2019-013, 2019-015, 2019-016, 2019-020, 2019-023, 2019-032, 2019-033, 2019-038, 2019-040, 2019-047, 2019-048, 2019-049, 2019-064, 2019-069, and 2019-070 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2019-001, 2019-005, 2019-006, 2019-007, 2019-008, 2019-009, 2019-010, 2019-011, 2019-012, 2019-014, 2019-016, 2019-017, 2019-018, 2019-019, 2019-021, 2019-022, 2019-024, 2019-025, 2019-026, 2019-027, 2019-028, 2019-029, 2019-030, 2019-031, 2019-034, 2019-035, 2019-036, 2019-037, 2019-039, 2019-041, 2019-042, 2019-043, 2019-044, 2019-045, 2019-046, 2019-050, 2019-051, 2019-052, 2019-053, 2019-054, 2019-055, 2019-056, 2019-057, 2019-058, 2019-059, 2019-061, 2019-062, 2019-063, 2019-065, 2019-066, 2019-067, 2019-068, 2019-071, and 2019-072 to be significant deficiencies.

The State's response to the internal control over compliance findings identified in our audit is presented in the accompanying corrective action plan and management views sections of the schedule of findings and questioned costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the

aggregate remaining fund information of the State of Michigan principally as of and for the fiscal year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated March 6, 2020, which contained unmodified opinions on those financial statements and includes references to other auditors.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Doug Ringler".

Doug Ringler
Auditor General
September 30, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified*
Internal control* over financial reporting:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes
Any audit findings disclosed that are required to be reported in accordance with federal regulation 2 <i>CFR</i> 200.516(a)?	Yes

Identification of Major Federal Programs and Type of Opinion Issued on Compliance:

<i>CFDA</i> Number(s)	Name of Major Federal Program or Cluster	Opinion
10.551 and 10.561	SNAP Cluster	Qualified
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Qualified
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unmodified
16.575	Crime Victim Assistance	Unmodified
64.005	Grants to States for Construction of State Home Facilities	Qualified
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Qualified
84.367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	Unmodified
84.424	Student Support and Academic Enrichment Program	Unmodified
93.044, 93.045, and 93.053	Aging Cluster	Unmodified
93.558	TANF Cluster	Qualified
93.575 and 93.596	CCDF Cluster	Qualified
93.775, 93.777, and 93.778	Medicaid Cluster	Qualified
93.268	Immunization Cooperative Agreements	Unmodified
93.563	Child Support Enforcement	Qualified
93.568	Low-Income Home Energy Assistance	Qualified
93.658	Foster Care - Title IV-E	Qualified
93.659	Adoption Assistance	Qualified
93.667	Social Services Block Grant	Qualified
93.767	Children's Health Insurance Program	Adverse
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Qualified
96.001	Disability Insurance/SSI Cluster	Qualified

Major Federal Programs Audited by Others

<i>CFDA</i> Number(s)	Name of Major Federal Program or Cluster	Opinion
14.871 and 14.879	Housing Voucher Cluster	Unmodified
14.239	Home Investment Partnerships Program	Unmodified
17.225	Unemployment Insurance	Qualified

* See glossary at end of report for definition.

Dollar threshold used to distinguish between type A and type B programs: \$37,912,850

Auditee qualified as a low-risk auditee*? No

Required Reporting Thresholds

Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance*) requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, the Uniform Guidance requires the auditor to report in Section III of the audit report known questioned costs* that are greater than \$25,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$25,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$25,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

Management's Corrective Action Plan

Management's planned corrective action for the findings in Section II and Section III is located in the auditee section beginning on page 233.

Section II: Findings Related to the Financial Statements and Schedule of Expenditures of Federal Awards

The findings related to the financial statements are reported in the Report on Internal Control, Compliance, and Other Matters for the *State of Michigan Comprehensive Annual Financial Report* (071-0010-20), located at:

audgen.michigan.gov/wp-content/uploads/2020/05/r071001020.pdf.

We did not report any findings related to the schedule of expenditures of federal awards.

* See glossary at end of report for definition.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING 2019-001

Access Limitations for Confidential Information in SIGMA*

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Rehabilitation Services – Vocational Rehabilitation Grants to States: CFDA 84.126
Federal Award Identification Number (FAIN) and Year	H126A180090 10/01/2017 - 09/30/2018 H126A190090 10/01/2018 - 08/10/2019 H126A190099 08/11/2019 - 09/30/2019 H126A180031 10/01/2017 - 09/30/2018 H126A190031 10/01/2018 - 08/10/2019 H126A190100 08/11/2019 - 09/30/2019
Total Expenditures of Federal Awards	\$119,465,802
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Labor and Economic Opportunity (program transferred from Michigan Department of Health and Human Services and Department of Licensing and Regulatory Affairs per Executive Order No. 2019-13 effective August 11, 2019)

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Special Tests and Provisions - Child Support Non-Cooperation, Income Eligibility and Verification System, and Penalty for Refusal to Work
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-001
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533

* See glossary at end of report for definition.

Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety Requirements and Fraud Detection and Repayment
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-001
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-001
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-001
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 10/01/2017 - 09/30/2018 19 01 MI ADPT 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-001
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Social Services Block Grant: CFDA 93.667
Federal Award Identification Number (FAIN) and Year	1901 MISOSR 10/01/2018 - 09/30/2020 1901 MITANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$127,341,448
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-001
State Agency	Michigan Department of Health and Human Services

Condition

The Michigan Department of Health and Human Services (MDHHS), Department of Licensing and Regulatory Affairs (LARA), and Michigan Department of Education (MDE) did not sufficiently limit access to confidential information to appropriate users of the information in the Statewide Integrated Governmental Management Applications (SIGMA).

We noted:

- a. All three departments interfaced transactions from federal award payment systems to SIGMA that displayed certain identifying client information within the check description field in SIGMA.
- b. MDHHS and LARA staff included certain confidential client information within the check description field or in document attachments when entering program expenditures into SIGMA.

Criteria

Title 2, Part 200, section 303(e) of the *Code of Federal Regulations** (CFR) and federal regulation 45 CFR 75.303(e) require the State to take reasonable measures to safeguard protected personally identifiable information and other information the federal awarding agency or pass-through entity designates as sensitive or the State considers sensitive consistent with applicable federal, state, local, and tribal laws regarding privacy and obligations of confidentiality. Also, federal regulation 45 CFR 98.15(b)(13) requires policies to be in effect to govern the use and disclosure of confidential and personally identifiable information about children and families receiving CCDF assistance and childcare providers receiving CCDF funds.

State of Michigan (SOM) Administrative Guide to State Government policy 1340.00 states that security* controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality*, integrity*, and availability* of State of Michigan information. SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions.

* See glossary at end of report for definition.

Cause

The departments informed us that they had designed processes to include the client information within SIGMA to assist the staff administering the programs and to allow vendors and providers to identify the client related to the payment.

MDHHS informed us that it revised its process to stop including transaction support with client information on October 1, 2018 and the inclusion of transaction support with client information was an oversight.

Effect

State employees without a business need had the ability to view confidential client information in SIGMA. The federal grantor agencies could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS, the Department of Labor and Economic Opportunity (LEO), and MDE sufficiently limit access to confidential information to appropriate users of the information in SIGMA.

Management Views

MDHHS, LARA, LEO, and MDE agree with the finding.

FINDING 2019-002

Bridges Interface Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561
Federal Award Identification Number (FAIN) and Year	EBT - 2018 10/01/2017 - 09/30/2018 EBT - 2019 10/01/2018 - 09/30/2019 192MI100S2514 10/01/2018 - 09/30/2019 192MI100S2519 10/01/2018 - 09/30/2019 192MI100S2520 10/01/2018 - 09/30/2019 192MI100S8026 10/01/2018 - 09/30/2019 192MI100S8036 10/01/2018 - 09/30/2019 182MI123Q3903 10/01/2017 - 09/30/2019 192MI123Q3903 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP System for SNAP
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-002, parts a. - c.
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable

Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Reporting; and Special Tests and Provisions - Child Support Non-Cooperation, Income Eligibility and Verification System, Penalty for Refusal to Work, and Penalty for Failure to Comply with Work Verification Plan
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-002, parts a. - c.
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G 16 03 MI CCDF 10/01/2015 - 09/30/2016 G 17 03 MI CCDF 10/01/2016 - 09/30/2017 G 18 03 MI CCDF 10/01/2017 - 09/30/2018
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety Requirements and Fraud Detection and Repayment
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-002, parts a. - c.
State Agencies	Michigan Department of Education; Michigan Department of Health and Human Services; and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-002, parts a. - c.
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568

Federal Award Identification Number (FAIN) and Year	G 18 B1 MI LIEA G 18 01 MI LIE4 G 19 01 MI LIEA G 19 01 MI LIE4	10/01/2017 - 09/30/2019 10/01/2017 - 09/30/2019 10/01/2018 - 09/30/2019 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$172,960,259	
Compliance Requirement(s)	Eligibility	
Type of Finding	Material Weakness	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-002, parts a. - c.	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767	
Federal Award Identification Number (FAIN) and Year	1905MI5021 1805MI5021	10/01/2018 - 09/30/2020 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-002, parts a. - c.	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Background

MDHHS uses the Bridges Integrated Automated Eligibility Determination System* (Bridges) for determining eligibility and benefit amounts for food assistance, cash assistance, child care assistance, medical assistance, and emergency assistance programs. Our auditing procedures included a review of certain IT general controls* designed for Bridges that were significant to Bridges eligibility determination and benefit calculation functionality. Our auditing procedures also included follow-up and review of the control weaknesses related to interface processing controls and change controls* initially reported in our IT performance audit of Interface and Change Controls of the Bridges Integrated Automated Eligibility Determination System, Department of Human Services and Department of Technology, Management, and Budget (431-0591-12), located at <audgen.michigan.gov/finalpdfs/12_13/r431059112.pdf>.

Condition

MDHHS and the Department of Technology, Management, and Budget (DTMB) did not ensure that effective interface controls were implemented for Bridges related to eligibility and benefit level for the SNAP Cluster, TANF Cluster, CCDF Cluster, Medicaid Cluster, Low-Income Home Energy Assistance Program (LIHEAP), and Children's Health Insurance Program (CHIP). We noted:

- a. DTMB did not ensure that the file control and batch summary tables used to reconcile Bridges interfaces consistently accounted for interface header and trailer records, represented control totals of information processed, or reported if the interface processing occurred with or without exceptions.

* See glossary at end of report for definition.

- b. DTMB, in conjunction with MDHHS, had not established procedures to account for all interfaced records and to ensure that all records identified with errors and excluded from interface processing were investigated, corrected, and resubmitted for processing as appropriate.
- c. MDHHS had not established data sharing agreements with all State agencies that exchanged information with Bridges.

Criteria

Federal regulations 2 *CFR* 200.303 and 45 *CFR* 75.303 require the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from modification to ensure confidentiality, integrity, and availability of State of Michigan information. In addition, the U.S. Government Accountability Office's (GAO's) Federal Information System Controls Audit Manual* (FISCAM) recommends that interface controls should be established and implemented to reasonably ensure that data transferred from a source system to a receiving system is processed accurately, completely, and timely. Also, effective interface reconciliation procedures should include the use of control totals, records, counts, and other logging techniques.

Federal regulations 7 *CFR* 272.8(a)(4), 45 *CFR* 205.58, and 42 *CFR* 435.945(i) require MDHHS to execute data sharing agreements with agencies from which MDHHS requests and obtains income and eligibility information.

Cause

For parts a. and b., MDHHS and DTMB informed us that consistent design requirements were not in place when the Bridges interfaces were designed and implemented.

For part c., MDHHS indicated that change in the privacy and security roles within the agency have delayed the review of existing data sharing agreements.

Also, MDHHS and DTMB indicated that competing priorities have delayed corrective action for these items.

Effect

MDHHS and DTMB's weaknesses in maintaining sufficient internal control over federal program compliance could result in noncompliance that will not be detected or corrected in a timely manner.

We concluded that the issues noted in this finding are collectively a material weakness because of their impact on the Bridges application and data used to help determine eligibility and benefit level for several programs.

Known Questioned Costs

None.

* See glossary at end of report for definition.

Recommendation

We recommend that MDHHS and DTMB ensure that effective interface controls are implemented for Bridges related to eligibility and benefit level for the SNAP Cluster, TANF Cluster, CCDF Cluster, Medicaid Cluster, LIHEAP, and CHIP.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-003

Bridges Security Management and Access Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561
Federal Award Identification Number (FAIN) and Year	EBT - 2018 10/01/2017 - 09/30/2018 EBT - 2019 10/01/2018 - 09/30/2019 192MI100S2514 10/01/2018 - 09/30/2019 192MI100S2519 10/01/2018 - 09/30/2019 192MI100S2520 10/01/2018 - 09/30/2019 192MI100S8026 10/01/2018 - 09/30/2019 192MI100S8036 10/01/2018 - 09/30/2019 182MI123Q3903 10/01/2017 - 09/30/2019 192MI123Q3903 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Special Tests and Provisions - ADP System for SNAP
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Reporting; and Special Tests and Provisions - Child Support Non-Cooperation, Income Eligibility and Verification System, Penalty for Refusal to Work, and Penalty for Failure to Comply with Work Verification Plan
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable

Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety Requirements and Fraud Detection and Repayment
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-003
State Agencies	Michigan Department of Education; Michigan Department of Health and Human Services; and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Federal Award Identification Number (FAIN) and Year	G 18 B1 MI LIEA 10/01/2017 - 09/30/2019 G 18 01 MI LIE4 10/01/2017 - 09/30/2019 G 19 01 MI LIEA 10/01/2018 - 09/30/2019 G 19 01 MI LIE4 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$172,960,259
Compliance Requirement(s)	Eligibility
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767

Federal Award Identification Number (FAIN) and Year	1905MI5021 1805MI5021	10/01/2018 - 09/30/2020 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-003	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Condition

MDHHS and DTMB had not established effective security management and access controls* over Bridges users. We noted:

- a. MDHHS did not maintain documentation for 36 (90%) of the 40 sampled Bridges incompatible role exception requests. Of the 4 forms that were received, we noted that MDHHS did not properly approve 3 (75%) forms prior to granting the exception requests.

We also noted that MDHHS did not have an adequate process to ensure that incompatible role exception requests were updated annually.

- b. MDHHS did not maintain documentation for 20 (25%) of 80 sampled local office security monitoring reports. Also, MDHHS did not document its review and/or review date for 4 (7%) of 60 sampled security monitoring reports and did not complete timely reviews for 9 (16%) of 56 sampled security monitoring reports.
- c. DTMB did not fully establish and implement effective security configurations* for the Bridges database. The Bridges database management systems* contained potentially vulnerable database configurations.
- d. MDHHS did not maintain documentation for 12 (24%) of the 50 sampled Bridges application security agreements. Of the 38 forms that were received, we noted that MDHHS did not properly approve 6 (16%) forms prior to granting access to Bridges.
- e. DTMB did not fully establish and implement effective security and access controls over the operating system* for Bridges servers.
- f. MDHHS did not monitor non-local office Bridges user accounts for compliance with account management requirements semiannually for privileged users or annually for all other users.
- g. MDHHS did not maintain documentation for 9 (45%) of the 20 sampled local office high-risk transaction monitoring reports. Of the 11 reports received, MDHHS did not complete the review timely or did not document its review date for 6 (55%) of the reports.
- h. MDHHS had not implemented a comprehensive process to identify and monitor high-risk transactions of non-local office Bridges users.

* See glossary at end of report for definition.

Criteria

Federal regulations 2 *CFR* 200.303 and 45 *CFR* 75.303 require the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

State of Michigan Administrative Guide to State Government policy 1340.00 requires approved personnel to adequately manage the configuration of the State's systems, including retaining previous system configurations, configuring approved devices for high-risk areas, tracking and documenting system changes, and assigning privileges to authorized personnel. The policy also states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that separation of duties must be implemented through assigned information system access authorizations and that accounts should be reviewed for compliance with account management requirements semiannually for privileged accounts* and annually for all other accounts. In addition, the GAO's FISCAM recommends that compensating controls, such as additional monitoring and supervision, should be in place where segregation of duties** conflicts exist.

Cause

For part a., MDHHS informed us that internal control and monitoring activities were not sufficient to ensure that incompatible role exception requests were maintained and updated annually.

For parts b. and f., MDHHS informed us that internal control and monitoring activities were not sufficient to ensure timely completion and maintenance of security monitoring reports because of a lack of resources.

For part c., DTMB informed us that it had not fully implemented all database specific configuration standards at the time of our review.

For part d., MDHHS informed us that it has not been able to update processes appropriately and the Bridges security agreement form in a timely manner for the Bridges Universal Case Load (UCL) implementation that would assist requestors with adequately documenting UCL approvals and security administrators with appropriately granting Bridges UCL access because of constant UCL changes.

For part e., DTMB informed us that it has implemented new internal standards and procedures; however, it is still in the process of operationalizing and updating some remaining procedures.

For part g., MDHHS informed us that internal control and monitoring activities need improvement to ensure timely completion and maintenance of security monitoring reports.

** See glossary at end of report for definition.*

For part h., MDHHS informed us that it has developed reports to identify some high-risk transactions processed by non-local office users; however, the reports did not identify all high-risk transactions. Also, MDHHS had not identified which area would be responsible for monitoring non-local high-risk transactions.

Effect

We consider these issues to be a material weakness because, without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to Bridges. As a result, an increased risk exists that MDHHS and DTMB cannot ensure the security of the Bridges application and data used to help determine eligibility and benefit levels for the SNAP Cluster, TANF Cluster, CCDF Cluster, Medicaid Cluster, LIHEAP, and CHIP.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS and DTMB establish effective security management and access controls over Bridges users.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-004

Income Eligibility and Verification System

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561	
Federal Award Identification Number (FAIN) and Year	EBT - 2018	10/01/2017 - 09/30/2018
	EBT - 2019	10/01/2018 - 09/30/2019
	192MI100S2514	10/01/2018 - 09/30/2019
	192MI100S2519	10/01/2018 - 09/30/2019
	192MI100S2520	10/01/2018 - 09/30/2019
	192MI100S8026	10/01/2018 - 09/30/2019
	192MI100S8036	10/01/2018 - 09/30/2019
	182MI123Q3903	10/01/2017 - 09/30/2019
	192MI123Q3903	10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609	
Compliance Requirement(s)	Special Tests and Provisions - ADP System for SNAP	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	Undeterminable	
Repeat Finding	2018-004	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558	
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF	10/01/2017 - Until Expended
	19 01 MI TANF	10/01/2018 - Until Expended

Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Special Tests and Provisions - Income Eligibility and Verification System
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-004
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5ADM 10/01/2018 - 09/30/2019 1905MI5MAP 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-004
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Background

MDHHS's automated data processing (ADP) system for the SNAP, TANF, and Medicaid Clusters is Bridges. Bridges obtains and utilizes information from the Income Eligibility and Verification System (IEVS) to verify the eligibility and benefit levels of applicants and participating households for these federal programs. To obtain IEVS information, Bridges conducts approximately 15 data exchanges through interfaces with various governmental agencies. Bridges disseminates the IEVS information obtained from the majority of these interfaces through electronic notifications in Bridges to the recipients' MDHHS county/district office caseworkers to manually consider and take action to determine the recipients' eligibility and benefit levels of the SNAP, TANF, and Medicaid Clusters. Some interfaces automatically update Bridges with the IEVS information and determine the recipients' eligibility and benefit levels.

Condition

MDHHS and DTMB did not request and obtain IEVS information for all recipients. In addition, MDHHS did not ensure that county/district office caseworkers considered and used IEVS information when making eligibility and benefit level determinations for these programs. We noted:

- a. MDHHS and DTMB had not fully established effective processing controls over Bridges interfaces to ensure that the data exchanged between Bridges and IEVS data sources was processed accurately, completely, and timely.
- b. For 3 (25%) of 12 IEVS interfaces requiring manual caseworker consideration and action, MDHHS did not maintain sufficient documentation to support that county/district

office caseworkers considered and utilized the IEVS information to determine eligibility and benefit level for each recipient in 9 (16%) of 57 cases reviewed.

- c. For 6 (50%) of 12 IEVS interfaces, MDHHS did not take timely action on IEVS information in 14 (25%) of 57 cases reviewed, of which 7 are also reported in part b.
- d. MDHHS had not established a process to review and monitor the electronic notifications provided to county/district office caseworkers to ensure that they utilized the IEVS information to determine the recipients' eligibility. For all 10 IEVS interfaces with electronic notifications, county/district office caseworkers could manually mark electronic notifications as complete without utilizing the IEVS information to determine the recipients' eligibility.
- e. MDHHS did not include all recipients funded by the TANF Cluster adoption subsidies in the IEVS interfaces conducted during the audit period. For the State deceased recipient verifications, MDHHS took action to implement a daily interface in August 2019; however, MDHHS suspended the interface after three attempted runs. Also, MDHHS did not establish and implement the other applicable financial and non-financial interfaces during the audit period.
- f. MDHHS did not request and obtain the Social Security Administration (SSA) deceased records for all applicants and recipients.
- g. MDHHS did not request and/or obtain the National Directory of New Hires' records for SNAP applicants and recipients for 4 months of the audit period.
- h. MDHHS did not include modified adjusted gross income (MAGI)-based recipients funded by the Medicaid Cluster Healthy Kids and Healthy Michigan Plan programs in the applicable IEVS interfaces conducted during the audit period.

Criteria

Federal regulation 7 *CFR* 272.10 requires all state agencies to sufficiently automate their food program operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information. Also, federal regulation 7 *CFR* 272.10(b) states that, in order to meet the requirements, a food stamp system must be automated for certification and meet the requirements of IEVS. In addition, federal regulation 7 *CFR* 273.2(f)(9) permits state agencies to obtain information through IEVS from provider agencies and use it to verify the eligibility and benefit levels of applicants and participating households.

Federal regulation 7 *CFR* 273.2(f)(9) also requires the state agency to take action to terminate, deny, or reduce benefits based on information obtained through the IEVS processes. Further, federal regulations 7 *CFR* 272.8(c) and 7 *CFR* 272.8(e) require that the state agency must timely document information obtained through the IEVS both when an adverse action is and is not instituted.

Title 42, section 1320b-7(a)(4)(A) of the *United States Code (USC)* requires all state agencies to exchange with each other information in their possession which may be of use in establishing or verifying eligibility or benefit amounts. Federal regulations 45 *CFR* 205.55 and 42 *CFR* 435.948 for the TANF and Medicaid Clusters, respectively, require states to request information through IEVS for wages, unemployment compensation, SSA information, and unearned income from the Internal Revenue Service at the first opportunity following receipt of an application for

assistance. Also, federal regulations 45 *CFR* 205.56, 42 *CFR* 435.948, and 42 *CFR* 435.952 require states to timely use the IEVS information to determine an individual's eligibility and the amount of assistance available. Further, federal regulation 42 *CFR* 435.916(a) indicates that the state must redetermine MAGI-based eligibility without requiring information from the individual if the information is based on reliable information in the individual's account or other more current information available to the state, including information accessed through any databases, to verify the financial and non-financial information related to eligibility.

Federal law 7 *USC* 2020(e)(24) requires the state agency to request wage data directly from the National Directory of New Hires to determine eligibility to receive SNAP benefits and the correct amount of those benefits at the time of certification.

MDHHS Bridges Administrative Manual Policy 800, Data Exchanges, requires information received from most computer matches to be resolved by the county/district office caseworker within 45 calendar days of receiving the electronic notification.

Cause

For part a., MDHHS and DTMB informed us that there were various reasons why they had not established effective controls over Bridges interfaces (see Finding 2019-002, Bridges Interface Controls).

For parts b., c., and d., MDHHS did not always have information available to identify if the IEVS interface information was appropriately utilized in determining recipients' eligibility when county/district office caseworkers marked electronic notifications as complete.

For part e., MDHHS informed us that it suspended the State deceased recipient interface after three attempted runs because the State deceased recipient matching criteria resulted in excessive invalid matches. In addition, MDHHS informed us that it did not establish and implement the applicable IEVS interfaces to validate income, social security number, criminal background, or citizenship because it believes this is only required at time of adoption because program eligibility is based on the child and not the adoptive parents. MDHHS has clarified this in its TANF State Plan and is awaiting federal approval.

For part f., MDHHS informed us that it did not obtain access to the SSA's death records because of changes in the SSA's death records subscription process.

For part g., MDHHS informed us that there was a disconnect in the remittance process of the paper warrant payment to the U.S. Department of Health and Human Services' (HHS's) Administration for Children and Families (ACF), which caused a delay in getting the file.

For part h., MDHHS determined that post eligibility verification for MAGI-based recipients are not subject to IEVS requirements; therefore, MDHHS did not include all MAGI-based recipients coded to the Medicaid Cluster Healthy Kids and Healthy Michigan Plan programs in the applicable IEVS data exchanges.

Effect

We consider this to be a material weakness and material noncompliance because MDHHS may have provided SNAP, TANF, and Medicaid Cluster benefits to ineligible recipients. Consequently, the federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs
Undeterminable.

Recommendations

We recommend that MDHHS and DTMB request and obtain IEVS information for all recipients.

We also recommend that MDHHS ensure that county/district office caseworkers consider and use IEVS information in a timely manner when making eligibility and benefit level determinations for these programs.

Management Views

MDHHS and DTMB agree with parts a. through d., f., and g. of the finding. MDHHS disagrees with parts e. and h. of the finding.

For part e, MDHHS disagrees that IEVS information is required to be requested and obtained for recipients funded by the TANF Cluster adoption subsidies. Guidance from HHS's ACF states that if income or citizenship and alienage are not eligibility criteria for receipt of the benefit, then verification of income or citizenship and alienage through IEVS is unnecessary. Citizenship and alienage are not eligibility criteria for adoption subsidy eligibility since the eligibility is based on the child and not the adoptive parents.

For part h., MDHHS disagrees that IEVS information is required to be requested and obtained for MAGI-based recipients since eligibility is verified upon determination through the MAGI eligibility determination process and then granted for a 12-month continuous eligibility period. Requesting and obtaining IEVS information throughout the eligibility period would be irrelevant since eligibility is continuous.

Auditor's Comments to Management Views*

Regarding part e., ACF's TANF Program Policy Questions and Answers guide, referenced by MDHHS above, indicates that the State may provide adoption benefits and services to needy parents of an adopted child and if the benefits are considered "assistance" (as in these cases), such as to address basic needs, then the applicable TANF rules apply. MDHHS's TANF State Plan includes financial eligibility requirements for services (or assistance) to adoptive families and are subject to IEVS.

Regarding part h., federal regulations 42 *CFR* 436.916(a), 42 *CFR* 435.948, and 42 *CFR* 435.952 requires the State to use reliable information or information available to the State, including information accessed through databases, to determine or renew a Medicaid recipient eligibility. MDHHS requested IEVS data for Medicaid recipients, including certain MAGI-based recipients, but did not include all MAGI-based recipients in its IEVS data exchanges at application and redetermination.

Therefore, the finding stands as written.

FINDING 2019-005
ADP Security Program

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable

* See glossary at end of report for definition.

Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561	
Federal Award Identification Number (FAIN) and Year	EBT - 2018	10/01/2017 - 09/30/2018
	EBT - 2019	10/01/2018 - 09/30/2019
	192MI100S2514	10/01/2018 - 09/30/2019
	192MI100S2519	10/01/2018 - 09/30/2019
	192MI100S2520	10/01/2018 - 09/30/2019
	192MI100S8026	10/01/2018 - 09/30/2019
	192MI100S8036	10/01/2018 - 09/30/2019
	182MI123Q3903	10/01/2017 - 09/30/2019
	192MI123Q3903	10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP System for SNAP	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-005	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778	
Federal Award Identification Number (FAIN) and Year	1905MI5MAP	10/01/2018 - 09/30/2019
	1905MI5ADM	10/01/2018 - 09/30/2019
	1905MIINCT	10/01/2018 - 09/30/2019
	1905MIIMPL	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395	
Compliance Requirement(s)	Special Tests and Provisions - ADP Risk Analysis and System Security Review	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-005	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Child Support Enforcement: CFDA 93.563	
Federal Award Identification Number (FAIN) and Year	1704 MICEST	10/01/2016 - 09/30/2017
	1804 MICSES	10/01/2017 - 09/30/2018
	1901 MICEST	10/01/2018 - 09/30/2019
	1901 MICSES	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$140,591,465	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-005	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	

Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-005
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Condition

MDHHS and DTMB did not ensure that a comprehensive ADP security program was established for information systems used to administer their federal programs. We reviewed 7 significant systems and noted:

- a. MDHHS did not have a business continuity plan (BCP) for 5 systems. For 1 system that had a BCP, the plan was missing critical elements, such as annual testing of the plan.
- b. MDHHS and DTMB did not update the disaster recovery plan (DRP) for 1 system during fiscal year 2019, and the DRPs for 2 systems were missing critical elements, such as annual testing.

Criteria

Federal regulations 7 *CFR* 272.10 and 45 *CFR* 95.621 make state agencies responsible for security of information systems used to administer federal programs. In part, the regulations require state agencies to establish a security plan and policies and procedures to address disaster recovery, as well as contingency plans to meet critical processing needs in the event of short- or long-term interruption of services, and plans for emergency preparedness. In addition, federal regulations 2 *CFR* 200.303 and 45 *CFR* 75.303 require the auditee to establish and maintain effective internal control over federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

Cause

MDHHS and DTMB indicated that they have focused resources on meeting federal and State mandates while also maintaining operational needs and addressing IT security risks highlighted in prior audits. MDHHS and DTMB also indicated that limited resources have caused delays in the completion of a comprehensive ADP security program.

Effect

MDHHS cannot demonstrate that it has implemented effective controls to ensure the confidentiality, integrity, and availability of its information systems and cannot ensure that it complies with applicable direct and material federal compliance requirements, such as the Medicaid Cluster special tests and provisions - ADP risk analysis and system security review requirement. Nonexistent or incomplete BCPs and DRPs could result in delays in restoring critical systems and business processes. The federal grantor agency could issue sanctions and/or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS and DTMB ensure that a comprehensive ADP security program is established for information systems used to administer federal programs.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-006

MiSACWIS Security Management and Access Controls

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558	
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 19 01 MI TANF	10/01/2017 - Until Expended 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-006	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658	
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-006	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659	
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 19 01 MI ADPT	10/01/2017 - 09/30/2018 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	

Repeat Finding	2018-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget
Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Social Services Block Grant: CFDA 93.667
Federal Award Identification Number (FAIN) and Year	1901 MISOSR 10/01/2018 - 09/30/2020 1901 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$127,341,448
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Condition

MDHHS and DTMB had not established effective security management and access controls over the Michigan Statewide Automated Child Welfare Information System (MiSACWIS). We noted:

- a. MDHHS did not consistently follow its established policies and procedures over the granting of access to MiSACWIS. Our review disclosed:
 - (1) MDHHS did not maintain documentation for 1 (3%) of 40 sampled MiSACWIS user security agreements.
 - (2) MDHHS did not ensure that all required individuals signed the security agreements before access was granted for 6 (15%) of 39 sampled MiSACWIS user security agreements.
- b. MDHHS did not maintain documentation for 37 (93%) of 40 sampled MiSACWIS incompatible role exception requests.
- c. DTMB did not fully establish and implement effective security configurations for the MiSACWIS database. The MiSACWIS database management system contained potentially vulnerable database configurations.
- d. DTMB did not fully establish and implement effective security and access controls over the operating system for MiSACWIS servers.
- e. MDHHS did not have a process to identify and monitor high-risk transactions.
- f. MDHHS did not review user access semiannually for privileged accounts or annually for all other accounts.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

State of Michigan Administrative Guide to State Government policy 1340.00 requires approved personnel to adequately manage the configuration of the State's systems, including retaining previous system configurations, configuring approved devices for high-risk areas, tracking and documenting system changes, and assigning privileges to authorized personnel. The policy also states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that separation of duties must be implemented through assigned information system access authorizations and that privileged accounts and all other accounts should be reviewed for compliance with account settings and access permissions semiannually and annually, respectively. In addition, GAO's FISCAM recommends that compensating controls, such as additional monitoring and supervision, should be in place where segregation of duties' conflicts exist.

Cause

For parts a. and b., MDHHS informed us that local office security coordinators and security administrators did not follow established policies and procedures regarding granting of MiSACWIS access.

For part c., DTMB informed us that it had not fully implemented all database specific configuration standards at the time of our review.

For part d., DTMB informed us that it has implemented new internal standards and procedures; however, it is still in the process of operationalizing and updating some remaining procedures.

For part e., MDHHS informed us that it was establishing a process to identify and monitor high-risk transactions; however, this process was not in place during fiscal year 2019.

For part f., MDHHS informed us that it has established a process to monitor user accounts; however, this process was not in place during fiscal year 2019.

Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to MiSACWIS. As a result, an increased risk exists that MDHHS and DTMB cannot ensure the security of the MiSACWIS application and data used to help determine eligibility and benefits for the TANF Cluster, Foster Care - Title IV-E, Adoption Assistance, and Social Services Block Grant.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS and DTMB establish effective security management and access controls over MiSACWIS.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-007

CHAMPS Security Management and Access Controls

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - ADP Risk Analysis and System Security Review
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-007
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-007
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Condition

MDHHS and DTMB had not established effective security management and access controls over the Community Health Automated Medicaid Processing System (CHAMPS). We noted:

- a. DTMB did not fully establish and implement effective security configurations for the CHAMPS database. The CHAMPS database management systems contained potentially vulnerable database configurations.

- b. DTMB did not fully establish and implement effective security and access controls over the operating system for CHAMPS servers.
- c. MDHHS did not ensure that 2 (40%) of 5 privileged users' application security agreements were properly approved or maintained.
- d. MDHHS did not review CHAMPS privileged user accounts for compliance with account management requirements semiannually.

Criteria

Federal regulation 45 *CFR* 95.621 provides that state agencies are responsible for the security of the information systems used to administer HHS federal programs. Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

State of Michigan Administrative Guide to State Government policy 1340.00 requires approved personnel to adequately manage the configuration of the State's systems, including retaining previous system configurations, configuring approved devices for high-risk areas, tracking and documenting system changes, and assigning privileges of authorized personnel. The policy also states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions.

The Standard also requires agencies to review accounts to verify that they are still required and compliant with the account settings and access permissions identified in the standard through semiannual certification of privileged accounts and annual certification of all other accounts.

Cause

For part a., DTMB informed us that it had not fully implemented all database specific configuration standards at the time of our review.

For part b., DTMB informed us that it has implemented new internal standards and procedures; however, it is still in the process of operationalizing and updating some remaining procedures.

For part c., MDHHS informed us that because of a system error, both users were granted access that had been previously revoked.

For part d., MDHHS informed us that the system used for periodically reviewing user access was designed for reviewing user access annually.

Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to CHAMPS. As a result, an increased risk exists that MDHHS and DTMB cannot ensure the security of the CHAMPS application and data used to issue payments to Medicaid and CHIP beneficiaries.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS and DTMB establish effective security management and access controls over CHAMPS.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-008**EGrAMS Security Management and Access Controls**

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	WIC Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
Federal Award Identification Number (FAIN) and Year	192MI003W1003 10/01/2018 - 09/30/2019 192MI003W1006 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$149,699,245
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Cash Management
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-008
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Justice
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Crime Victim Assistance: CFDA 16.575
Federal Award Identification Number (FAIN) and Year	2016-VA-GX-0021 10/01/2015 - 09/30/2019 2017-VA-GX-0063 10/01/2016 - 09/30/2020 2018-V2-GX-0067 10/01/2017 - 09/30/2021 2019-V2-GX-0036 10/01/2018 - 09/30/2022
Total Expenditures of Federal Awards	\$47,011,300
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Period of Performance; and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Immunization Cooperative Agreements: CFDA 93.268
Federal Award Identification Number (FAIN) and Year	NH23IP000752 04/01/2017 - 06/30/2019 NH23IP000783 04/01/2017 - 06/30/2019 NH23IP000854 09/30/2016 - 06/30/2019 NH23IP922635 07/01/2019 - 06/30/2020

Total Expenditures of Federal Awards	\$108,996,179
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Period of Performance
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-008
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services						
Pass-Through Entity	Not Applicable						
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959						
Federal Award Identification Number (FAIN) and Year	<table> <tr> <td>TI010026-18</td><td>10/01/2017 - 09/30/2019</td></tr> <tr> <td>B08TI010026-18</td><td>10/01/2017 - 09/30/2019</td></tr> <tr> <td>B08TI010026-19</td><td>10/01/2018 - 09/30/2020</td></tr> </table>	TI010026-18	10/01/2017 - 09/30/2019	B08TI010026-18	10/01/2017 - 09/30/2019	B08TI010026-19	10/01/2018 - 09/30/2020
TI010026-18	10/01/2017 - 09/30/2019						
B08TI010026-18	10/01/2017 - 09/30/2019						
B08TI010026-19	10/01/2018 - 09/30/2020						
Total Expenditures of Federal Awards	\$61,034,084						
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, and Earmarking; Period of Performance; and Subrecipient Monitoring						
Type of Finding	Significant Deficiency						
Known Questioned Costs by FAIN	\$0						
Repeat Finding	2018-008						
State Agency	Michigan Department of Health and Human Services						

Condition

MDHHS had not established effective security management and access controls over Electronic Grants Administration and Management System (EGRAMS) users. MDHHS utilizes EGRAMS to manage its subgrants and process payments to subrecipients. We noted:

- a. MDHHS did not document its annual recertification of all 9 sampled users to ensure that the users' access to 2019 grants and projects was assigned in accordance with their job responsibilities.
- b. MDHHS did not perform semiannual reviews for privileged EGRAMS users.
- c. MDHHS did not maintain documentation for 2 (22%) of 9 sampled EGRAMS security agreements.

Criteria

Federal regulations 2 *CFR* 200.303 and 45 *CFR* 75.303 require the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish

assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that accounts should be reviewed for compliance with account management requirements semiannually for privileged accounts and annually for all other accounts.

Cause

For part a., MDHHS informed us that because of the nature of grant agreements, user access is recertified and rolled forward each year based on the original approved and signed access form. MDHHS also noted that the checklist used for the annual recertification is a job aid that is discarded after the reviewer completes the recertification.

For part b., MDHHS informed us that it had not performed semiannual reviews because it had a limited number of privileged users and would be able to identify if access was no longer needed.

For part c., MDHHS informed us that the users had not completed the access forms timely and the users completed the forms subsequent to our review.

Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to EGrAMS. As a result, an increased risk exists that MDHHS cannot ensure the security of the EGrAMS application and data used to issue payments to subrecipients of federal awards.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish effective security management and access controls over EGrAMS.

Management Views

MDHHS agrees with the finding.

FINDING 2019-009

MDE, IT General Controls

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Supporting Effective Instruction State Grants: CFDA 84.367	
Federal Award Identification Number (FAIN) and Year	S367B160019	07/01/2016 - 09/30/2017
	S367B160019 - 16A	07/01/2016 - 09/30/2017
	S367B160019 - 16B	07/01/2016 - 09/30/2017
	S367A160021	07/01/2016 - 09/30/2017
	S367A160021 - 16A	07/01/2016 - 09/30/2017
	S367A160021 - 16B	07/01/2016 - 09/30/2017
	S367A170021	07/01/2017 - 09/30/2018
	S367A170021 - 17A	07/01/2017 - 09/30/2018
	S367A180021	07/01/2018 - 09/30/2019
	S367A180021 - 18A	07/01/2018 - 09/30/2019
	S367A190021	07/01/2019 - 09/30/2020
Total Expenditures of Federal Awards	\$80,218,114	

Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; Subrecipient Monitoring; and Special Tests and Provisions - Participation of Private School Children
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Student Support and Academic Enrichment Program: CFDA 84.424
Federal Award Identification Number (FAIN) and Year	S424A170023 07/01/2017 - 09/30/2018 S424A180023 07/01/2018 - 09/30/2020 S424A190023 07/01/2019 - 09/30/2020
Total Expenditures of Federal Awards	\$21,188,647
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Period of Performance; and Special Tests and Provisions - Participation of Private School Children
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-009
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Condition

MDE and DTMB did not fully establish effective general controls over the Michigan Electronic Grants System Plus (MEGS+), Cash Management System (CMS), and Grant Electronic

Monitoring System/Michigan Administrative Review System (GEMS/MARS). Our review of selected general controls disclosed:

- a. MDE and DTMB did not fully implement an effective change management process. We sampled records for 27 MEGS+ changes and 25 GEMS/MARS changes. The following table documents the control weaknesses noted for each system:

Control Weakness	Number (and Percent) of Sampled Items by System	
	MEGS+	GEMS/MARS
MDE and/or DTMB did not obtain approvals at one or more stages of the change process.	0 (0%)	1 (4%)
MDE and/or DTMB did not document testing results at one or more stages of process.	18 (67%)	16 (64%)
MDE did not document post-implementation approvals.	1 (4%)	0 (0%)
DTMB did not perform peer reviews on 3 of the 4 changes as required.	3 (75%)	Not Applicable

- b. DTMB had not fully established and implemented effective security management over the operating system for MEGS+, CMS, and GEMS/MARS servers.

Criteria

Federal regulation 2 *CFR* 200.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

SOM Technical Standard 1340.00.060.04 requires that the business owner authorize the change to be developed, authorize push to production, and perform post implementation validation. State of Michigan Technical Procedure 1340.00.060.04.01 requires that each test type have its own set of documentation. As of July 1, 2019, DTMB's internal procedures for MEGS+ require peer reviews to be completed prior to a change being moved into the production environment.

State of Michigan Administrative Guide to State Government policy 1340.00 requires approved personnel to adequately manage the configuration of the State's systems, including retaining previous system configurations, configuring approved devices for high-risk areas, tracking and documenting system changes, and assigning privileges to authorized personnel.

Cause

For part a., for a portion of the audit cycle, DTMB had not fully implemented Change and Release Management requirements due to resource constraints. DTMB formalized internal Change and Release Management procedures in the last fiscal quarter 2019 and began training relevant staff.

For part b., DTMB informed us that it has implemented some new internal standards and procedures; however, it is still in the process of developing additional procedures and operationalizing these standards and procedures.

Effect

Without effective general controls, individuals may obtain unauthorized or inappropriate access or make inappropriate changes to MEGS+, CMS, and GEMS/MARS. As a result, an increased risk exists that MDE and DTMB cannot ensure the security of MEGS+, CMS, and GEMS/MARS and their data.

Known Questioned Costs

None.

Recommendation

We recommend that MDE and DTMB fully establish effective general controls over MEGS+, CMS, and GEMS/MARS.

Management Views

MDE and DTMB agree with the finding.

FINDING 2019-010

MDE, IT Security Management and Access Controls

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Supporting Effective Instruction State Grants: CFDA 84.367
Federal Award Identification Number (FAIN) and Year	S367B160019 07/01/2016 - 09/30/2017 S367B160019 - 16A 07/01/2016 - 09/30/2017 S367B160019 - 16B 07/01/2016 - 09/30/2017 S367A160021 07/01/2016 - 09/30/2017 S367A160021 - 16A 07/01/2016 - 09/30/2017 S367A160021 - 16B 07/01/2016 - 09/30/2017 S367A170021 07/01/2017 - 09/30/2018 S367A170021 - 17A 07/01/2017 - 09/30/2018 S367A180021 07/01/2018 - 09/30/2019 S367A180021 - 18A 07/01/2018 - 09/30/2019 S367A190021 07/01/2019 - 09/30/2020
Total Expenditures of Federal Awards	\$80,218,114
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; Subrecipient Monitoring; and Special Tests and Provisions – Participation of Private School Children
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Student Support and Academic Enrichment Program: CFDA 84.424
Federal Award Identification Number (FAIN) and Year	S424A170023 07/01/2017 - 09/30/2018 S424A180023 07/01/2018 - 09/30/2020 S424A190023 07/01/2019 - 09/30/2020
Total Expenditures of Federal Awards	\$21,188,647

Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Period of Performance; and Special Tests and Provisions – Participation of Private School Children
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-010
State Agency	Michigan Department of Education

Condition

MDE did not fully establish effective security management and access controls over MEGS+, CMS, and GEMS/MARS. We noted:

- a. MDE did not ensure that security access forms were properly approved prior to granting access for 2 (6%) of 32 GEMS/MARS users.
- b. MDE did not review privileged accounts on a semiannual basis for MEGS+ and CMS.
- c. MDE did not review all non-privileged accounts on an annual basis for MEGS+, CMS, and GEMS/MARS.

Criteria

Federal regulation 2 *CFR* 200.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that separation of duties must be implemented through assigned information

system access authorizations and that accounts should be reviewed for compliance with account management requirements semiannually for privileged accounts and annually for all other accounts.

MDE is responsible for granting access to certain user roles within each system. MDE's process required a security access form to be completed and signed by an authorized official prior to access being granted.

Cause

For part a., MDE informed us that security administrators did not always follow established processes for granting and approving access.

For part b., MDE informed us that it did not implement semiannual reviews of privileged users during the fiscal year.

For part c., MDE informed us that it performs annual reviews on a sample basis for non-privileged accounts due to the volume of accounts. MDE also informed us that it automatically inactivates users after 15 months of no system activity.

Effect

Without effective user access controls, individuals may obtain unauthorized or inappropriate access to MDE's systems.

Known Questioned Costs

None.

Recommendation

We recommend that MDE fully establish effective security management and access controls over MEGS+, CMS, and GEMS/MARS.

Management Views

MDE agrees with the finding.

FINDING 2019-011

MDHHS, PACAP - Completeness and Accuracy of the PACAP

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561	
Federal Award Identification Number (FAIN) and Year	EBT - 2018	10/01/2017 - 09/30/2018
	EBT - 2019	10/01/2018 - 09/30/2019
	192MI100S2514	10/01/2018 - 09/30/2019
	192MI100S2519	10/01/2018 - 09/30/2019
	192MI100S2520	10/01/2018 - 09/30/2019
	192MI100S8026	10/01/2018 - 09/30/2019
	192MI100S8036	10/01/2018 - 09/30/2019
	182MI123Q3903	10/01/2017 - 09/30/2019
	192MI123Q3903	10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609	
Compliance Requirement(s)	Allowable Costs/Cost Principles	

Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Justice
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Crime Victim Assistance: CFDA 16.575
Federal Award Identification Number (FAIN) and Year	2016-VA-GX-0021 10/01/2015 - 09/30/2019 2017-VA-GX-0063 10/01/2016 - 09/39/2020 2018-V2-GX-0067 10/01/2017 - 09/30/2021 2019-V2-GX-0036 10/01/2018 - 09/30/2022
Total Expenditures of Federal Awards	\$47,011,300
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126
Federal Award Identification Number (FAIN) and Year	MRS (MDHHS): H126A180090 10/01/2017 - 09/30/2018 H126A190090 10/01/2018 - 08/10/2019 MRS (LEO): H126A190099 08/11/2019 - 09/30/2019
Total Expenditures of Federal Awards	\$119,465,802
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agencies	Michigan Department of Health and Human Services and Department of Labor and Economic Opportunity

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Aging Cluster: CFDA 93.044, 93.045, 93.053
Federal Award Identification Number (FAIN) and Year	1901MIOASS 10/01/2018 - 09/30/2020 1901MIOAHD 10/01/2018 - 09/30/2020 1901MIOACM 10/01/2018 - 09/30/2020 1901MIOANS 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$43,675,127
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0

Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Child Support Enforcement: CFDA 93.563

Federal Award Identification Number (FAIN) and Year	1901 MICEST 1901 MICES 1804 MICES 1704 MICEST	10/01/2018 - 09/30/2019 10/01/2018 - 09/30/2019 10/01/2017 - 09/30/2018 10/01/2016 - 09/30/2017
Total Expenditures of Federal Awards	\$140,591,465	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-011	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658	
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-011	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659	
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 19 01 MI ADPT	10/01/2017 - 09/30/2018 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-011	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Social Services Block Grant: CFDA 93.667	
Federal Award Identification Number (FAIN) and Year	1901 MISOSR 1901 MITANF	10/01/2018 - 09/30/2020 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$127,341,448	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-011	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959
Federal Award Identification Number (FAIN) and Year	TI010026-18 10/01/2017 - 09/30/2019 B08TI010026-18 10/01/2017 - 09/30/2019 B08TI010026-19 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$61,034,084
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Federal Agency	Social Security Administration
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001
Federal Award Identification Number (FAIN) and Year	1704MIDI00 10/01/2016 - 09/30/2021 1804MIDI00 10/01/2017 - 09/30/2022 1904MIDI00 10/01/2018 - 09/30/2023
Total Expenditures of Federal Awards	\$87,456,925
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-011
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that it had a complete and accurate narrative in its amended Public Assistance Cost Allocation Plan (PACAP). We noted for 7 (41%) of the 17 sampled cost pools, MDHHS did not ensure that the codes used to record expenditures in SIGMA agreed with the codes detailed in its amended PACAP.

Criteria

Federal regulation 45 *CFR* 95.507 requires MDHHS's PACAP to describe the procedures used to identify, measure, and allocate all costs to each of its programs and to contain sufficient information in such detail to permit the director of HHS's Division of Cost Allocation (DCA) to

make an informed judgment on the correctness and fairness of MDHHS's procedures for identifying, measuring, and allocating all costs to each of MDHHS's programs. Appendix VI of federal regulation 2 *CFR* 200 requires MDHHS to promptly submit PACAP amendments to DCA. Federal regulation 45 *CFR* 95.517 requires MDHHS to claim federal financial participation for costs associated with a program only in accordance with its approved or amended (at its discretion) PACAP.

Federal regulation 2 *CFR* 200.306 requires that costs used for matching be allowable costs to the federal award.

Cause

MDHHS created a report to identify SIGMA coding that does not match the PACAP narrative; however, MDHHS did not always correct coding discrepancies identified in the report.

Effect

MDHHS did not fully describe in its amended PACAP the procedures used to identify, measure, and allocate all costs to each of its programs to permit the director of DCA to make an informed judgment on the correctness and fairness of the amendments. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure that its PACAP includes a complete and accurate narrative.

Management Views

MDHHS agrees with the finding.

FINDING 2019-012

MDHHS, PACAP - Inappropriate PACAP Allocation

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561
Federal Award Identification Number (FAIN) and Year	EBT - 2018 10/01/2017 - 09/30/2018 EBT - 2019 10/01/2018 - 09/30/2019 192MI100S2514 10/01/2018 - 09/30/2019 192MI100S2519 10/01/2018 - 09/30/2019 192MI100S2520 10/01/2018 - 09/30/2019 192MI100S8026 10/01/2018 - 09/30/2019 192MI100S8036 10/01/2018 - 09/30/2019 182MI123Q3903 10/01/2017 - 09/30/2019 192MI123Q3903 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable

Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Justice
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Crime Victim Assistance: CFDA 16.575
Federal Award Identification Number (FAIN) and Year	2016-VA-GX-0021 10/01/2015 - 09/30/2019 2017-VA-GX-0063 10/01/2016 - 09/39/2020 2018-V2-GX-0067 10/01/2017 - 09/30/2021 2019-V2-GX-0036 10/01/2018 - 09/30/2022
Total Expenditures of Federal Awards	\$47,011,300
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126
Federal Award Identification Number (FAIN) and Year	MRS (MDHHS): H126A180090 10/01/2017 - 09/30/2018 H126A190090 10/01/2018 - 08/10/2019 MRS (LEO): H126A190099 08/11/2019 - 09/30/2019
Total Expenditures of Federal Awards	\$119,465,802
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agencies	Michigan Department of Health and Human Services and Department of Labor and Economic Opportunity

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Aging Cluster: CFDA 93.044, 93.045, and 93.053
Federal Award Identification Number (FAIN) and Year	1901MIOASS 10/01/2018 - 09/30/2020 1901MIOAHD 10/01/2018 - 09/30/2020 1901MIOACM 10/01/2018 - 09/30/2020 1901MIOANS 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$43,675,127
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICDD 10/01/2018 - 09/30/2019 G1901MICDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Child Support Enforcement: CFDA 93.563
Federal Award Identification Number (FAIN) and Year	1901 MICEST 10/01/2018 - 09/30/2019 1901 MICES 10/01/2018 - 09/30/2019 1804 MICES 10/01/2017 - 09/30/2018 1704 MICEST 10/01/2016 - 09/30/2017
Total Expenditures of Federal Awards	\$140,591,465

Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 10/01/2017 - 09/30/2018 19 01 MI ADPT 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Social Services Block Grant: CFDA 93.667
Federal Award Identification Number (FAIN) and Year	1901 MISOSR 10/01/2018 - 09/30/2020 1901 MITANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$127,341,448
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146

Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-012
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services						
Pass-Through Entity	Not Applicable						
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959						
Federal Award Identification Number (FAIN) and Year	<table> <tr> <td>TI010026-18</td><td>10/01/2017 - 09/30/2019</td></tr> <tr> <td>B08TI010026-18</td><td>10/01/2017 - 09/30/2019</td></tr> <tr> <td>B08TI010026-19</td><td>10/01/2018 - 09/30/2020</td></tr> </table>	TI010026-18	10/01/2017 - 09/30/2019	B08TI010026-18	10/01/2017 - 09/30/2019	B08TI010026-19	10/01/2018 - 09/30/2020
TI010026-18	10/01/2017 - 09/30/2019						
B08TI010026-18	10/01/2017 - 09/30/2019						
B08TI010026-19	10/01/2018 - 09/30/2020						
Total Expenditures of Federal Awards	\$61,034,084						
Compliance Requirement(s)	Allowable Costs/Cost Principles						
Type of Finding	Significant Deficiency and Noncompliance						
Known Questioned Costs by FAIN	Undeterminable						
Repeat Finding	2018-012						
State Agency	Michigan Department of Health and Human Services						

Federal Agency	Social Security Administration						
Pass-Through Entity	Not Applicable						
Assistance Listing and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001						
Federal Award Identification Number (FAIN) and Year	<table> <tr> <td>1704MIDI00</td><td>10/01/2016 - 09/30/2021</td></tr> <tr> <td>1804MIDI00</td><td>10/01/2017 - 09/30/2022</td></tr> <tr> <td>1904MIDI00</td><td>10/01/2018 - 09/30/2023</td></tr> </table>	1704MIDI00	10/01/2016 - 09/30/2021	1804MIDI00	10/01/2017 - 09/30/2022	1904MIDI00	10/01/2018 - 09/30/2023
1704MIDI00	10/01/2016 - 09/30/2021						
1804MIDI00	10/01/2017 - 09/30/2022						
1904MIDI00	10/01/2018 - 09/30/2023						
Total Expenditures of Federal Awards	\$87,456,925						
Compliance Requirement(s)	Allowable Costs/Cost Principles						
Type of Finding	Significant Deficiency and Noncompliance						
Known Questioned Costs by FAIN	Undeterminable						
Repeat Finding	2018-012						
State Agency	Michigan Department of Health and Human Services						

Condition

MDHHS did not ensure that it used the appropriate PACAP data and account codes to allocate expenditures to its federal programs. We noted:

- a. 11 (6%) of 176 statistic groups for which MDHHS used incorrect data to calculate the PACAP percentages, which affected 9 (53%) of 17 sampled cost pools.
- b. 2 (12%) of 17 cost pools had statistics that were calculated on a yearly basis instead of a quarterly basis.
- c. 5 (31%) of 16 Random Moment Time Studies (RMTSs), which MDHHS used to calculate PACAP percentages, did not have a complete population of participants, which affected 12 (71%) of 17 sampled cost pools.

Criteria

Federal regulation 45 *CFR* 95.507 and Appendix VI of federal regulation 2 *CFR* 200 state that costs are allocable to a particular cost objective if the services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Federal regulation 45 *CFR* 95.517 requires MDHHS to claim federal financial participation for costs associated with a program only in accordance with its approved or amended (at its discretion) PACAP.

Federal regulation 2 *CFR* 200.306 requires that costs used for matching be allowable costs to the federal award.

Cause

For part a., MDHHS informed us that, in response to the prior audit finding, increased quality control procedures were put into place; however, some errors occurred before the quality control procedures were implemented.

For part b., MDHHS informed us that it allocated both cost pools manually instead of automatically through the cost allocation module in SIGMA because of the complex nature of the cost pools and the timing of receipt of billings.

For part c., MDHHS informed us that there were database errors for the RMTS populations. The database either did not have all the information needed for the participant to be included in the study or the database did not properly include a participant that should have been included in the study. Also, some participants were miscoded in SIGMA which caused the participants to be added and/or removed erroneously from the studies.

Effect

MDHHS incorrectly allocated expenditures to various federal programs. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS ensure that it uses the appropriate PACAP data to allocate expenditures to its federal programs.

Management Views

MDHHS agrees with the finding.

FINDING 2019-013

MDHHS, Cash Management - Cash Management Process

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126

Federal Award Identification Number (FAIN) and Year	H126A180090 H126A190090 H126A190099	10/01/2017 - 09/30/2018 10/01/2018 - 08/10/2019 08/11/2019 - 09/30/2019
Total Expenditures of Federal Awards	\$119,465,802	
Compliance Requirement(s)	Cash Management	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-019	
State Agencies	Department of Labor and Economic Opportunity (program transferred from Michigan Department of Health and Human Services and Department of Licensing and Regulatory Affairs per Executive Order No. 2019-13 effective August 11, 2019)	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558	
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 19 01 MI TANF	10/01/2017 - Until Expended 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056	
Compliance Requirement(s)	Cash Management	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-019	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Child Support Enforcement: CFDA 93.563	
Federal Award Identification Number (FAIN) and Year	1704 MICEST 1804 MICES 1901 MICES 1901 MICEST	10/01/2016 - 09/30/2017 10/01/2017 - 09/30/2018 10/01/2018 - 09/30/2019 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$140,591,465	
Compliance Requirement(s)	Cash Management	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-019	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568	
Federal Award Identification Number (FAIN) and Year	G 18 B1 MI LIEA G 18 01 MI LIE4 G 19 01 MI LIEA G 19 01 MI LIE4	10/01/2017 - 09/30/2019 10/01/2017 - 09/30/2019 10/01/2018 - 09/30/2019 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$172,960,259	
Compliance Requirement(s)	Cash Management	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	\$0	

Repeat Finding	2018-019
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-019
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 10/01/2017 - 09/30/2018 19 01 MI ADPT 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-019
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Social Services Block Grant: CFDA 93.667
Federal Award Identification Number (FAIN) and Year	19 01 MI SOSR 10/01/2018 - 09/30/2020 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$127,341,448
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-019
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959
Federal Award Identification Number (FAIN) and Year	TI010026-18 10/01/2017 - 09/30/2019 B08TI010026-18 10/01/2017 - 09/30/2019 B08TI010026-19 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$61,034,084
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0

Repeat Finding	2018-019
State Agency	Michigan Department of Health and Human Services
Federal Agency	Social Security Administration
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001
Federal Award Identification Number (FAIN) and Year	1704MIDI00 10/01/2016 - 09/30/2021 1804MIDI00 10/01/2017 - 09/30/2022 1904MIDI00 10/01/2018 - 09/30/2023
Total Expenditures of Federal Awards	\$87,456,925
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-019
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not follow its established cash draw process to prepare reimbursement requests in accordance with the Cash Management Improvement Act (CMIA). In addition, MDHHS did not report complete and accurate information to the Michigan Department of Treasury (Treasury) for noncompliant cash draws.

Our results are summarized in the following table:

CFDA Number(s)	Number (and Percentages) of		Treasury's Noncompliant Cash Draw Report	
	Cash Draws Reviewed	Noncompliant Cash Draws	Noncompliant Cash Draws Not Reported	Inaccurate Noncompliant Cash Draw Information Reported
84.126	8	5 (63%)	0	3
93.558	7	5 (71%)	2	3
93.563	9	3 (33%)	1	1
93.568	8	3 (38%)	0	2
93.658	7	4 (57%)	0	1
93.659	8	7 (88%)	1	0
93.667	5	5 (100%)	2	2
93.959	6	6 (100%)	4	1
96.001	5	1 (20%)	0	1
Total	63	39 (62%)	10	14

We noted:

- MDHHS did not prepare reimbursement requests in accordance with CMIA Subpart A for 39 (62%) of 63 cash draws reviewed.
- MDHHS did not report or reported inaccurate information for 24 (62%) of 39 noncompliant Subpart A cash draws to Treasury for inclusion in the State's calculation of interest. The inaccurate information included the dates that funds were disbursed,

federal draw amounts, the dates that federal draws were received, and the dates the federal draws should have been received.

Criteria

Subpart A of federal regulation 31 *CFR* 205 requires state recipients to enter into agreements with the U.S. Department of Treasury that prescribe specific methods of drawing down federal funds for selected large programs. The agreement requires that the state be liable for interest on federal funds from the date that federal funds are credited to a state account until the date those funds are paid out for program purposes.

Treasury issues an annual memorandum and a CMIA interest calculation template to State agencies requesting the agencies to complete the template to report any noncompliant draws.

Cause

For part a., MDHHS informed us that it delayed some 2019 draws because it was in the process of changing funding techniques prescribed in the CMIA and to further review the cash draws issues that were identified in fiscal year 2018, the implementation year for SIGMA. In addition, staffing limitations, as well as competing priorities, contributed to the delay in the draws.

For part b., MDHHS informed us that its internal control and monitoring activities were not sufficient to ensure that MDHHS reported complete and accurate information to Treasury. In addition, staffing limitations, as well as competing priorities, contributed to the incomplete and inaccurate information reported to Treasury.

Effect

MDHHS limited its assurance that it complied with the agreed-upon funding techniques included in the CMIA agreement. Also, an increased risk exists that Treasury's calculation of the amount of interest owed to or due from the federal government is not accurate. We consider this to be a material weakness and material noncompliance because of the high error rate of noncompliant cash draws and because these draws represented a significant amount of the total reimbursements for the program. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendations

We recommend that MDHHS and LEO follow its established cash draw process to prepare reimbursement requests in accordance with the CMIA.

We also recommend that MDHHS and LEO report complete and accurate noncompliant cash draw information to Treasury.

Management Views

MDHHS and LEO agree with the finding.

FINDING 2019-014**MDHHS, Subrecipient Monitoring - Subaward Information**

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	WIC Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
Federal Award Identification Number (FAIN) and Year	192MI003W1003 10/01/2018 - 09/30/2019 192MI003W1006 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$149,699,245
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-020
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Justice
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Crime Victim Assistance: CFDA 16.575
Federal Award Identification Number (FAIN) and Year	2016-VA-GX-0021 10/01/2015 - 09/30/2019 2017-VA-GX-0063 10/01/2016 - 09/30/2020 2018-V2-GX-0067 10/01/2017 - 09/30/2021 2019-V2-GX-0036 10/01/2018 - 09/30/2022
Total Expenditures of Federal Awards	\$47,011,300
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Child Support Enforcement: CFDA 93.563
Federal Award Identification Number (FAIN) and Year	1901 MICEST 10/01/2018 - 09/30/2019 1901 MICES 10/01/2018 - 09/30/2019 1804 MICES 10/01/2017 - 09/30/2018 1704 MICEST 10/01/2016 - 09/30/2017
Total Expenditures of Federal Awards	\$140,591,465

Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services						
Pass-Through Entity	Not Applicable						
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959						
Federal Award Identification Number (FAIN) and Year	<table> <tr> <td>TI010026-18</td><td>10/01/2017 - 09/30/2019</td></tr> <tr> <td>B08TI010026-18</td><td>10/01/2017 - 09/30/2019</td></tr> <tr> <td>B08TI010026-19</td><td>10/01/2018 - 09/30/2020</td></tr> </table>	TI010026-18	10/01/2017 - 09/30/2019	B08TI010026-18	10/01/2017 - 09/30/2019	B08TI010026-19	10/01/2018 - 09/30/2020
TI010026-18	10/01/2017 - 09/30/2019						
B08TI010026-18	10/01/2017 - 09/30/2019						
B08TI010026-19	10/01/2018 - 09/30/2020						
Total Expenditures of Federal Awards	\$61,034,084						
Compliance Requirement(s)	Subrecipient Monitoring						
Type of Finding	Significant Deficiency						
Known Questioned Costs by FAIN	\$0						
Repeat Finding	2018-020						
State Agency	Michigan Department of Health and Human Services						

Condition

MDHHS did not report to its subrecipients all subaward information as required by the Uniform Guidance.

Our results are summarized in the following table:

	Subaward Information			
	DUNS	FAIN	Federal Award Date	Dollar Amount Made Available Under Each Federal Award
CFDA Number 10.557: Information missing Subawards reviewed		2 (33%) 6	2 (33%) 6	
CFDA Number 16.575: Information incorrect Subawards reviewed		4 (14%) 29	25 (86%) 29	
CFDA Number 93.558: Information missing Subawards reviewed	3 (100%) 3	2 (67%) 3	2 (67%) 3	2 (67%) 3
CFDA Number 93.563: Information missing Subawards reviewed		9 (100%) 9	9 (100%) 9	9 (100%) 9
CFDA Number 93.959: Information missing Subawards reviewed		5 (83%) 6	5 (83%) 6	4 (67%) 6

Criteria

Federal regulations 2 *CFR* 200.331(a) and 45 *CFR* 75.352(a) require that all pass-through entities ensure that every subaward includes certain information, including the Data Universal Numbering System (DUNS), the *CFDA* number, *CFDA* name, FAIN, federal award date, name of the federal awarding agency, the dollar amount made available under each federal award, and identification of whether the award is research and development.

Cause

MDHHS indicated that because of an oversight and human error, MDHHS did not amend all subawards once subaward information was available, did not always add subaward information to agreements or the Web site, and did not always provide the correct subaward information to subrecipients. In addition, in some instances, the information was not available at the time MDHHS developed and executed the subawards.

Effect

Subrecipients and their auditors may not be aware of the federal award information needed to ensure compliance with the federal requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS report to its subrecipients all subaward information as required by the Uniform Guidance.

Management Views

MDHHS agrees with the finding.

FINDING 2019-015

MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Beneficiary Eligibility

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778	
Federal Award Identification Number (FAIN) and Year	1905MI5MAP	10/01/2018 - 09/30/2019
	1905MI5ADM	10/01/2018 - 09/30/2019
	1905MIINCT	10/01/2018 - 09/30/2019
	1905MIIMPL	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	1905MI5MAP - \$6,352	
Repeat Finding	2018-056, parts a. and b.	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767	
Federal Award Identification Number (FAIN) and Year	1905MI5021	10/01/2018 - 09/30/2020
	1805MI5021	10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	

Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	1905MI5021 - \$19,388
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Background

In 2014, federal regulations changed the methodology for determining eligibility for certain Medicaid Cluster and CHIP beneficiaries to a methodology using federal income tax data known as modified adjusted gross income (MAGI). Federal regulation 26 *CFR* 301.6103(a) prohibits an auditor from using federal income tax data and for 2014 through 2018 auditors were not expected to review MAGI eligibility determinations. For 2019, the U.S. Office of Management and Budget *Compliance Supplement* was revised requiring auditors to review MAGI eligibility determinations for both the Medicaid Cluster and CHIP programs.

We sampled 60 payments associated with 60 unique beneficiaries for each program and summarized the results of our eligibility review in the following table:

Medicaid and CHIP Eligibility Review

	Medicaid	CHIP
Total beneficiaries sampled	60	60
Number (and percent) of MAGI beneficiaries unable to test	6 (10.0%)	17 (28.3%)
Total likely number of MAGI beneficiaries unable to test	303,620	69,912
Total likely payments associated with above beneficiaries	\$863,113,252	\$74,483,280
Total beneficiaries reviewed	54	43
Number (and percent) of ineligible beneficiaries	3 (5.6%)	19 (44.2%)
Number (and percent) of undeterminable beneficiaries due to missing documentation	3 (5.6%)	3 (7.0%)

For an estimated 303,620 Medicaid and 69,912 CHIP beneficiaries, we were unable to determine if MDHHS complied with federal laws and regulations related to MAGI-based eligibility because federal regulations prohibit the use of federal income tax data and the beneficiaries' case record did not contain other available income information. Other income information is not required to be included in the case record when a determination of eligibility is based on MAGI. However, if such information was available, we reviewed this information for eligibility purposes to accurately report the sample items that could not be tested.

The results of the testing for the remaining 54 Medicaid and 43 CHIP payments that we were able to review are summarized in the finding below.

Condition

MDHHS did not ensure or demonstrate compliance with federal laws and regulations relating to beneficiary eligibility for Medicaid services for 6 (11.2%) of 54 Medicaid and 22 (51.2%) of 43 CHIP cases. Our review disclosed:

- a MDHHS did not determine beneficiary eligibility in accordance with income requirements for 3 (5.6%) of 54 Medicaid and 19 (44.2%) of 43 CHIP cases reviewed.
- b MDHHS did not maintain case file documentation to support beneficiary eligibility for 3 (5.6%) of 54 Medicaid and 3 (7.0%) of 43 CHIP cases reviewed.

Criteria

Federal regulations 42 *CFR* 435.1002(b) and 42 *CFR* 457.622(d) indicate that federal funding is available only for services provided to eligible beneficiaries. Federal regulations 42 *CFR* 435.914 and 42 *CFR* 457.965 require that case record documentation be maintained to support the eligibility decision. Federal regulations 42 *CFR* 435.10, 42 *CFR* 457.50, and 42 *CFR* 457.70 require MDHHS to specify in its State Plan the groups to whom Medicaid and CHIP are provided and the conditions of eligibility for individuals in those groups.

Cause

For part a., MDHHS indicated that it did not properly consider all available beneficiary information when determining beneficiary eligibility because of system issues and staff actions.

For part b., MDHHS indicated that internal control was not always sufficient to ensure that documentation was retained.

Effect

MDHHS cannot demonstrate compliance with established eligibility policies and procedures and, therefore, MDHHS cannot ensure that payments were made on behalf of eligible individuals. We consider this to be a material weakness and material noncompliance because MDHHS may have made payments on behalf of ineligible beneficiaries and because of the 11.2% Medicaid and 51.2% CHIP error rates. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$6,352 - Medicaid federal share.
- \$19,388 - CHIP federal share.
- \$3,875 - State share of costs that MDHHS inappropriately used as matching.

Recommendations

We recommend that MDHHS properly consider Medicaid and CHIP eligibility documentation in accordance with eligibility requirements.

We also recommend that MDHHS maintain documentation to support that beneficiary eligibility was determined in accordance with eligibility requirements.

Management Views
MDHHS agrees with the finding.

FINDING 2019-016

MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; and Matching, Level of Effort, and Earmarking - Expenditure Processing for Medical Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-014
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness for compliance requirements noted above and Material Noncompliance for Cash Management
Known Questioned Costs by FAIN	1905MI5021 - \$0 (unduplicated amount - \$2,169 included in Finding 2019-015)
Repeat Finding	2018-014
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that Bridges and CHAMPS contained the correct Medicaid Cluster and CHIP eligibility information to record expenditures to the appropriate program at the time of payment and to ensure that the related federal draw was accurate and timely.

MDHHS incorrectly recorded \$122.3 million of CHIP medical payments to the Medicaid Cluster throughout fiscal year 2019. On a quarterly basis, MDHHS transferred expenditure amounts from the Medicaid Cluster to CHIP by completing a summary-level adjustment determined by analyzing CHAMPS payment data and Bridges eligibility data. However, MDHHS did not maintain a record of the detailed expenditure transactions that were transferred to CHIP.

Criteria

Federal regulation 45 *CFR* 75.302(a) indicates that MDHHS must trace funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. Also, federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

Federal regulation 31 *CFR* 205 requires state recipients to enter into agreements with the U.S. Department of Treasury that prescribe specific methods of drawing down federal funds for selected large programs.

Cause

MDHHS stated that the Bridges enhancement to correct eligibility classifications was delayed because of funding limitations and competing IT priorities.

Effect

MDHHS is unable to identify the specific underlying expenditures that were transferred from Medicaid to CHIP. As a result, MDHHS may be unable to demonstrate that Medicaid Cluster or CHIP funds were used in accordance with the federal statutes, regulations, and the terms and conditions of the federal award. For example, we replicated each of MDHHS's quarterly queries in an attempt to identify the underlying expenditures transferred to CHIP. We selected a sample of 34 transactions from this population and noted that 7 (21%) of the 34 beneficiaries were not eligible for CHIP, but instead were Medicaid eligible. Therefore, MDHHS inappropriately transferred these Medicaid Cluster expenditures to CHIP.

Also, MDHHS improperly received federal Medicaid Cluster funds in the amount of the quarterly transfers totaling \$122.3 million. After MDHHS recorded the quarterly summary-level adjustments in the accounting system, it returned the Medicaid Cluster funds to the federal government and appropriately received reimbursement from CHIP. The quarterly CHIP draws were not compliant with the State's CMIA agreement, which required weekly actual costs draws.

For the CHIP compliance requirements noted, we consider this to be a material weakness and material noncompliance because the \$122.3 million in CHIP expenditures inappropriately charged to and reimbursed by the Medicaid Cluster represents 41% of total CHIP expenditures.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$2,169 - federal share of CHIP payments made to providers for ineligible CHIP beneficiary, of which \$2,169 is questioned in Finding 2019-015.
- \$42 - State share of costs that MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure that Bridges and CHAMPS contain the correct Medicaid Cluster and CHIP eligibility information to allow MDHHS to record expenditures to the appropriate program at the time of payment and to ensure that the related federal draw is accurate and timely.

Management Views
MDHHS agrees with the finding.

FINDING 2019-017

MDHHS - Transitional Medicaid and CHIP Eligibility

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$3,633,287
Repeat Finding	2018-054
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5021 - \$271,842
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that renewals were processed on a timely basis for beneficiaries receiving transitional medical assistance.

Our query of 20,383 beneficiaries receiving transitional medical assistance for more than 12 months disclosed 18,910 Medicaid beneficiaries and 1,457 beneficiaries who were subsequently transferred to CHIP continued to receive benefit payments after the transitional eligibility period ended.

Criteria

In accordance with federal regulation 42 *CFR* 435.10, MDHHS's Medicaid State Plan specifies that it provides extended medical coverage up to 12 months to families with dependent children terminated solely because of earnings, hours of employment, or loss of earned income disregards (although the provision expired in 1998, this is still permitted according to federal law 42 *USC* 1396r-6). Also, MDHHS's CHIP State Plan specifies that CHIP funds are used for

providing expanded benefits under MDHHS's Medicaid State Plan. In addition, MDHHS developed policies and procedures related to the "transitional medical assistance" Medicaid coverage eligibility group that provides coverage for up to 12 months.

Cause

MDHHS indicated that there was a breakdown of internal processes that caused the delay in timely termination of some beneficiaries within the transitional medical assistance Medicaid and CHIP eligibility groups.

Effect

MDHHS paid Medicaid and CHIP providers \$5,914,424 during fiscal year 2019 on behalf of 18,910 Medicaid and 1,457 beneficiaries who were subsequently transferred to CHIP in the transitional eligibility groups for medical services provided after the allowed 12-month transitional period had expired. The 18,910 Medicaid and 1,457 CHIP beneficiaries received an average of 79 additional transitional Medicaid and CHIP coverage days, ranging from 28 to 881 days. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$3,633,287 - Medicaid federal share.
- \$271,842 - CHIP federal share.
- \$2,009,295 - State share of costs that MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure that renewals are processed on a timely basis for beneficiaries receiving transitional medical assistance.

Management Views

MDHHS agrees with the finding.

FINDING 2019-018

MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Eligibility Interface Errors

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0

Repeat Finding	2018-015
State Agency	Michigan Department of Health and Human Services
Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-015
State Agency	Michigan Department of Health and Human Services

Background

MDHHS uses Bridges for determining eligibility and benefits amounts for medical assistance, among other assistance programs. Eligibility and benefit records from Bridges are then interfaced into CHAMPS, MDHHS's system used to process medical claims and payments.

Condition

MDHHS did not maintain documentation to support that eligibility records with identified errors and excluded from eligibility interface processing for 8 (53%) of 15 sampled daily interface runs were investigated, corrected, and resubmitted for processing as appropriate. Also, MDHHS did not investigate, correct, and resubmit for processing in a timely manner eligibility records with identified errors for 1 (7%) of 15 sampled daily interface runs.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

Cause

For 8 of the errors, MDHHS informed us that it had not identified the program area responsible for investigating and correcting the errors. For 1 of the errors, MDHHS provided evidence that the error was updated in CHAMPS; however, this record was updated 134 days after the daily interface run.

Effect

MDHHS could not ensure that eligibility and benefit level information from Bridges was accurately reflected in CHAMPS for the Medicaid Cluster and CHIP and, as a result, could not ensure that medical payments were made based on up-to-date and accurate eligibility information. MDHHS's weakness in maintaining sufficient internal control over federal program compliance could result in noncompliance that will not be detected or corrected in a timely manner.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS maintain documentation to support that eligibility records with identified errors and excluded from eligibility interface processing are investigated, corrected, and resubmitted for processing as appropriate and in a timely manner.

Management Views

MDHHS agrees with the finding.

FINDING 2019-019

MDHHS, Allowable Costs/Cost Principles and Special Tests and Provisions - Provider Eligibility

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Allowable Costs/Cost Principles and Special Tests and Provisions - Provider Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-016
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Children's Health Insurance Program: CFDA 93.767
Federal Award Identification Number (FAIN) and Year	1905MI5021 10/01/2018 - 09/30/2020 1805MI5021 10/01/2017 - 09/30/2019
Total Expenditures of Federal Awards	\$298,554,146
Compliance Requirement(s)	Allowable Costs/Cost Principles and Special Tests and Provisions - Provider Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-016
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not obtain all required disclosures or ensure that disclosures were timely updated and approved in CHAMPS for the Prepaid Inpatient Health Plan (PIHP) entities, MI Choice Waiver Program (MI Choice) entities, Medicaid Health Plan (MHP) entities, the Dental Health Plan entity, or the Pharmacy Benefits Manager (PBM) during the audit period. In addition, MDHHS did not monitor its MI Choice entities' network of providers to ensure that the providers entered into provider agreements and made required disclosures.

Criteria

Federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106 and 42 *CFR* 457.935 require MDHHS to obtain certain identifying information from medical providers, including PIHP entities, MI Choice entities, MHP entities, Dental Health Plan entities, and its PBM. Disclosures are due when a fiscal agent or managed care entity submits a proposal, upon execution of a contract with the State, upon renewal or extension of the contract, or within 35 days after any change in ownership. These regulations also require MDHHS to obtain information such as identification information of the owners, agents, and managing employees and information on the ownership and control interest in the provider's subcontractors. In addition, these regulations state that federal assistance is not available to providers who fail to disclose the information. According to its Medicaid State Plan, MDHHS has established procedures for the disclosure of information by providers and fiscal agents as specified in federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106.

Cause

MDHHS stated that because of staff turnover and limited staff resources, MDHHS was unable to timely update and approve all required disclosures. In addition, limited resources resulted in the MI Choice entities' network of providers not being monitored for provider agreements and required disclosures.

Effect

MDHHS could potentially reimburse ineligible medical providers for medical services. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendations

We recommend that MDHHS obtain and timely update and approve CHAMPS for all required disclosures from PIHP entities, MI Choice entities, MHP entities, the Dental Health Plan entity, and its PBM.

We also recommend that MDHHS monitor its MI Choice entities' network of providers to ensure that providers enter into provider agreements and make all required disclosures.

Management Views

MDHHS agrees with the finding.

FINDING 2019-020

SNAP Cluster, CFDA 10.551 and 10.561, Special Tests and Provisions - System and Organization Controls

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	SNAP Cluster: CFDA 10.551 and 10.561	
Federal Award Identification Number (FAIN) and Year	EBT - 2018	10/01/2017 - 09/30/2018
	EBT - 2019	10/01/2018 - 09/30/2019
	192MI100S2514	10/01/2018 - 09/30/2019
	192MI100S2519	10/01/2018 - 09/30/2019
	192MI100S2520	10/01/2018 - 09/30/2019

FAIN and Year <i>(Continued)</i>	192MI100S8026	10/01/2018 - 09/30/2019
	192MI100S8036	10/01/2018 - 09/30/2019
	182MI123Q3903	10/01/2017 - 09/30/2019
	192MI123Q3903	10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$1,868,277,609	
Compliance Requirement(s)	Special Tests and Provisions - EBT Card Security	
Type of Finding	Material Weakness	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-024	
State Agency	Michigan Department of Health and Human Services	

Condition

MDHHS could improve its monitoring of the operating effectiveness of general controls, such as security, for the subservice organization that provides various services to the State's electronic benefits transfer (EBT) service provider.

MDHHS did not obtain and review a System and Organization Controls* (SOC) report of the subservice organization responsible for the security over the EBT card production, inventory, and issuance.

Criteria

Federal regulation 7 *CFR* 274.1(i)(1) requires the states to establish procedures to monitor SNAP benefit issuers to ensure their operations comply with SNAP requirements, including the identification and correction of deficiencies and to report any violations to the federal government. Also, federal regulation 7 *CFR* 274.1(i)(2) requires the states to obtain a SOC report by an independent auditor of the state EBT service provider. The SOC report must follow EBT guidance as indicated in various federal regulations and Appendix VIII of the OMB *Compliance Supplement* to the extent the guidelines relate to SNAP benefits, including EBT card security.

Also, federal regulation 7 *CFR* 274.8(b)(3) requires the states to maintain adequate security over EBT cards to prevent theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use.

Cause

MDHHS informed us that it requested the SOC report from the EBT service provider; however, the EBT service provider did not provide the SOC report to MDHHS.

Effect

In fiscal year 2019, the subservice organization responsible for the security over EBT cards issued 286,197 new or replacement EBT cards, which we estimate represented approximately \$414.9 million of EBT benefits. We consider this to be a material weakness because of the dollar value associated with the new or replacement cards issued.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS improve its monitoring of the operating effectiveness of general

* See glossary at end of report for definition.

controls for the subservice organizations that provide various services to the State's EBT service provider.

Management Views

MDHHS agrees with the finding.

FINDING 2019-021

WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Allowable Costs/Cost Principles - MI-WIC IT General Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	WIC Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
Federal Award Identification Number (FAIN) and Year	192MI003W1003 10/01/2018 - 09/30/2019 192MI003W1006 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$149,699,245
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-025
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Condition

MDHHS and DTMB did not fully establish effective general controls over the Michigan Women, Infants, and Children Information System (MI-WIC). Our review of selected general controls disclosed:

- a. DTMB did not fully establish and implement effective security management and access controls for the MI-WIC database. The MI-WIC database management systems contained potentially vulnerable database configurations.
- b. DTMB did not fully establish and implement effective security and access controls over the operating system for MI-WIC servers.

Criteria

Federal regulations 2 CFR 200.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to the GAO's FISCAM, access to the database should be controlled and monitored because direct access to it could allow an individual to bypass application controls* or gain unauthorized access to the operating system. Also, according to FISCAM, entities should control access to audit logs.

* See glossary at end of report for definition.

State of Michigan Administrative Guide to State Government policy 1340.00 requires approved personnel to adequately manage the configuration of the State's systems, including retaining previous system configurations, configuring approved devices for high-risk areas, tracking and documenting system changes, and assigning privileges of authorized personnel. The policy also states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

Cause

For part a., DTMB informed us that it had not fully implemented all database specific configuration standards at the time of our review.

For part b., DTMB informed us that it has implemented new internal standards and procedures; however, it is still in the process of operationalizing and updating some remaining procedures.

Effect

Without effective general controls, individuals may obtain unauthorized or inappropriate access or make inappropriate changes to MI-WIC. As a result, an increased risk exists that MDHHS and DTMB cannot ensure the security of MI-WIC and its data.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS and DTMB fully establish effective general controls over MI-WIC.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-022

WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Allowable Costs/Cost Principles - MI-WIC User Access

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	WIC Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
Federal Award Identification Number (FAIN) and Year	192MI003W1003 10/01/2018 - 09/30/2019 192MI003W1006 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$149,699,245
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not fully establish effective access controls over MI-WIC users. We noted that MDHHS did not review privileged MI-WIC user accounts for compliance with account management requirements semiannually.

Criteria

Federal regulation 2 *CFR* 200.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to review privileged user accounts for compliance with account management requirements semiannually.

Cause

MDHHS informed us that it had not completed an assessment of MI-WIC users to identify which accounts met the criteria of a privileged account to be reviewed semiannually.

Effect

Without effective user access controls, individuals may retain access to MI-WIC that is no longer necessary to perform their job responsibilities.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish effective user access controls over MI-WIC.

Management Views

MDHHS agrees with the finding.

FINDING 2019-023

WIC Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557, Special Tests and Provisions - Compliance Buys of High-Risk Vendors

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Assistance Listing and <i>CFDA</i> Number	WIC Special Supplemental Nutrition Program for Women, Infants, and Children: <i>CFDA</i> 10.557
Federal Award Identification Number (FAIN) and Year	192MI003W1003 10/01/2018 - 09/30/2019 192MI003W1006 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$149,699,245
Compliance Requirement(s)	Special Tests and Provisions - Compliance Investigations of High-Risk Vendors
Type of Finding	Material Weakness and Material Noncompliance

Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-027
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not conduct compliance buys on a minimum of 5% of the 1,604 vendors authorized by MDHHS as of October 1, 2018. We determined that MDHHS did not conduct any compliance buys during fiscal year 2019.

Criteria

In accordance with federal regulation 7 *CFR* 246.4(a)(14)(iv), MDHHS's WIC State Plan required MDHHS to conduct compliance buys on a minimum of 5% of the number of vendors authorized by MDHHS as of October 1 of the current fiscal year. Federal regulation 7 *CFR* 246.2 states that a compliance buy means a covert, on-site investigation in which a representative of the WIC program poses as a participant, parent or caretaker of an infant or child participant, or proxy; transacts one or more food instruments or cash-value vouchers; and does not reveal during the visit that he or she is a program representative.

Cause

MDHHS terminated its contract with the compliance buy vendor in fiscal year 2018 and was evaluating the feasibility of MDHHS conducting compliance buys. MDHHS stated that in fiscal year 2019 it lacked trained departmental staff that could perform compliance buys and its attempt to procure a new compliance buy vendor was unsuccessful.

Effect

MDHHS was not in compliance with its WIC State Plan. We consider this to be a material weakness and material noncompliance because MDHHS did not complete any of the required compliance buys for a minimum of 5% of the authorized vendors. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS conduct compliance buys on a minimum of 5% of the number of vendors authorized by MDHHS as of October 1 of the current fiscal year.

Management Views

MDHHS agrees with the finding.

FINDING 2019-024

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Period of Performance - Propriety of Expenditures

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401

Federal Award Identification Number (FAIN) and Year	Master Cooperative Agreement and Related Appendices:	
	W912JB-10-2-1000	06/28/2010 - 09/30/2014
	W912JB-10-2-1001	10/01/2013 - 12/31/2014
	W912JB-10-2-1002	10/01/2013 - 09/30/2014
	Master Cooperative Agreement and Related Appendices:	
	W912JB-15-2-1000	11/11/2014 - 03/03/2016
	W912JB-15-2-1001	10/01/2014 - 09/30/2015
	W912JB-15-2-1007	10/01/2014 - 09/30/2015
	Master Cooperative Agreement and Related Appendices:	
	W912JB-16-2-1000	10/01/2015 - 09/30/2020
	W912JB-16-2-1001	10/01/2015 - 12/31/2016
	W912JB-16-2-1002	10/01/2015 - 09/30/2016
	W912JB-16-2-1002	10/01/2016 - 12/31/2017
	W912JB-16-2-1002	10/01/2017 - 09/30/2018
	W912JB-16-2-1002	10/01/2018 - 09/30/2019
	W912JB-16-2-1004	10/01/2015 - 09/30/2017
	W912JB-16-2-1007	10/01/2015 - 09/30/2016
	W912JB-16-2-1007	10/01/2016 - 09/30/2017
	W912JB-16-2-1007	10/01/2017 - 09/30/2018
	W912JB-16-2-1010	10/01/2017 - 09/30/2018
	W912JB-16-2-1010	10/01/2018 - 09/30/2019
	W912JB-16-2-1011	10/01/2017 - 09/30/2018
	W912JB-16-2-1011	10/01/2018 - 09/30/2019
	W912JB-16-2-1021A	10/01/2016 - 09/30/2017
	W912JB-16-2-1021A	10/01/2017 - 09/30/2018
	W912JB-16-2-1021B	10/01/2017 - 09/30/2018
	W912JB-16-2-1021S	10/01/2016 - 09/30/2017
	W912JB-16-2-1021S	10/01/2017 - 09/30/2018
	W912JB-16-2-1022A	10/01/2017 - 09/30/2018
	W912JB-16-2-1022A	10/01/2018 - 09/30/2019
	W912JB-16-2-1022B	10/01/2017 - 09/30/2018
	W912JB-16-2-1022B	10/01/2018 - 09/30/2019
	W912JB-16-2-1022S	10/01/2017 - 09/30/2018
	W912JB-16-2-1022S	10/01/2018 - 09/30/2019
	W912JB-16-2-1023A	10/01/2017 - 09/30/2018
	W912JB-16-2-1023A	10/01/2018 - 09/30/2019
	W912JB-16-2-1023B	10/01/2017 - 09/30/2018
	W912JB-16-2-1023B	10/01/2018 - 09/30/2019
	W912JB-16-2-1023S	10/01/2017 - 09/30/2018
	W912JB-16-2-1023S	10/01/2018 - 09/30/2019
	W912JB-16-2-1024	10/01/2017 - 09/30/2018
	W912JB-16-2-1024	10/01/2018 - 09/30/2019
	W912JB-16-2-1030	10/01/2016 - 09/30/2017
	W912JB-16-2-1030	10/01/2017 - 09/30/2018
	W912JB-16-2-1030	10/01/2018 - 09/30/2019
	W912JB-16-2-1040	10/01/2016 - 09/30/2017
	W912JB-16-2-1040	10/01/2017 - 09/30/2018
	W912JB-16-2-1040	10/01/2018 - 09/30/2019
	W912JB-17-2-1001	10/01/2016 - 09/30/2017
	W912JB-17-2-1001	10/01/2017 - 09/30/2018
	W912JB-17-2-1003	10/01/2016 - 09/30/2017
	W912JB-17-2-1003	10/01/2017 - 09/30/2018
	W912JB-17-2-1004	10/01/2016 - 09/30/2017
	W912JB-17-2-1004	10/01/2017 - 09/30/2018
	W912JB-17-2-1005	10/01/2016 - 09/30/2018
	W912JB-17-2-1005	10/01/2017 - 09/30/2018
	W912JB-17-2-1014	10/01/2017 - 09/30/2018

FAIN and Year <i>(Continued)</i>	W912JB-18-2-1014	10/01/2018 - 09/30/2019
	W912JB-19-2-1001	10/01/2018 - 09/30/2019
	W912JB-19-2-1003	10/01/2018 - 09/30/2019
	W912JB-19-2-1004	10/01/2018 - 09/30/2019
	W912JB-19-2-1005	10/01/2018 - 09/30/2019
	W912JB-19-2-1007	10/01/2018 - 09/30/2019
	W912JB-19-2-1008	10/01/2018 - 09/30/2019
	W912JB-19-2-1021A	10/01/2018 - 09/30/2019
	W912JB-19-2-1021B	10/01/2018 - 09/30/2019
	W912JB-19-2-1021S	10/01/2018 - 09/30/2019
	Special Military Project Cooperative Agreements:	
	W912JB-17-2-3074	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2016 - 09/30/2017
	W912JB-17-2-3076	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$74,746,577	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Period of Performance	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-029, part a.	
State Agency	Department of Military and Veterans Affairs	

Condition

The Department of Military and Veterans Affairs (DMVA) did not ensure that supervisors properly approved 3 (10%) of 29 sampled employee time sheets.

Criteria

Federal regulation 2 *CFR* 200.303 requires the auditee to establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

DMVA's payroll process is for a supervisor to approve the time sheet submitted by an employee to ensure that expenditures are consistent with the Master Cooperative Agreement (MCA) and related appendices. When an employee is unable to submit the time sheet, the supervisor submits the time sheet on the employee's behalf and the employee subsequently certifies the time sheet.

Cause

DMVA informed us that employee time sheets were not always properly approved because of a simultaneous change in supervisors, a supervisor was not assigned in SIGMA at that time, or the employee did not follow DMVA's process to subsequently certify a supervisor submitted time sheet.

Effect

Lack of proper approval for payroll expenditures may result in improper payments. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that DMVA ensure that supervisors properly approve employee time sheets.

Management Views

DMVA agrees with the finding.

FINDING 2019-025**National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Cash Management - Timeliness of Cash Draws**

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401
Federal Award Identification Number (FAIN) and Year	Master Cooperative Agreement and Related Appendices: W912JB-10-2-1000 06/28/2010 - 09/30/2014 W912JB-10-2-1001 10/01/2013 - 12/31/2014 W912JB-10-2-1002 10/01/2013 - 09/30/2014 Master Cooperative Agreement and Related Appendices: W912JB-15-2-1000 11/11/2014 - 03/03/2016 W912JB-15-2-1001 10/01/2014 - 09/30/2015 W912JB-15-2-1007 10/01/2014 - 09/30/2015 Master Cooperative Agreement and Related Appendices: W912JB-16-2-1000 10/01/2015 - 09/30/2020 W912JB-16-2-1001 10/01/2015 - 12/31/2016 W912JB-16-2-1002 10/01/2015 - 09/30/2016 W912JB-16-2-1002 10/01/2016 - 12/31/2017 W912JB-16-2-1002 10/01/2017 - 09/30/2018 W912JB-16-2-1002 10/01/2018 - 09/30/2019 W912JB-16-2-1004 10/01/2015 - 09/30/2017 W912JB-16-2-1007 10/01/2015 - 09/30/2016 W912JB-16-2-1007 10/01/2016 - 09/30/2017 W912JB-16-2-1007 10/01/2017 - 09/30/2018 W912JB-16-2-1010 10/01/2017 - 09/30/2018 W912JB-16-2-1010 10/01/2018 - 09/30/2019 W912JB-16-2-1011 10/01/2017 - 09/30/2018 W912JB-16-2-1011 10/01/2018 - 09/30/2019 W912JB-16-2-1021A 10/01/2016 - 09/30/2017 W912JB-16-2-1021A 10/01/2017 - 09/30/2018 W912JB-16-2-1021B 10/01/2017 - 09/30/2018 W912JB-16-2-1021S 10/01/2016 - 09/30/2017 W912JB-16-2-1021S 10/01/2017 - 09/30/2018 W912JB-16-2-1022A 10/01/2017 - 09/30/2018 W912JB-16-2-1022A 10/01/2018 - 09/30/2019 W912JB-16-2-1022B 10/01/2017 - 09/30/2018 W912JB-16-2-1022B 10/01/2018 - 09/30/2019 W912JB-16-2-1022S 10/01/2017 - 09/30/2018 W912JB-16-2-1022S 10/01/2018 - 09/30/2019 W912JB-16-2-1023A 10/01/2017 - 09/30/2018 W912JB-16-2-1023A 10/01/2018 - 09/30/2019 W912JB-16-2-1023B 10/01/2017 - 09/30/2018 W912JB-16-2-1023B 10/01/2018 - 09/30/2019 W912JB-16-2-1023S 10/01/2017 - 09/30/2018

FAIN and Year (Continued)	W912JB-16-2-1023S	10/01/2018 - 09/30/2019
	W912JB-16-2-1024	10/01/2017 - 09/30/2018
	W912JB-16-2-1024	10/01/2018 - 09/30/2019
	W912JB-16-2-1030	10/01/2016 - 09/30/2017
	W912JB-16-2-1030	10/01/2017 - 09/30/2018
	W912JB-16-2-1030	10/01/2018 - 09/30/2019
	W912JB-16-2-1040	10/01/2016 - 09/30/2017
	W912JB-16-2-1040	10/01/2017 - 09/30/2018
	W912JB-16-2-1040	10/01/2018 - 09/30/2019
	W912JB-17-2-1001	10/01/2016 - 09/30/2017
	W912JB-17-2-1001	10/01/2017 - 09/30/2018
	W912JB-17-2-1003	10/01/2016 - 09/30/2017
	W912JB-17-2-1003	10/01/2017 - 09/30/2018
	W912JB-17-2-1004	10/01/2016 - 09/30/2017
	W912JB-17-2-1004	10/01/2017 - 09/30/2018
	W912JB-17-2-1005	10/01/2016 - 09/30/2018
	W912JB-17-2-1005	10/01/2017 - 09/30/2018
	W912JB-17-2-1014	10/01/2017 - 09/30/2018
	W912JB-18-2-1014	10/01/2018 - 09/30/2019
	W912JB-19-2-1001	10/01/2018 - 09/30/2019
	W912JB-19-2-1003	10/01/2018 - 09/30/2019
	W912JB-19-2-1004	10/01/2018 - 09/30/2019
	W912JB-19-2-1005	10/01/2018 - 09/30/2019
	W912JB-19-2-1007	10/01/2018 - 09/30/2019
	W912JB-19-2-1008	10/01/2018 - 09/30/2019
	W912JB-19-2-1021A	10/01/2018 - 09/30/2019
	W912JB-19-2-1021B	10/01/2018 - 09/30/2019
	W912JB-19-2-1021S	10/01/2018 - 09/30/2019
	Special Military Project Cooperative Agreements:	
	W912JB-17-2-3074	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2016 - 09/30/2017
	W912JB-17-2-3076	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$74,746,577	
Compliance Requirement(s)	Cash Management	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-030, parts a. and c.	
State Agency	Department of Military and Veterans Affairs	

Condition

DMVA did not fully design its cash draw process to prepare reimbursement requests in accordance with the CMIA agreement. In addition, DMVA did not report complete and accurate information to the Michigan Department of Treasury (Treasury) for noncompliant cash draws.

We noted:

- a. DMVA prepared reimbursement requests from 86 to 122 days after the close of the month for 5 (13%) of 40 sampled cash draws.
- b. Our review of 40 cash draws identified 11 noncompliant draws. DMVA did not report or reported inaccurate information for the 11 noncompliant draws to Treasury for inclusion in the State's calculation of interest due to the federal government. The inaccurate information included the dates that funds were disbursed, federal draw amounts, and the

explanation as to why the draws were not completed in compliance with the CMIA agreement.

Criteria

The CMIA agreement requires DMVA to use the prior month's actual funding technique for all National Guard Military O&M Projects' expenditures. This funding technique required DMVA to request reimbursement based on the amount of expenditures incurred in the prior month. DMVA is required to run a departmental report as soon as possible subsequent to the close of each month to determine the expenditures and request funds as soon as possible thereafter.

DMVA's process is to run departmental expenditure reports as soon as possible after month-end for each appendix when the expenditure reports are available. The process to submit the Request for Advance or Reimbursement (SF-270) to the United States Property and Fiscal Office (USPFO) varies by appendix.

For construction appendices, DMVA sends the expenditure reports to the federal Construction and Facilities Management Officer (CFMO) for review and approval of the federal coding to be applied prior to DMVA preparing the SF-270. After the CFMO approves the coding, DMVA prepares the SF-270 and sends it back to the CFMO for final approval and submission to USPFO.

For all other appendices, DMVA prepares the SF-270 using the expenditure reports and sends the SF-270 to the federal program managers for approval. For airbases, the program manager submits the SF-270 to USPFO after it is approved. For non-airbases, once the program manager provides approval to DMVA, DMVA submits the request to USPFO for reimbursement.

Treasury issues an annual memorandum and a CMIA interest calculation template to State agencies requesting the agencies to complete the template to report any noncompliant draws, including an explanation, for any deviations with the CMIA agreement.

Cause

For part a., DMVA informed us that prior year-end closing activities and delays in receiving information from federal program managers impacted the timeliness of draws.

For part b., DMVA informed us that, based on its interpretation of Treasury's instructions, it excluded untimely draw requests made during fiscal year 2019 when it had not received the funds as of September 30, 2019. Also, DMVA informed us that it did not consider all factors impacting the timeliness of draws when explaining the reason for the cash draw noncompliance.

Effect

DMVA limited its assurance that it complied with the agreed-upon funding techniques included in the CMIA agreement. Also, an increased risk exists that Treasury's calculation of the amount of interest owed to or due from the federal government is not accurate. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendations

We recommend that DMVA design its cash draw process to prepare reimbursement requests in accordance with the funding technique as required in the CMIA agreement.

We also recommend that DMVA report complete and accurate noncompliant cash draw information to Treasury.

Management Views

DMVA agrees with the finding.

FINDING 2019-026

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Requests for Reimbursement

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401
Federal Award Identification Number (FAIN) and Year	<p>Master Cooperative Agreement and Related Appendices:</p> <p>W912JB-10-2-1000 06/28/2010 - 09/30/2014</p> <p>W912JB-10-2-1001 10/01/2013 - 12/31/2014</p> <p>W912JB-10-2-1002 10/01/2013 - 09/30/2014</p> <p>Master Cooperative Agreement and Related Appendices:</p> <p>W912JB-15-2-1000 11/11/2014 - 03/03/2016</p> <p>W912JB-15-2-1001 10/01/2014 - 09/30/2015</p> <p>W912JB-15-2-1007 10/01/2014 - 09/30/2015</p> <p>Master Cooperative Agreement and Related Appendices:</p> <p>W912JB-16-2-1000 10/01/2015 - 09/30/2020</p> <p>W912JB-16-2-1001 10/01/2015 - 12/31/2016</p> <p>W912JB-16-2-1002 10/01/2015 - 09/30/2016</p> <p>W912JB-16-2-1002 10/01/2016 - 12/31/2017</p> <p>W912JB-16-2-1002 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1002 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1004 10/01/2015 - 09/30/2017</p> <p>W912JB-16-2-1007 10/01/2015 - 09/30/2016</p> <p>W912JB-16-2-1007 10/01/2016 - 09/30/2017</p> <p>W912JB-16-2-1007 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1010 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1010 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1011 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1011 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1021A 10/01/2016 - 09/30/2017</p> <p>W912JB-16-2-1021A 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1021B 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1021S 10/01/2016 - 09/30/2017</p> <p>W912JB-16-2-1021S 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1022A 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1022A 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1022B 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1022B 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1022S 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1022S 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1023A 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1023A 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1023B 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1023B 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1023S 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1023S 10/01/2018 - 09/30/2019</p>

FAIN and Year <i>(Continued)</i>	W912JB-16-2-1024	10/01/2017 - 09/30/2018
	W912JB-16-2-1024	10/01/2018 - 09/30/2019
	W912JB-16-2-1030	10/01/2016 - 09/30/2017
	W912JB-16-2-1030	10/01/2017 - 09/30/2018
	W912JB-16-2-1030	10/01/2018 - 09/30/2019
	W912JB-16-2-1040	10/01/2016 - 09/30/2017
	W912JB-16-2-1040	10/01/2017 - 09/30/2018
	W912JB-16-2-1040	10/01/2018 - 09/30/2019
	W912JB-17-2-1001	10/01/2016 - 09/30/2017
	W912JB-17-2-1001	10/01/2017 - 09/30/2018
	W912JB-17-2-1003	10/01/2016 - 09/30/2017
	W912JB-17-2-1003	10/01/2017 - 09/30/2018
	W912JB-17-2-1004	10/01/2016 - 09/30/2017
	W912JB-17-2-1004	10/01/2017 - 09/30/2018
	W912JB-17-2-1005	10/01/2016 - 09/30/2018
	W912JB-17-2-1005	10/01/2017 - 09/30/2018
	W912JB-17-2-1014	10/01/2017 - 09/30/2018
	W912JB-18-2-1014	10/01/2018 - 09/30/2019
	W912JB-19-2-1001	10/01/2018 - 09/30/2019
	W912JB-19-2-1003	10/01/2018 - 09/30/2019
	W912JB-19-2-1004	10/01/2018 - 09/30/2019
	W912JB-19-2-1005	10/01/2018 - 09/30/2019
	W912JB-19-2-1007	10/01/2018 - 09/30/2019
	W912JB-19-2-1008	10/01/2018 - 09/30/2019
	W912JB-19-2-1021A	10/01/2018 - 09/30/2019
	W912JB-19-2-1021B	10/01/2018 - 09/30/2019
	W912JB-19-2-1021S	10/01/2018 - 09/30/2019
	Special Military Project Cooperative Agreements:	
	W912JB-17-2-3074	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2016 - 09/30/2017
	W912JB-17-2-3076	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$74,746,577	
Compliance Requirement(s)	Period of Performance	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs by FAIN	Total Questioned Costs: \$1,015,034 W912JB-10-2-1001 - \$1,787 W912JB-15-2-1001 - \$18,412 W912JB-16-2-1001 - \$166 W912JB-16-2-1011 - \$107 W912JB-16-2-1021B - \$1,361 W912JB-16-2-1021S - \$165,409 W912JB-16-2-1022A - \$29,782 W912JB-16-2-1022B - \$2,933 W912JB-16-2-1023S - \$72,568 W912JB-16-2-1030 - \$411,451 W912JB-17-2-3076 - \$232,833 W912JB-19-2-1004 - \$78,225	
Repeat Finding	2018-031	
State Agency	Department of Military and Veterans Affairs	

Condition

DMVA did not ensure that it had executed cooperative agreement modifications with sufficient funding before it submitted 57 (10%) of 593 requests for reimbursement of program

expenditures totaling \$2,415,424 to the USPFO. In fiscal year 2019, DMVA received reimbursement of \$1,015,034 for these requests.

Criteria

National Guard Regulations (NGR) 5-1, Section 3-11(b)(2) requires that a cooperative agreement modification be executed to obligate additional funds for incremental allotments during a fiscal year.

Also, NGR 5-1, Section 5-3(a)(4) states that costs cannot be reimbursed unless sufficient funds have been obligated to the cooperative agreement.

Cause

To address the prior audit finding, DMVA revised its reimbursement tracking work sheets for each 2019 appendix to identify if reimbursements were requested prior to the execution of cooperative agreement modifications with funding. However, DMVA had already submitted 2019 appendices requests for reimbursement prior to the execution of cooperative agreement modifications with funding at the time the work sheets were adjusted.

For prior funding years, DMVA informed us that it submitted some reimbursement requests without sufficient funding because it anticipated that the USPFO would execute a cooperative agreement modification to adjust the funding during the closeout process to cover the reimbursements. DMVA also informed us that the federal program managers did not always submit necessary financial information to the USPFO to generate the cooperative agreement modifications.

Effect

DMVA could be required to return the funds to the federal grantor agency. The federal grantor agency could also issue sanctions or disallowances for noncompliance.

Known Questioned Costs

- \$1,015,034 - federal reimbursements requested and received prior to sufficient funds obligated for cooperative agreement modifications.

Recommendation

We recommend that DMVA ensure that it has executed cooperative agreement modifications with sufficient funding before it submits requests for reimbursement of program expenditures to the USPFO.

Management Views

DMVA agrees with the finding.

FINDING 2019-027

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Notifications for Appendices Exceeding 90% Threshold

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable

Assistance Listing and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401	
Federal Award Identification Number (FAIN) and Year	Master Cooperative Agreement and Related Appendices: W912JB-10-2-1000 06/28/2010 - 09/30/2014 W912JB-10-2-1001 10/01/2013 - 12/31/2014 W912JB-10-2-1002 10/01/2013 - 09/30/2014 Master Cooperative Agreement and Related Appendices: W912JB-15-2-1000 11/11/2014 - 03/03/2016 W912JB-15-2-1001 10/01/2014 - 09/30/2015 W912JB-15-2-1007 10/01/2014 - 09/30/2015 Master Cooperative Agreement and Related Appendices: W912JB-16-2-1000 10/01/2015 - 09/30/2020 W912JB-16-2-1001 10/01/2015 - 12/31/2016 W912JB-16-2-1002 10/01/2015 - 09/30/2016 W912JB-16-2-1002 10/01/2016 - 12/31/2017 W912JB-16-2-1002 10/01/2017 - 09/30/2018 W912JB-16-2-1002 10/01/2018 - 09/30/2019 W912JB-16-2-1004 10/01/2015 - 09/30/2017 W912JB-16-2-1007 10/01/2015 - 09/30/2016 W912JB-16-2-1007 10/01/2016 - 09/30/2017 W912JB-16-2-1007 10/01/2017 - 09/30/2018 W912JB-16-2-1010 10/01/2017 - 09/30/2018 W912JB-16-2-1010 10/01/2018 - 09/30/2019 W912JB-16-2-1011 10/01/2017 - 09/30/2018 W912JB-16-2-1011 10/01/2018 - 09/30/2019 W912JB-16-2-1021A 10/01/2016 - 09/30/2017 W912JB-16-2-1021A 10/01/2017 - 09/30/2018 W912JB-16-2-1021B 10/01/2017 - 09/30/2018 W912JB-16-2-1021S 10/01/2016 - 09/30/2017 W912JB-16-2-1021S 10/01/2017 - 09/30/2018 W912JB-16-2-1022A 10/01/2017 - 09/30/2018 W912JB-16-2-1022A 10/01/2018 - 09/30/2019 W912JB-16-2-1022B 10/01/2017 - 09/30/2018 W912JB-16-2-1022B 10/01/2018 - 09/30/2019 W912JB-16-2-1022S 10/01/2017 - 09/30/2018 W912JB-16-2-1022S 10/01/2018 - 09/30/2019 W912JB-16-2-1023A 10/01/2017 - 09/30/2018 W912JB-16-2-1023A 10/01/2018 - 09/30/2019 W912JB-16-2-1023B 10/01/2017 - 09/30/2018 W912JB-16-2-1023B 10/01/2018 - 09/30/2019 W912JB-16-2-1023S 10/01/2017 - 09/30/2018 W912JB-16-2-1023S 10/01/2018 - 09/30/2019 W912JB-16-2-1024 10/01/2017 - 09/30/2018 W912JB-16-2-1024 10/01/2018 - 09/30/2019 W912JB-16-2-1030 10/01/2016 - 09/30/2017 W912JB-16-2-1030 10/01/2017 - 09/30/2018 W912JB-16-2-1030 10/01/2018 - 09/30/2019 W912JB-16-2-1040 10/01/2016 - 09/30/2017 W912JB-16-2-1040 10/01/2017 - 09/30/2018 W912JB-16-2-1040 10/01/2018 - 09/30/2019 W912JB-17-2-1001 10/01/2016 - 09/30/2017 W912JB-17-2-1001 10/01/2017 - 09/30/2018 W912JB-17-2-1003 10/01/2016 - 09/30/2017 W912JB-17-2-1003 10/01/2017 - 09/30/2018 W912JB-17-2-1004 10/01/2016 - 09/30/2017 W912JB-17-2-1004 10/01/2017 - 09/30/2018	

FAIN and Year (Continued)	W912JB-17-2-1005	10/01/2016 - 09/30/2018
	W912JB-17-2-1005	10/01/2017 - 09/30/2018
	W912JB-17-2-1014	10/01/2017 - 09/30/2018
	W912JB-18-2-1014	10/01/2018 - 09/30/2019
	W912JB-19-2-1001	10/01/2018 - 09/30/2019
	W912JB-19-2-1003	10/01/2018 - 09/30/2019
	W912JB-19-2-1004	10/01/2018 - 09/30/2019
	W912JB-19-2-1005	10/01/2018 - 09/30/2019
	W912JB-19-2-1007	10/01/2018 - 09/30/2019
	W912JB-19-2-1008	10/01/2018 - 09/30/2019
	W912JB-19-2-1021A	10/01/2018 - 09/30/2019
	W912JB-19-2-1021B	10/01/2018 - 09/30/2019
	W912JB-19-2-1021S	10/01/2018 - 09/30/2019
	Special Military Project Cooperative Agreements:	
	W912JB-17-2-3074	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2016 - 09/30/2017
	W912JB-17-2-3076	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$74,746,577	
Compliance Requirement(s)	Period of Performance	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-032	
State Agency	Department of Military and Veterans Affairs	

Condition

DMVA did not notify the USPFO when 2 (17%) of 12 fiscal year 2019 appendices, which include specific conditions within the MCA, exceeded 90% of the Annual Funding Program (AFP) limitation amount.

Criteria

Section 401 of the MCA requires DMVA to notify the USPFO in writing if at any time within the fiscal year DMVA determines that National Guard Bureau's (NGB's) share of allowable costs has reached the amount reflected in the appendix or determines that the total amount of NGB's share of allowable costs exceeds 90% of the AFP amount. The notice shall state the total estimated amount of NGB's share of allowable costs and the amount of DMVA's share of allowable costs necessary to complete a fiscal year. Within its discretion, NGB may unilaterally increase the maximum AFP limitation at any time. DMVA shall have no obligation to incur costs which exceed NGB's share of the maximum AFP limitation.

Cause

To address the prior audit finding, DMVA improved its reimbursement tracking work sheet for each 2019 appendix to include a running balance of the AFP compared to each request for reimbursement and considered outstanding obligations at year-end to calculate if NGB's share would exceed 90%. However, DMVA informed us that it only sent notices to the USPFO when the running balance identified that the prepared reimbursement requests exceeded 90% of the AFP. DMVA did not send the notices when the running balance identified the remaining estimated expenditures and outstanding obligations at fiscal year-end would cause NGB's share to exceed 90%.

Effect

Because DMVA did not notify the USPFO when it expected to exceed 90% of the AFP amount, DMVA may not receive increases in AFP amounts and federal funding to cover all costs that it

incurred for each of these appendices. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that DMVA notify the USPFO when appendices exceed 90% of the AFP limitation amount.

Management Views

DMVA agrees with the finding.

FINDING 2019-028

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Disclosure of Obligations

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401
Federal Award Identification Number (FAIN) and Year	<p>Master Cooperative Agreement and Related Appendices:</p> <p>W912JB-10-2-1000 06/28/2010 - 09/30/2014</p> <p>W912JB-10-2-1001 10/01/2013 - 12/31/2014</p> <p>W912JB-10-2-1002 10/01/2013 - 09/30/2014</p> <p>Master Cooperative Agreement and Related Appendices:</p> <p>W912JB-15-2-1000 11/11/2014 - 03/03/2016</p> <p>W912JB-15-2-1001 10/01/2014 - 09/30/2015</p> <p>W912JB-15-2-1007 10/01/2014 - 09/30/2015</p> <p>Master Cooperative Agreement and Related Appendices:</p> <p>W912JB-16-2-1000 10/01/2015 - 09/30/2020</p> <p>W912JB-16-2-1001 10/01/2015 - 12/31/2016</p> <p>W912JB-16-2-1002 10/01/2015 - 09/30/2016</p> <p>W912JB-16-2-1002 10/01/2016 - 12/31/2017</p> <p>W912JB-16-2-1002 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1002 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1004 10/01/2015 - 09/30/2017</p> <p>W912JB-16-2-1007 10/01/2015 - 09/30/2016</p> <p>W912JB-16-2-1007 10/01/2016 - 09/30/2017</p> <p>W912JB-16-2-1007 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1010 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1010 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1011 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1011 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1021A 10/01/2016 - 09/30/2017</p> <p>W912JB-16-2-1021A 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1021B 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1021S 10/01/2016 - 09/30/2017</p> <p>W912JB-16-2-1021S 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1022A 10/01/2017 - 09/30/2018</p> <p>W912JB-16-2-1022A 10/01/2018 - 09/30/2019</p> <p>W912JB-16-2-1022B 10/01/2017 - 09/30/2018</p>

FAIN and Year (Continued)	W912JB-16-2-1022B	10/01/2018 - 09/30/2019
	W912JB-16-2-1022S	10/01/2017 - 09/30/2018
	W912JB-16-2-1022S	10/01/2018 - 09/30/2019
	W912JB-16-2-1023A	10/01/2017 - 09/30/2018
	W912JB-16-2-1023A	10/01/2018 - 09/30/2019
	W912JB-16-2-1023B	10/01/2017 - 09/30/2018
	W912JB-16-2-1023B	10/01/2018 - 09/30/2019
	W912JB-16-2-1023S	10/01/2017 - 09/30/2018
	W912JB-16-2-1023S	10/01/2018 - 09/30/2019
	W912JB-16-2-1024	10/01/2017 - 09/30/2018
	W912JB-16-2-1024	10/01/2018 - 09/30/2019
	W912JB-16-2-1030	10/01/2016 - 09/30/2017
	W912JB-16-2-1030	10/01/2017 - 09/30/2018
	W912JB-16-2-1030	10/01/2018 - 09/30/2019
	W912JB-16-2-1040	10/01/2016 - 09/30/2017
	W912JB-16-2-1040	10/01/2017 - 09/30/2018
	W912JB-16-2-1040	10/01/2018 - 09/30/2019
	W912JB-17-2-1001	10/01/2016 - 09/30/2017
	W912JB-17-2-1001	10/01/2017 - 09/30/2018
	W912JB-17-2-1003	10/01/2016 - 09/30/2017
	W912JB-17-2-1003	10/01/2017 - 09/30/2018
	W912JB-17-2-1004	10/01/2016 - 09/30/2017
	W912JB-17-2-1004	10/01/2017 - 09/30/2018
	W912JB-17-2-1005	10/01/2016 - 09/30/2018
	W912JB-17-2-1005	10/01/2017 - 09/30/2018
	W912JB-17-2-1014	10/01/2017 - 09/30/2018
	W912JB-18-2-1014	10/01/2018 - 09/30/2019
	W912JB-19-2-1001	10/01/2018 - 09/30/2019
	W912JB-19-2-1003	10/01/2018 - 09/30/2019
	W912JB-19-2-1004	10/01/2018 - 09/30/2019
	W912JB-19-2-1005	10/01/2018 - 09/30/2019
	W912JB-19-2-1007	10/01/2018 - 09/30/2019
	W912JB-19-2-1008	10/01/2018 - 09/30/2019
	W912JB-19-2-1021A	10/01/2018 - 09/30/2019
	W912JB-19-2-1021B	10/01/2018 - 09/30/2019
	W912JB-19-2-1021S	10/01/2018 - 09/30/2019
	Special Military Project Cooperative Agreements:	
	W912JB-17-2-3074	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2016 - 09/30/2017
	W912JB-17-2-3076	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$74,746,577	
Compliance Requirement(s)	Period of Performance	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs by FAIN	Total Questioned Costs: \$18,875 W912JB-17-2-1001 - \$18,541 W912JB-17-2-1005 - \$334	
Repeat Finding	2018-033, part a.	
State Agency	Department of Military and Veterans Affairs	

Condition

DMVA did not properly disclose obligations of \$18,875 for 2 (14%) of 14 program expenditures on extension requests sent to the USPFO.

Criteria

NGR 5-1, Section 11-10(c) states that if any unliquidated claims and undisbursed obligations arising from DMVA's performance of the agreement appendix will remain 90 days or more after the close of the fiscal year, DMVA shall provide to the USPFO a written request to keep the agreement appendix funding open. The request will include a consolidated, detailed listing of all uncleared obligations and a projected date for their liquidation and disbursement. Subsequent requests will be submitted by DMVA every 90 days or so thereafter as long as there are unliquidated claims or undisbursed obligations.

Also, NGR 5-1, Section 11-10(d) states that costs incurred in a fiscal year which are not disclosed by DMVA within 90 days of the end of the fiscal year are not eligible for reimbursement by NGB.

Cause

For one expenditure, DMVA informed us that a contract was inadvertently excluded from the list of outstanding obligations submitted on the December 31, 2018 extension request because the purchase order had not been established in SIGMA.

For the other expenditure, DMVA informed us that it did not have a process to identify recurring monthly expenditures that do not relate to purchase orders or for invoices that have not yet been received when DMVA prepares the list of obligations for the extension requests.

Effect

Excluding obligations on extension requests may limit DMVA's ability to obtain federal reimbursement of costs incurred for an appendix. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$18,875 - expenditures incurred but not disclosed as an obligation.

Recommendation

We recommend that DMVA disclose all outstanding obligations on extension requests to the USPFO.

Management Views

DMVA agrees with the finding.

FINDING 2019-029

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance – Timeliness of Appendix Final Accounting

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401

Federal Award Identification Number (FAIN) and Year	Master Cooperative Agreement and Related Appendices:	
	W912JB-10-2-1000	06/28/2010 - 09/30/2014
	W912JB-10-2-1001	10/01/2013 - 12/31/2014
	W912JB-10-2-1002	10/01/2013 - 09/30/2014
	Master Cooperative Agreement and Related Appendices:	
	W912JB-15-2-1000	11/11/2014 - 03/03/2016
	W912JB-15-2-1001	10/01/2014 - 09/30/2015
	W912JB-15-2-1007	10/01/2014 - 09/30/2015
	Master Cooperative Agreement and Related Appendices:	
	W912JB-16-2-1000	10/01/2015 - 09/30/2020
	W912JB-16-2-1001	10/01/2015 - 12/31/2016
	W912JB-16-2-1002	10/01/2015 - 09/30/2016
	W912JB-16-2-1002	10/01/2016 - 12/31/2017
	W912JB-16-2-1002	10/01/2017 - 09/30/2018
	W912JB-16-2-1002	10/01/2018 - 09/30/2019
	W912JB-16-2-1004	10/01/2015 - 09/30/2017
	W912JB-16-2-1007	10/01/2015 - 09/30/2016
	W912JB-16-2-1007	10/01/2016 - 09/30/2017
	W912JB-16-2-1007	10/01/2017 - 09/30/2018
	W912JB-16-2-1010	10/01/2017 - 09/30/2018
	W912JB-16-2-1010	10/01/2018 - 09/30/2019
	W912JB-16-2-1011	10/01/2017 - 09/30/2018
	W912JB-16-2-1011	10/01/2018 - 09/30/2019
	W912JB-16-2-1021A	10/01/2016 - 09/30/2017
	W912JB-16-2-1021A	10/01/2017 - 09/30/2018
	W912JB-16-2-1021B	10/01/2017 - 09/30/2018
	W912JB-16-2-1021S	10/01/2016 - 09/30/2017
	W912JB-16-2-1021S	10/01/2017 - 09/30/2018
	W912JB-16-2-1022A	10/01/2017 - 09/30/2018
	W912JB-16-2-1022A	10/01/2018 - 09/30/2019
	W912JB-16-2-1022B	10/01/2017 - 09/30/2018
	W912JB-16-2-1022B	10/01/2018 - 09/30/2019
	W912JB-16-2-1022S	10/01/2017 - 09/30/2018
	W912JB-16-2-1022S	10/01/2018 - 09/30/2019
	W912JB-16-2-1023A	10/01/2017 - 09/30/2018
	W912JB-16-2-1023A	10/01/2018 - 09/30/2019
	W912JB-16-2-1023B	10/01/2017 - 09/30/2018
	W912JB-16-2-1023B	10/01/2018 - 09/30/2019
	W912JB-16-2-1023S	10/01/2017 - 09/30/2018
	W912JB-16-2-1023S	10/01/2018 - 09/30/2019
	W912JB-16-2-1024	10/01/2017 - 09/30/2018
	W912JB-16-2-1024	10/01/2018 - 09/30/2019
	W912JB-16-2-1030	10/01/2016 - 09/30/2017
	W912JB-16-2-1030	10/01/2017 - 09/30/2018
	W912JB-16-2-1030	10/01/2018 - 09/30/2019
	W912JB-16-2-1040	10/01/2016 - 09/30/2017
	W912JB-16-2-1040	10/01/2017 - 09/30/2018
	W912JB-16-2-1040	10/01/2018 - 09/30/2019
	W912JB-17-2-1001	10/01/2016 - 09/30/2017
	W912JB-17-2-1001	10/01/2017 - 09/30/2018
	W912JB-17-2-1003	10/01/2016 - 09/30/2017
	W912JB-17-2-1003	10/01/2017 - 09/30/2018
	W912JB-17-2-1004	10/01/2016 - 09/30/2017
	W912JB-17-2-1004	10/01/2017 - 09/30/2018
	W912JB-17-2-1005	10/01/2016 - 09/30/2018
	W912JB-17-2-1005	10/01/2017 - 09/30/2018

FAIN and Year <i>(Continued)</i>	W912JB-17-2-1014	10/01/2017 - 09/30/2018
	W912JB-18-2-1014	10/01/2018 - 09/30/2019
	W912JB-19-2-1001	10/01/2018 - 09/30/2019
	W912JB-19-2-1003	10/01/2018 - 09/30/2019
	W912JB-19-2-1004	10/01/2018 - 09/30/2019
	W912JB-19-2-1005	10/01/2018 - 09/30/2019
	W912JB-19-2-1007	10/01/2018 - 09/30/2019
	W912JB-19-2-1008	10/01/2018 - 09/30/2019
	W912JB-19-2-1021A	10/01/2018 - 09/30/2019
	W912JB-19-2-1021B	10/01/2018 - 09/30/2019
	W912JB-19-2-1021S	10/01/2018 - 09/30/2019
	Special Military Project Cooperative Agreements:	
	W912JB-17-2-3074	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2016 - 09/30/2017
	W912JB-17-2-3076	10/01/2017 - 09/30/2018
	W912JB-17-2-3076	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$74,746,577	
Compliance Requirement(s)	Period of Performance	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-034	
State Agency	Department of Military and Veterans Affairs	

Condition

DMVA did not submit on a timely basis a final accounting of all funding and disbursements for 2 (10%) of 21 appendix agreements that closed during fiscal year 2019.

Criteria

NGR 5-1, Section 11-10(b) requires DMVA to provide to the USPFO a final accounting of all funding and disbursements under an agreement within 90 days of the end of the fiscal year, or upon termination or closeout of an agreement, whichever is earlier.

Cause

DMVA informed us that for one appendix, the untimely submittal was an oversight and for the other, it could not reach agreement with various federal representatives as to when it was acceptable to close out the appendix agreement.

Effect

DMVA may have diminished the U.S. Department of Defense's ability to ensure appropriate oversight and monitoring of the appendix agreements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that DMVA submit on a timely basis a final accounting of all funding and disbursements for appendix agreements.

Management Views

DMVA agrees with the finding.

FINDING 2019-030

Grants to States for Construction of State Home Facilities, CFDA 64.005, Cash Management - Overdrawn Funds

Federal Agency	U.S. Department of Veterans Affairs
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Grants to States for Construction of State Home Facilities: CFDA 64.005
Federal Award Identification Number (FAIN) and Year	FAI 26-027 05/17/2019 - Until Expended FAI 26-028 05/23/2019 - Until Expended
Total Expenditures of Federal Awards	\$18,376,713
Compliance Requirement(s)	Cash Management
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	FAI 26-027 - \$31,875
Repeat Finding	Not Applicable
State Agency	Department of Military and Veterans Affairs

Condition

DMVA overdraw \$31,875 in federal funds during fiscal year 2019 for construction costs that it did not pay to the contractor.

Criteria

Federal regulation 31 *CFR* 205.33(a) states that the federal program agency must limit a funds transfer to a state to the minimum amounts needed by the state. Federal regulation 31 *CFR* 205.33(a) also states that the timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs.

The Memorandum of Agreement between DMVA and the federal agency for the FAI 26-027 project includes a provision that the grant shall be paid by way of reimbursement.

Cause

DMVA inadvertently included a retainage amount for the FAI 26-027 project in one of its requests for reimbursement that it had not paid to the contractor as of fiscal year end.

Effect

The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$31,875 - federal reimbursements in excess of expenditures.

Recommendation

We recommend that DMVA prepare its draw of federal funds on a reimbursement basis.

Management Views

DMVA agrees with the finding.

FINDING 2019-031

Grants to States for Construction of State Home Facilities, CFDA 64.005, Procurement and Suspension and Debarment - Required Provisions

Federal Agency	U.S. Department of Veterans Affairs	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Grants to States for Construction of State Home Facilities: CFDA 64.005	
Federal Award Identification Number (FAIN) and Year	FAI 26-027	05/17/2019 - Until Expended
	FAI 26-028	05/23/2019 - Until Expended
Total Expenditures of Federal Awards	\$18,376,713	
Compliance Requirement(s)	Procurement and Suspension and Debarment	
Type of Finding	Significant Deficiency	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	Not Applicable	
State Agencies	Department of Military and Veterans Affairs and Department of Technology, Management, and Budget	

Condition

DMVA and DTMB did not include all applicable required provisions in both contracts executed during fiscal year 2019 for the construction of two new veterans homes.

Criteria

Federal regulations 2 *CFR* 200.317 and 2 *CFR* 200.326 state that the nonfederal entity's contracts must contain the applicable provisions described in Appendix II to Part 200. Appendix II to Part 200 states that in addition to other provisions required by the federal agency or nonfederal entity, all contracts made by the nonfederal entity must contain provisions covering the provisions in Appendix II as applicable.

Cause

For these two contracts, DMVA worked with DTMB's Office of Design and Construction to establish the contracts. The Office of Design and Construction informed us that it was unaware of the requirement when establishing these contracts.

Effect

The contractors may not comply with the required federal provisions because the State did not include the provisions in these contracts. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that DMVA and DTMB include all applicable required provisions in contracts of federal awards.

Management Views

DMVA and DTMB agree with the finding.

FINDING 2019-032

Grants to States for Construction of State Home Facilities, CFDA 64.005, Special Tests and Provisions - Wage Rate Requirements

Federal Agency	U.S. Department of Veterans Affairs
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Grants to States for Construction of State Home Facilities: CFDA 64.005
Federal Award Identification Number (FAIN) and Year	FAI 26-027 05/17/2019 - Until Expended FAI 26-028 05/23/2019 - Until Expended
Total Expenditures of Federal Awards	\$18,376,713
Compliance Requirement(s)	Special Tests and Provisions - Wage Rate Requirements
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Military and Veterans Affairs and Department of Technology, Management, and Budget

Condition

DMVA and DTMB did not ensure that the State complied with wage rate requirements for the two federally funded veterans home construction projects valued at \$71,000,266 and \$62,969,063. Our review noted:

- a. DMVA and DTMB did not include required prevailing wage rate provisions in 1 (25%) of 4 contracts that had payments for federally funded construction during fiscal year 2019.
- b. DMVA did not collect any weekly certified payrolls from its contractors for construction work performed during fiscal year 2019.

Criteria

Federal law 40 *USC* 3142 requires that the State include in its federally funded construction contracts provisions requiring contractors to comply with the wage rate requirements.

Federal regulation 29 *CFR* 5.5(a)(3)(ii) requires contractors to submit to the State weekly for each week in which any contract work is performed a copy of all payrolls including those of its subcontractors with an accompanying Statement of Compliance certifying the accuracy of the payroll and payment in accordance with federally prescribed prevailing wages. The State is required to transmit the certified payrolls to the federal agency.

Cause

For part a., DMVA and DTMB informed us that they did not include the required federal provisions because the contract included a clause regarding the State's prevailing wage rates that exceeded the federal prevailing wage rates. We noted that the State's prevailing wage rate public act was repealed in June 2018.

For part b., DMVA informed us that it instructed its contractors to maintain the weekly certified payrolls and only submit the documentation to the State upon request.

Effect

Lack of appropriate contract provisions and failure to obtain the weekly certified payrolls may result in contractors paying construction laborers at less than the federal prevailing wage rate. We consider this to be a material weakness and material noncompliance because we estimate that construction labor represents a substantial amount of the cost of both projects during fiscal year 2019. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendations

We recommend that DMVA and DTMB include required prevailing wage rate provisions in contracts for federally funded construction.

We also recommend that DMVA collect weekly certified payrolls.

Management Views

DMVA and DTMB agree with the finding.

FINDING 2019-033

Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Cash Management - Cash Management Process

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126	
Federal Award Identification Number (FAIN) and Year	H126A180031	10/01/2017 - 09/30/2018
	H126A190031	10/01/2018 - 08/10/2019
	H126A190100	08/11/2019 - 09/30/2019
Total Expenditures of Federal Awards	\$119,465,802	
Compliance Requirement(s)	Cash Management	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-041	
State Agencies	Department of Labor and Economic Opportunity (program transferred from Michigan Department of Health and Human Services and Department of Licensing and Regulatory Affairs per Executive Order No. 2019-13 effective August 11, 2019)	

Condition

LARA did not design its cash draw process to prepare reimbursement requests in accordance with the CMIA agreement. In addition, LEO was responsible for completing the annual interest report and did not report complete and accurate information to Treasury for these noncompliant draws. Our review of the cash draws disclosed:

- a. LARA did not prepare reimbursement requests biweekly in accordance with the CMIA agreement for 2 (67%) of 3 cash draws reviewed.

- b. LEO reported inaccurate or incomplete information for all noncompliant cash draws in part a. to Treasury for inclusion in the State's calculation of interest. The inaccurate or incomplete information included the dates that funds were disbursed, federal draw amounts, and the dates that the federal draws should have been received.

Criteria

Subpart A of federal regulation 31 *CFR* 205 requires state recipients to enter into agreements with the U.S. Department of Treasury that prescribe specific methods of drawing down federal funds for selected large programs. The agreement requires that the state be liable for interest on federal funds from the date federal funds are credited to a state account until the date those funds are paid out for program purposes.

Treasury issues an annual memorandum and a CMIA interest calculation template to State agencies requesting the agencies to complete the template to report any noncompliant draws.

Cause

For part a., LARA informed us that it delayed some 2019 draws because of competing priorities related to fiscal year 2019 year-end closing activities. Also, LARA's process was contrary to the CMIA as it requested federal reimbursement two days prior to the scheduled deposit date instead of the required one day.

For part b., LEO informed us that its internal control and monitoring activities were not sufficient to ensure that it reported complete and accurate information to Treasury.

Effect

The departments limited its assurance that it complied with the agreed-upon funding techniques between the State and the federal government included in the CMIA agreement. Also, an increased risk exists that Treasury's calculation of the amount of interest owed to or due from the federal government is not accurate. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

We considered this to be a material weakness and material noncompliance because of the 67% error rate and these noncompliant draws represented a significant amount of the total reimbursements for the program.

Known Questioned Costs

None.

Recommendations

We recommend that LEO design its cash draw process to prepare reimbursement requests in accordance with the CMIA agreement.

We also recommend that LEO report complete and accurate noncompliant cash draw information to Treasury.

Management Views

LARA and LEO agree with the finding.

FINDING 2019-034

Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Matching, Level of Effort, and Earmarking - Pre-Employment Transition Services Earmarking Threshold

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126
Federal Award Identification Number (FAIN) and Year	H126A180031 10/01/2017 - 09/30/2018 H126A180090 10/01/2017 - 09/30/2018 H126A190031 10/01/2018 - 08/10/2019 H126A190090 10/01/2018 - 08/10/2019 H126A190099 08/11/2019 - 09/30/2019 H126A190100 08/11/2019 - 09/30/2019
Total Expenditures of Federal Awards	\$119,465,802
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	H126A180031 - \$349,971
Repeat Finding	Not Applicable
State Agencies	Department of Labor and Economic Opportunity (program transferred from Michigan Department of Health and Human Services and Department of Licensing and Regulatory Affairs per Executive Order No. 2019-13 effective August 11, 2019)

Condition

LARA and MDHHS did not design its State Vocational Rehabilitation Services earmarking process to ensure that it reserved and expended sufficient pre-employment transition services (Pre-ETS) based on the federal grant award. For the 2018 federal grant award, we calculated the Departments' Pre-ETS expenditures to be \$16,546,165, which was \$349,971 less than the 15% Pre-ETS earmarking threshold of \$16,896,136. To document that it met the 2018 grant award earmarking requirement, LARA included \$349,971 of its fiscal year 2019 Pre-ETS expenditures that were claimed using the 2019 federal award.

Criteria

Federal laws 29 USC 730(d)(1) and 29 USC 733(a) require states to reserve and expend at least 15% of their Vocational Rehabilitation allotment for Pre-ETS to students with disabilities who are eligible, or potentially eligible, for Vocational Rehabilitation Services.

Cause

LARA believed that it needed to fully draw its 2018 federal award prior to drawing on its 2019 federal award and could not reserve funds from the 2018 federal award to be drawn at a later date for Pre-ETS. Therefore, when the Pre-ETS expenditures applicable to the 2018 federal grant were actually paid by LARA, there were no funds available from the 2018 federal grant award.

Effect

LARA expended less than the minimum for non-Pre-ETS activities than required by federal law. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$349,971 - These known questioned costs represent the 2018 grant awards non-Pre-ETS expenditures that exceed 85% of the total program federal expenditures.

Recommendation

We recommend that LEO design its State Vocational Rehabilitation Services earmarking process to ensure that it reserves and expends sufficient Pre-ETS based on the federal grant award.

Management Views

LEO disagrees with the finding and has the documentation necessary to demonstrate it met the federal reserve and expend requirements.

The Vocational Rehabilitation (VR) award is a one-year award with a one-year period of performance that may be extended an additional year if carryover requirements are met. LEO met the requirements to extend the federal fiscal year (FFY) 2018 award to a two-year period of performance. The overlap of a carryover year (e.g., eligible FFY 2018 VR award with a FFY 2019 carryover year) with a VR award in its year of appropriation (e.g., FFY 2019) does not require a VR agency to prioritize or otherwise obligate and liquidate VR funds for pre-employment transition services from either award in any particular order.

Auditor's Comments to Management Views

We agree that LEO has a two-year period of performance and that it can obligate and liquidate State Vocational Rehabilitation Services funds in any particular order; however, we determined that the State's accounting records and the federal draw system supported that LEO inappropriately used \$347,971 of Pre-ETS expenditures claimed against the 2019 grant award to meet its 2018 grant allotment earmarking requirement. Therefore, the finding stands as written.

FINDING 2019-035

Supporting Effective Instruction State Grants, CFDA 84.367, Subrecipient Monitoring - Management Decisions

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Supporting Effective Instruction State Grants: CFDA 84.367
Federal Award Identification Number (FAIN) and Year	S367B160019 07/01/2016 - 09/30/2017 S367B160019-16A 07/01/2016 - 09/30/2017 S367B160019-16B 07/01/2016 - 09/30/2017 S367A160021 07/01/2016 - 09/30/2017 S367A160021-16A 07/01/2016 - 09/30/2017 S367A160021-16B 07/01/2016 - 09/30/2017 S367A170021 07/01/2017 - 09/30/2018 S367A170021-17A 07/01/2017 - 09/30/2018 S367A180021 07/01/2018 - 09/30/2019 S367A180021-18A 07/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$80,218,114
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency

Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not issue required management decisions in a timely manner for 1 (14%) of 7 subrecipient single audit reports with findings selected for review.

We reviewed 7 subrecipient single audit reports with findings, 1 of which had findings related to Supporting Effective Instruction State Grants.

Criteria

Federal regulation 2 *CFR* 200.521 requires MDE to issue management decisions for subrecipient audit findings that relate to federal awards. Management decisions are required to be issued within six months of acceptance of the audit report by the federal audit clearinghouse. Management decisions must state whether or not the finding was sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action.

MDE's Audits Unit performs a desk review of all subrecipient single audits and forwards the results of the review to the applicable MDE program area, via the GEMS/MARS. The MDE program area is responsible for making management decisions on any findings noted in the single audits. The Audits Unit issues the management decision to the subrecipient when it is received from the program area.

Cause

MDE informed us that the final management decision was delayed due to changes in staff responsible for the management decisions in GEMS/MARS.

Effect

The untimely issuance of management decisions increases the risk of the subrecipient's continued noncompliance with grant requirements and expenditure of federal awards. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE issue required management decisions in a timely manner for subrecipient single audit reports with findings.

Management Views

MDE agrees with the finding.

FINDING 2019-036

Student Support and Academic Enrichment Program, CFDA 84.424, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Use of Funds

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Student Support and Academic Enrichment Program: CFDA 84.424
Federal Award Identification Number (FAIN) and Year	S424A170023 07/01/2017 - 09/30/2018 S424A180023 07/01/2018 - 09/30/2020 S424A190023 07/01/2019 - 09/30/2020
Total Expenditures of Federal Awards	\$21,188,647
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not ensure that 2 (20%) of 10 of the local educational agencies (LEAs) that received \$30,000 or more in Student Support and Academic Enrichment (SSAE) Program funds used a portion of the funds to support one or more activities pertaining to the effective use of technology.

Criteria

Federal law 20 USC 7119(a) requires that LEAs who receive \$30,000 or more in SSAE Program funds use a portion of the funds to improve the use of technology to improve the academic achievement, academic growth, and digital literacy of all students.

Also, Subpart E of federal regulation 2 CFR 200 requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, and be in accordance with the relative benefit received by the program.

Cause

MDE establishes function codes for LEAs to budget for these funds. MDE informed us that its consultants inadvertently processed LEAs' budgets without ensuring that the budgets included a portion of the funds using function codes for activities related to the effective use of technology.

Effect

MDE limited its assurance that subrecipients of the SSAE Program expended funds in compliance with federal regulations regarding allowable activities and allowable costs. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDE ensure that LEAs who receive \$30,000 or more in SSAE Program funds use a portion of the funds to support one or more activities pertaining to the effective use of technology.

Management Views

MDE agrees with the finding.

FINDING 2019-037

Aging Cluster, CFDA 93.044, 93.045, and 93.053, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; Subrecipient Monitoring; and Special Tests and Provisions - AIS FIRST User Access

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Aging Cluster: CFDA 93.044, 93.045, 93.053
Federal Award Identification Number (FAIN) and Year	1901MIOASS 10/01/2018 - 09/30/2020 1901MIOAHD 10/01/2018 - 09/30/2020 1901MIOACM 10/01/2018 - 09/30/2020 1901MIOANS 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$43,675,127
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; Subrecipient Monitoring; and Special Tests and Provisions - Distribution of Cash
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-043
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not establish effective access controls over Aging Information System (AIS) Financial Information Reporting System Tool (FIRST) application users. FIRST is utilized by Aging Cluster subrecipients to submit data, payment requests, and financial status reports to MDHHS. We noted:

- a. 1 of 7 selected application security agreements could not be located.
- b. 4 of 6 selected users with completed application security agreements had access rights that were not consistent with the most recently approved application security agreement.
- c. MDHHS did not complete an annual review of all AIS FIRST users.
- d. MDHHS did not perform a semiannual review for privileged AIS FIRST users.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that accounts should be reviewed for compliance with account management requirements semiannually for privileged accounts and annually for all other accounts.

Cause

For part a., MDHHS informed us that the missing application security agreement was likely misfiled.

For part b., MDHHS informed us that it gave the user roles necessary for individuals' job responsibilities even if the role was not identified on the application security agreement.

For parts c. and d., MDHHS informed us that the annual and semiannual user reviews were in development during fiscal year 2019 and were not implemented until fiscal year 2020.

Effect

Without effective user access controls, individuals may obtain unauthorized or inappropriate access to AIS FIRST.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish effective user access controls over AIS FIRST.

Management Views

MDHHS agrees with the finding.

FINDING 2019-038

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Non-Financial Eligibility Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	Total Questioned Costs: \$1,211 18 01 MI TANF - \$1,039 19 01 MI TANF - \$172
Repeat Finding	2018-044
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not obtain or maintain sufficient non-financial case record documentation to support client eligibility for 11 (55%) of 20 sampled TANF Cluster assistance case records.

MDHHS did not obtain or maintain documentation such as application forms, support for completion of the Family Self-Sufficiency Plan, support for client referral to the TANF work requirement program, verifications to support the age and relationship of the child to the adult on the case record, records to support that children older than 6 were attending school full time, records to support the alien status of refugees, and inquiry regarding relevant felony prosecution history in order to demonstrate that the 11 families were in need of TANF Cluster assistance.

Criteria

Federal regulation 45 *CFR* 260.20 requires that a family be needy in order to be eligible for TANF Cluster assistance and job preparation services. Federal regulation 45 *CFR* 205.60(a) requires MDHHS to maintain records to support eligibility, including facts to support the client's need for assistance. MDHHS's policies and procedures require that documentation used to verify eligibility be maintained in the case file.

Also, federal law 42 *USC* 608(a)(9)(A) states that a state may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime which is a felony under the laws of the place from which the individual flees.

In addition, Subpart E of federal regulation 2 *CFR* 200 requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, be in accordance with the relative benefits received by the program, and be consistent with policies and procedures that apply to both the federal award and other activities of the state.

Cause

MDHHS informed us that controls were not sufficient to ensure that required verification documentation was maintained in the client's case record.

Also, MDHHS informed us that it initially suspended the fugitive felon policy because of litigation; therefore, MDHHS did not require workers to follow up on any client's unanswered fugitive felon questions.

Effect

We consider this to be a material weakness and material noncompliance because MDHHS may have made payments to ineligible recipients and because of the high error rate noted. As a result, the federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$1,211 - federal share.

Recommendation

We recommend that MDHHS obtain and maintain sufficient non-financial case record documentation to support client eligibility for TANF Cluster assistance.

Management Views

MDHHS agrees with the finding.

FINDING 2019-039

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - Income Eligibility Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - Income Eligibility and Verification System
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	19 01 MI TANF - \$0 (unduplicated amount - \$7 included in Finding 2019-038)
Repeat Finding	2018-045
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not maintain sufficient documentation of its efforts to evaluate client income eligibility. Consolidated Inquiry (CI) and/or State Online Query (SOLQ) reviews and results were not documented in accordance with policy for 2 (10%) of 20 sampled TANF Cluster assistance case records.

Criteria

Federal regulation 45 *CFR* 260.20 requires that a family be needy in order to be eligible for TANF Cluster assistance and job preparation services. Federal regulations 45 *CFR* 205.51, 45 *CFR* 205.55, and 45 *CFR* 205.56 require states to have an IEVS to request, use, and verify income and benefit information when determining a client's eligibility for assistance. Also, federal regulation 45 *CFR* 205.60(a) requires MDHHS to maintain records to support eligibility, including facts to support the client's need for assistance.

MDHHS's policies and procedures require caseworkers to verify client income at the time of application and redetermination through CI and SOLQ matches. Caseworkers are required to document the results of the CI and SOLQ matches in the case record within Bridges.

The CI match identifies income sources requested through IEVS or the MDHHS data warehouse, such as child support, unemployment compensation, new hire income, and child day care provider income. The SOLQ match identifies retirement, survivors, and disability insurance; Social Security income; and Medicare benefits requested through IEVS.

Also, Subpart E of federal regulation 2 *CFR* 200 requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, be in accordance with the relative benefits received by the program, and be consistent with policies and procedures that apply to both the federal award and other activities of the state.

Cause

MDHHS informed us that controls were not sufficient to ensure that required verification documentation was appropriately maintained in the client's case record.

Effect

MDHHS may have made payments to ineligible recipients. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$7 - federal share of payments made to recipients, of which \$7 is questioned in Finding 2019-038.

Recommendation

We recommend that MDHHS maintain sufficient income eligibility documentation to support client eligibility for TANF Cluster assistance.

Management Views

MDHHS agrees with the finding.

FINDING 2019-040

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Eligibility Redeterminations for TANF-Funded Adoption Subsidy

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 – Until Expended 19 01 MI TANF 10/01/2018 – Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	Total Questioned Costs: \$6,888 18 01 MI TANF - \$3,499 19 01 MI TANF - \$3,389
Repeat Finding	2018-047
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure and retain documentation to demonstrate compliance with federal laws and regulations relating to annual eligibility redeterminations for 9 (43%) of 21 sampled TANF Cluster-funded adoption subsidy case records. We noted:

- In 6 (29%) cases, MDHHS did not retain documentation to substantiate that the adoptive family met eligibility requirements. In 3 of these 6 cases, MDHHS obtained eligibility information by conducting telephone interviews with adoptive parents but did not require the adoptive parent(s) to sign the annual eligibility redetermination form. For the other 3

cases, MDHHS disposed of the annual eligibility redetermination form after the worker entered the form's content into the Adoption and Guardian Assistance Annual Reporting System. The parent's signature is required on the annual eligibility redetermination form to attest to the accuracy of the information to the best of their knowledge and belief.

- b. In 2 (10%) cases, MDHHS did not conduct an annual eligibility redetermination to ensure that the adoptive family met eligibility requirements.
- c. In 1 (5%) case, MDHHS did not appropriately consider the adoptive family's circumstances to ensure that the family met eligibility requirements.

Criteria

Federal regulation 45 *CFR* 206.10(a)(9) requires MDHHS to redetermine eligibility at a minimum of every 12 months or when a change in the recipient's circumstances occurs.

Also, federal regulation 45 *CFR* 260.20 requires that a family be needy in order to be eligible for TANF Cluster assistance. Federal regulation 45 *CFR* 205.60(a) requires MDHHS to maintain records to support eligibility, including facts to support the client's need for assistance. Section 400.115i of the *Michigan Compiled Laws (MCL)* requires the adoptive parent to file a report at least annually, MDHHS developed an annual report form and instructions to comply with the *MCL*.

In addition, Subpart E of federal regulation 2 *CFR* 200 requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, be in accordance with the relative benefits received by the program, and be consistent with policies and procedures that apply to both the federal award and other activities of the state.

Cause

For part a., MDHHS informed us that policy does not require the maintenance of the annual eligibility redetermination form in the case record. In addition, MDHHS informed us that policy does not address telephone interviews; therefore, a worker would not be prohibited from obtaining the information from the adoptive parent over the telephone and the worker is not required to send the adoptive parent(s) a confirmation of their responses.

For part b., MDHHS informed us that controls were not sufficient to ensure that the required documentation was obtained prior to issuing benefit payments.

For part c., MDHHS informed us that this was the result of a worker error.

Effect

We consider this a material weakness and material noncompliance because MDHHS made or may have made adoption subsidy payments to a family that did not qualify for TANF Cluster-funded adoption subsidy and because of the high error rate noted. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$6,888 - TANF Cluster-funded adoption subsidy payments.

Recommendation

We recommend that MDHHS ensure and retain documentation to demonstrate compliance with federal laws and regulations relating to annual eligibility redeterminations by retaining documentation, conducting annual eligibility redeterminations, and determining adoptive family eligibility in accordance with TANF Cluster eligibility requirements.

Management Views

MDHHS partially agrees with the finding. Section 400.115i of the *Michigan Compiled Laws* does not specifically dictate the methodology the adoptive parent must utilize to file the annual report. MDHHS allows flexibility for the parents to either utilize the annual redetermination form or to report the required information through a telephone interview. MDHHS's policy does not require submission of the annual redetermination form when a phone interview is conducted. If the parent chooses to utilize the annual redetermination form, it does need to be signed, returned, and maintained by MDHHS.

Auditor's Comments to Management Views

Regardless of MDHHS's policy, federal regulation 45 *CFR* 205.60(a) requires MDHHS to maintain records to support eligibility, including facts to support the client's need for assistance. Without the certification of both adoptive parents, if applicable, MDHHS does not have assurance of the accuracy of the information obtained over the phone and entered into its system. Therefore, the finding stands as written.

FINDING 2019-041

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Foster Care Assistance

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	19 01 MI TANF - \$2,065,385
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Background

MDHHS may use TANF Cluster funds in any manner that MDHHS was authorized to use the amounts received under the State's Aid to Families with Dependent Children (AFDC) Plan in effect on either September 30, 1995, or at the State's option, August 21, 1996. The prior AFDC Plan included emergency foster care assistance for a child who lived with a relative within the six months prior to the emergency application or removal from home.

MDHHS's practice is to contract with a vendor to identify emergency foster care assistance expenditures that MDHHS can claim under the prior AFDC Plan and request federal reimbursement under the TANF Cluster. In fiscal year 2019, MDHHS continued to contract with the vendor to process the emergency foster care assistance TANF claim.

In April 2019, MDHHS changed its policy related to payments to unlicensed foster care relatives that had the opportunity to receive cash assistance, food assistance, child support, or Supplemental Security Income (SSI)/Retirement, Survivors, and Disability Insurance services, which are funded by various sources. Instead, these unlicensed relatives would receive a foster care maintenance payment when caring for the child. As a result, MDHHS contracted with the same vendor to develop a second methodology to identify assistance expenditures that could be funded under the TANF Cluster, but are not claimed under prior law and, therefore, MDHHS's 1995 Emergency Assistance Program rules would not be applicable. In this new methodology, MDHHS acknowledges that the unlicensed relatives and enhanced foster care services would be unallowable under the prior AFDC Plan. Therefore, MDHHS would need to claim these services under the TANF State Plan. MDHHS last amended its TANF State Plan in February 2018.

Condition

MDHHS inappropriately claimed for federal reimbursement TANF Cluster funded foster care expenditures of \$2,065,385 for services related to the unlicensed relative and enhanced foster care programs which were not included in MDHHS's TANF State Plan. The unlicensed relative program is the placement of abuse/neglect wards with an unlicensed relative on a temporary basis. The enhanced foster care pilot program is available for children in a select county who reside with an unlicensed relative or in a licensed related foster home and would benefit from additional support with the goals of family reunification or adoption.

Criteria

Federal law 42 *USC* 604(a)(1) allows MDHHS to use funds in any manner that is reasonably calculated to accomplish the purposes of TANF, such as to provide assistance to needy families with children in their own homes or in the homes of relatives. Federal law 42 *USC* 602(a)(1) requires MDHHS to submit a State Plan that outlines how MDHHS intends to assist needy families to achieve the purposes of TANF.

ACF's TANF Program Policy Questions and Answers indicate that there are limited circumstances under which a child may be placed in foster care and funded through the TANF Cluster. These limited circumstances include foster care assistance that address a child's needs during a period of temporary absence. Federal law 42 *USC* 608(a)(10) limits the activities to a period of 45 consecutive days or, at the state's option, a period of not less than 30 and not more than 180 consecutive days. These limited circumstances should be outlined in the TANF State Plan.

In addition, Subpart E of federal regulation 2 *CFR* 200 requires that costs charged to federal programs be necessary and reasonable for the administration of the federal award, be in accordance with the relative benefits received by the program, and be consistent with policies and procedures that apply to both the federal award and other activities of the state.

Cause

MDHHS informed us that it included these programs in its fiscal year 2019 TANF Cluster claim for federal reimbursement because of the availability of federal funds, the identification of additional TANF-eligible placement and services expenditures, and the belief that these programs would be allowable under the emergency relief section of its TANF State Plan.

Effect

MDHHS paid for program services that were not in accordance with the TANF State Plan and TANF Cluster laws and regulations. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$2,065,385 - federally funded.

Recommendation

We recommend that MDHHS only claim for federal reimbursement allowable expenditures that are included in MDHHS's TANF State Plan.

Management Views

MDHHS disagrees with the finding. MDHHS asserts that payments to unlicensed relatives are allowable expenditures because these expenditures meet the criteria allowed in the TANF State Plan and federal law 42 USC 608(a)(10)(A) does not apply.

Michigan's TANF State Plan allows TANF funds to be used for an Emergency Relief program, which includes providing "emergency foster family care or residential group care for children separated from their parents if such care cannot be provided under Title IV-E". While the TANF State Plan does not specifically define an emergency, MDHHS believes that any instance when a child must be removed from his or her home constitutes an emergency situation. MDHHS does recognize that an emergency should be time-limited in nature. The state plan addresses this by specifically limiting the amount of time during which Emergency services can be provided: "Emergency services are limited to the duration of the emergency, not to exceed 364 days." In 2019, TANF funds were only used to pay for services to children living with an unlicensed relative for the first 120 days after they were removed. This is well below the current emergency time period allowed in the state plan, and thus meets the TANF state plan's definition of an emergency.

In April 2019, MDHHS changed its policy to allow unlicensed relatives to receive a foster care payment instead of a FIP payment. The TANF State Plan does not specify that emergency relief is only available to licensed relatives and does not indicate the child should be treated differently due to the licensure status of the family or individual with whom they are placed. In addition, the TANF State Plan does not require that the program must have been operating under AFDC or Emergency Relief to be allowed. Therefore, any program that is authorized by law and meets the criteria laid out in the TANF State Plan is allowable.

In addition, the child is living with a relative so they meet TANF purpose one, which is to provide assistance to needy families so that children may be cared for in their own homes or the homes of relatives. Federal Law 42 USC 608(a)(10)(A) requires that a State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance for a minor child who has been, or is expected by a parent (or other caretaker relative) of the child to be, absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days as the State may provide for in the State plan submitted pursuant to section 602 of this title. For this program, all the children are living with caretaker relatives, and are thus not absent from their family's home, so the temporary absence period does not apply. Further, the ACF explicitly allows expenditures to children placed with relatives, stating that TANF may be used to provide a broad range of services, including ongoing assistance and other benefits and services to needy caretaker

relatives who can provide a safe place for a needy child to live and avoid his or her placement in foster care.

Auditor's Comments to Management Views

MDHHS provided us with the following explanations as to the allowability of these costs. A summary of its explanations and our comments are described below.

Emergency Foster Care

- *MDHHS indicated that any child removed from their home constitutes an emergency situation limited to a duration of not to exceed 364 days.* MDHHS's TANF State Plan limits the emergency services **not to exceed 364 days**; however, this is not consistent with federal law 42 USC 608(a)(10), which limits the activities to a period of 45 consecutive days **or at the state option** a period of not less than 30 and not more than 180 consecutive days. Therefore, MDHHS inappropriately defined and used a temporary absence period inconsistent with federal law to claim the foster care services funded through the TANF Cluster.
- *MDHHS indicated that federal law 42 USC 608(a)(10)(A) does not apply because the child is living with a caretaker relative; therefore, the child is not absent from their family's home.* MDHHS foster care documentation and its management views on what constitutes an emergency situation support that these **children were removed from their home** to live in an unlicensed caretaker relative home. Therefore, the temporary absence period would apply.

Kinship Care

- *MDHHS indicated that since the child is living with a relative (kinship care) the services meet TANF purpose one and also MDHHS may claim expenditures for ongoing assistance and other benefits and services to needy caretaker relatives on behalf of children.* Federal law 42 USC 602(a)(1) requires MDHHS to submit a State Plan that outlines how MDHHS intends to assist needy families to achieve the purposes of TANF; however, MDHHS's TANF State Plan did not describe kinship care services.

Also, these two competing explanations conflict as to the duration of the services allowable under federal regulations. Under the emergency foster care these services should not exceed 180 consecutive days, whereas under kinship care these same services would be considered ongoing.

Whether it claimed these costs under emergency foster care or kinship care, MDHHS did not appropriately describe these potential usages of TANF Cluster funds in its TANF State Plan. Therefore, the finding stands as written.

FINDING 2019-042

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Emergency Foster Care Assistance

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558	
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF	10/01/2017 - Until Expended
	19 01 MI TANF	10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056	

Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	19 01 MI TANF - \$12,770
Repeat Finding	2018-046
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not appropriately consider a child's circumstances to ensure that the child met eligibility requirements for 1 (8%) of 12 sampled TANF Cluster-funded emergency foster care case records. Our review disclosed that because the child had a dual court ward status of abuse/neglect and delinquent, the child did not meet TANF eligibility requirements.

Criteria

Federal law 42 *USC* 604(a)(2) allows MDHHS to use TANF Cluster funds in any manner that MDHHS was authorized to use amounts received under the State's AFDC Plan in effect on either September 30, 1995, or at the State's option, August 21, 1996. The TANF Cluster funding guide states that MDHHS may expend federal funds for activities that were previously authorized under the State's prior AFDC Plan, including certain foster care and juvenile justice expenditures that could not otherwise be claimed under TANF Cluster federal laws and regulation. However, the prior AFDC Plan did not include juvenile justice programs.

Also, ACF Program Instruction (TANF-ACF-PI-2015-02), effective on July 1, 2016, indicates the use of federal TANF funds to provide services to individuals who fall within the jurisdiction of the State's juvenile justice system do not meet any of the purposes of TANF unless previously authorized under the prior AFDC Plan. In addition, *Federal Register* 64:69 (12 April 1999) page 17,823 states that expenditures for residential care including services provided to children in the juvenile justice system do not meet any of the purposes of the TANF program.

Cause

MDHHS indicated that it included relevant data elements from MiSACWIS that were necessary to determine whether the claim should be considered a TANF Emergency Assistance expenditure.

Effect

MDHHS may have made emergency foster care payments on behalf of a child who did not qualify for TANF Cluster federal reimbursement. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$12,770 - federally funded.

Recommendation

We recommend that MDHHS appropriately consider a child's circumstances to ensure that the child meets TANF Cluster eligibility requirements.

Management Views

MDHHS disagrees that a child with a dual court ward status should be ineligible for foster care abuse and neglect services. Although the child in the case identified was eligible for juvenile justice services, the TANF funded payments were for foster care abuse and neglect services for a child that was placed in a foster care placement. The current TANF State Plan and the prior AFDC Plan allow for emergency relief for emergency foster family care.

Auditor's Comments to Management Views

MDHHS may use TANF Cluster funds for emergency foster care services if those services were previously authorized under the prior AFDC Plan. However, the TANF-ACF-PI-2015-2 and *Federal Register* 64:69 (12 April 1999) page 17,823 specify that the use of federal TANF funds, **including expenditures for residential care for individuals in the juvenile justice system**, does not meet any of the purposes of TANF Cluster program. At the time of residential care, the child was in the juvenile justice system with a dual court ward status of abuse/neglect and delinquent. Consequently, these services were not authorized under the prior AFDC Plan and, as a result, the child was not eligible for TANF Cluster funding. Therefore, the finding stands as written.

FINDING 2019-043

TANF Cluster, CFDA 93.558, Special Tests and Provisions - Child Support Non-Cooperation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Special Tests and Provisions - Child Support Non-Cooperation
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-049
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not appropriately and timely sanction TANF Cluster families who did not cooperate with establishing paternity and child support orders in 8 (13%) of the 60 case records reviewed. MDHHS uses an automated interface between the Michigan Child Support Enforcement System (MiCSES) and Bridges to identify and sanction TANF Cluster families not cooperating with establishing paternity and child support orders. Our review noted:

- a. In 7 (88%) of the 8 cases, the automated interface identified that the TANF Cluster family was not cooperating, but the benefits did not stop and the clients' case records did not contain evidence that the clients met good cause criteria for not cooperating.
- b. In 1 (13%) of the 8 cases, the TANF Cluster family inappropriately received multiple negative action periods for the same non-cooperation notice. The family did not cooperate within the first negative action period but cooperated within the second negative action period and, therefore, the benefits were not stopped.

Criteria

Federal regulation 45 *CFR* 264.30 states that MDHHS must deduct an amount equal to not less than 25% from the TANF Cluster assistance that would otherwise be provided to the family of the individual or may deny the family any TANF Cluster assistance. MDHHS's TANF State Plan states that failure to cooperate in establishing paternity and pursuing child support for dependent children will result in TANF Cluster ineligibility for a one-month minimum.

Cause

For part a., MDHHS's internal control did not ensure that county/district office caseworkers apply the appropriate one-month sanction period for the child support non-cooperation. Also, MDHHS indicated that some cases had an ongoing case action at the time of the interface; therefore, the interface could not update the case records for the non-cooperation and generate a negative action notice until the caseworkers certified the cases in Bridges.

Also, in some cases, the automated interface failed to close the cases and send the families an appropriate negative action notice. MDHHS informed us that for these cases, it cannot sanction these families because the families did not receive the negative action notice.

For part b., MDHHS informed us that the county/district office caseworkers inadvertently sent the family a second negative action notice with a new date and, therefore, MDHHS cannot sanction the family because of caseworker error.

Effect

MDHHS may have inappropriately paid TANF Cluster funds to individuals who were ineligible because of failure to comply with child support requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS appropriately and timely sanction TANF Cluster families who do not cooperate with establishing paternity and child support orders.

Management Views

MDHHS agrees with the finding.

FINDING 2019-044

TANF Cluster, CFDA 93.558, Special Tests and Provisions - Penalty for Refusal to Work

Federal Agency	U.S. Department of Health and Human Services		
Pass-Through Entity	Not Applicable		
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558		
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF	10/01/2017 - Until Expended	
	19 01 MI TANF	10/01/2018 - Until Expended	
Total Expenditures of Federal Awards	\$705,282,056		
Compliance Requirement(s)	Special Tests and Provisions - Penalty for Refusal to Work		
Type of Finding	Significant Deficiency		
Known Questioned Costs by FAIN	\$0		

Repeat Finding	2018-050
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not appropriately apply refusal to work sanction requirements for 4 (7%) of the 61 TANF Cluster cases reviewed. We noted:

- a. In 3 of the 4 cases, MDHHS did not appropriately sanction the TANF Cluster recipients who were not cooperating in employment-related activities and were not subject to good cause exceptions established by MDHHS.
- b. In 1 of the 4 cases, MDHHS did not properly determine TANF Cluster benefits when a recipient provided good cause for their inability to cooperate with employment-related activities.

Criteria

Federal regulation 45 *CFR* 261.14 requires MDHHS to reduce or terminate assistance of those recipients who refuse to engage in work and are not subject to good cause exceptions established by MDHHS. MDHHS's TANF State Plan states that if a person fails at application to participate in employment-related activities without good cause, the family is ineligible for assistance and that if a recipient fails to participate in employment-related activities without good cause, the family loses its eligibility for assistance for a minimum of three calendar months and up to a lifetime sanction.

Cause

For part a., the penalty counter in Bridges was not accurate and, therefore, did not apply the appropriate sanction periods for the employment-related non-cooperation. MDHHS informed us that it cannot sanction these recipients because the recipients did not receive the correct sanction notification letter because of system errors.

For part b., MDHHS informed us that the good cause determination occurred after the closure of the recipient's cash assistance case and the local office staff did not document the determination in the case file. MDHHS indicated that it may need to reinstate the case.

Effect

MDHHS may have inappropriately paid TANF Cluster funds to individuals who were ineligible because of failure to comply with employment requirements. Also, MDHHS may have inappropriately sanctioned and terminated TANF benefits for an individual who provided good cause for failure to comply with employment requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS appropriately apply refusal to work sanction requirements for TANF Cluster recipients.

Management Views

MDHHS agrees with the finding.

FINDING 2019-045**TANF Cluster, CFDA 93.558, Special Tests and Provisions - Lack of Child Care for Single Custodial Parent of Child Under Age Six**

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	TANF Cluster: CFDA 93.558
Federal Award Identification Number (FAIN) and Year	18 01 MI TANF 10/01/2017 - Until Expended 19 01 MI TANF 10/01/2018 - Until Expended
Total Expenditures of Federal Awards	\$705,282,056
Compliance Requirement(s)	Special Tests and Provisions - Lack of Child Care for Single Custodial Parent of Child Under Age Six
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

In 1 (8%) of the 12 case records reviewed, MDHHS did not properly determine TANF Cluster benefits when a parent did not engage in required employment-related activities because of their inability to obtain needed child care for a child under the age of six.

Criteria

Federal regulation 45 *CFR* 261.15(a) states that MDHHS may not reduce or terminate assistance based on an individual's refusal to engage in required work if the recipient is a single custodial parent caring for a child under age six who has a demonstrated inability to obtain needed child care. Federal regulation 45 *CFR* 261.56(a) states that the reasons for demonstrating inability to obtain needed child care are that child care is not within a reasonable distance, child care by a relative or under other arrangements is not available or suitable, or child care is not appropriate and affordable. MDHHS's policies and procedures require that a claim of good cause, including inability to obtain needed child care, must be verified and documented in the case file.

Cause

MDHHS informed us that controls were not sufficient to ensure that the local office staff reinstated the case after the good cause determination was documented in the client's case record.

Effect

MDHHS inappropriately discontinued TANF Cluster benefits for an eligible family. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS properly determine TANF Cluster benefits when a parent cannot engage in required employment-related activities because of their inability to obtain needed child care for a child under the age of six.

Management Views

MDHHS agrees with the finding.

FINDING 2019-046

CCDF Cluster, CFDA 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - MWBC Child Care System User Access

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety Requirements
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Department of Licensing and Regulatory Affairs

Background

In accordance with the interagency agreement between MDE and LARA for fiscal year 2019, LARA was responsible for processing and reviewing the required child care provider criminal history checks outlined in the CCDF State Plan. LARA is responsible for maintaining Michigan Workforce Background Check (MWBC) Child Care System used to conduct and record the results of the child care providers criminal history checks.

Condition

LARA did not establish effective access controls over MWBC Child Care System users. Our review of 7 sample users noted:

- a. LARA did not maintain documentation that access was requested for 1 sampled user.
- b. LARA did not ensure that it properly approved access for 6 sampled users.

Criteria

Federal regulation 2 *CFR* 200.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from

unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions.

Cause

LARA used an e-mail process to request access for users. LARA had not designed its controls to ensure that e-mails were retained or that the user's supervisor approved the access request e-mail.

Effect

Without effective user access controls, individuals may obtain unauthorized or inappropriate access to the MWBC Child Care System.

Known Questioned Costs

None.

Recommendation

We recommend that MDE and LARA establish effective user access controls over the MWBC Child Care System.

Management Views

MDE and LARA agree with the finding.

FINDING 2019-047

CCDF Cluster, CFDA 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Client Eligibility

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	Total Questioned Costs: \$374 G1803MICCDF - \$234 G1901MICCDD - \$140
Repeat Finding	2018-051
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Condition

MDE and MDHHS did not ensure compliance with federal laws and regulations relating to client eligibility for CCDF Cluster child care payments for 7 (18%) of 40 cases. Our review disclosed:

- a. MDHHS did not consider all client income when determining eligibility for child care services for 1 (3%) of 40 cases reviewed. As a result, the client was ineligible to receive child care services because the client's income exceeded the income threshold.
- b. MDHHS did not maintain sufficient documentation to support the client's eligibility determination for 1 (3%) of 40 cases reviewed. We noted incomplete supporting documentation related to the client's categorical eligibility.
- c. MDHHS case record documentation was inconsistent with client eligibility information entered in Bridges for 2 (5%) of 40 cases reviewed. We noted for one case, the authorized hours of care in Bridges exceeded the client's documented need for hours of child care services and for the other case, the documentation did not support the family contribution rate used to calculate the payment for child care services.
- d. MDHHS did not appropriately categorize the client's eligibility based on the supporting documentation in the case record for 3 (8%) of 40 cases reviewed. We determined this did not affect the client's eligibility for child care services or level of benefits.

Criteria

Federal regulation 45 *CFR* 98.20 provides eligibility requirements for child care services and permits MDE to establish eligibility requirements in addition to those outlined in the section as long as the additional requirements are not in violation of the regulation. Federal regulation 45 *CFR* 98.16(i)(5) requires that MDE identify additional eligibility requirements in its CCDF State Plan. MDE's CCDF State Plan for Federal Fiscal Years 2019-2021 provides specific requirements for client, child, and provider eligibility. Also, CCDF program policy deems clients are either income eligible or categorically eligible if they participate in certain other programs such as TANF. The client's income or categorical eligibility determines the client's level of benefits.

Federal regulation 45 *CFR* 98.55 allows states to claim expenditures to be matched at the federal medical assistance percentage rate for allowable activities, as described in the approved state plan. In order to receive federal matching funds for a fiscal year, states must also expend an amount of nonfederal funds for child care activities in the state that is at least equal to the state's share of expenditures for the fiscal years 1994 or 1995 (whichever is greater) under Sections 402(g) and 402(i) of the federal Social Security Act as these sections were in effect before October 1, 1995, and the expenditures must be for allowable services or activities, as described in the approved state plan.

Cause

MDHHS informed us that its internal control and monitoring activities were not sufficient to ensure that MDHHS maintained or appropriately considered the required verification documentation in the client's case record to support eligibility.

Effect

We consider this to be a material weakness and material noncompliance because MDE may have made payments on behalf of ineligible clients and because of the high error rates. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$374 - federal share.
- \$207 - State share of costs that MDE inappropriately used as matching expenditures for CCDF Cluster funds.

Recommendations

We recommend that MDE and MDHHS properly consider all client income when determining eligibility for child care services.

We also recommend that MDE and MDHHS maintain sufficient documentation and ensure that Bridges appropriately reflects supporting documentation to support that client eligibility was determined in accordance with eligibility requirements.

Management Views

MDHHS and MDE agree with the finding.

FINDING 2019-048

CCDF Cluster, CFDA 93.575 and 93.596, Cash Management - Cash Management Process

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-021
State Agency	Michigan Department of Education

Condition

MDE did not follow its established cash draw process and prepare reimbursement requests in accordance with the CMIA agreement for the CCDF Cluster. In addition, MDE did not report complete and accurate information to Treasury for noncompliant cash draws. We noted:

- a. MDE did not timely draw for federal reimbursement of benefit payments in 21 (40%) of 52 weeks reviewed. We noted that these draws were delayed from approximately 1 to 15 weeks.
- b. MDE did not timely draw for reimbursement of all administrative expenditures in 27 (52%) of 52 weeks reviewed. We noted that these draws or a portion of the draws were delayed from approximately 1 to 13 weeks.

- c. MDE did not report any noncompliant administrative expenditure draws and reported inaccurate information for benefit payment draws to Treasury for inclusion in the State's calculation of interest. The inaccurate information included the dates that federal draws were received and the explanation as to why the draws were not completed in compliance with the CMIA agreement.

Criteria

The CMIA agreement requires MDE to request funds for benefits such that they are deposited on the dollar-weighted average number of days required for funds to be paid out for a series of disbursements. The amount of the request shall be the sum of the payments issued in the series of disbursements.

The CMIA agreement also requires MDE to request funds weekly for administrative costs such that they are requested on Wednesday for receipt on Thursday. The amount of funds requested shall be based on the amount of expenditures recorded for administrative costs since the last request for funds.

Treasury issues an annual memorandum and a CMIA interest calculation template to State agencies requesting the agencies to complete the template to report any noncompliant draws.

Cause

For parts a. and b., MDE stated that the federal funds for the 2019 grant award were not available in a timely manner which impacted its draw schedule. However, based on our review, MDE did not process its draws in a timely manner after federal funds were available.

Also, for part b., MDE informed us that it usually receives its federal funding in one grant award but it received the 2019 funding in three grant awards; as a result, it did not timely update its system used to calculate the administrative draws.

For part c., MDE stated that the reporting of inaccurate benefit information and failure to report the noncompliant administrative draws was an oversight.

Effect

The department limited its assurance that it complied with the agreed-upon funding techniques between the State and the federal government included in the CMIA agreement. Also, an increased risk exists that Treasury's calculation of the amount of interest owed to or due from the federal government is not accurate. We consider this to be a material weakness and material noncompliance because of the high error rate of noncompliant cash draws and because these draws represented a significant amount of the total reimbursements for the program. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendations

We recommend that MDE follow its established cash draw process and prepare reimbursement requests in accordance with the CMIA agreement for the CCDF Cluster.

We also recommend that MDE report complete and accurate information to Treasury for noncompliant cash draws.

Management Views
MDE agrees with the finding.

FINDING 2019-049

CCDF Cluster, CFDA 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Provider Health and Safety Requirements

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019 G1901MICCDD 10/01/2018 - 09/30/2019
(FAIN) and Year (Continued)	G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety Requirements
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Department of Licensing and Regulatory Affairs

Background

In accordance with the interagency agreement between MDE and LARA for fiscal year 2019, LARA was responsible for performing on-site inspections and licensing of child care providers. LARA completes on-site inspections to issue licenses, to renew licenses at the end of the license period, and to perform an interim inspection during the license period.

Condition

MDE and LARA did not maintain sufficient documentation to support that child care providers met applicable health and safety requirements to be eligible for CCDF Cluster payments. During our review of sampled CCDF Cluster payments to 40 licensed providers and 6 license exempt providers, we noted:

- a. LARA could not verify that 24 providers with license renewals in our audit period met the ongoing training for the minimum required health and safety training topics because the State had not updated its licensing rules by the end of fiscal year 2019 to include all topics in federal regulation 45 *CFR* 98.41.
- b. MDE had not established ongoing training requirements for licensed exempt unrelated providers that included the minimum required health and safety topics.
- c. LARA interim inspections did not include a review of all health and safety requirements.

- d. LARA did not perform or did not perform timely annual on-site inspections for 6 licensed providers. We noted that LARA performed the on-site inspections from 14 to 23 months after the last on-site inspection.
- e. LARA did not ensure that 3 of 31 providers that required a corrective plan submitted and signed the corrective action plan prior to license issuance or renewal.
- f. LARA did not maintain documentation to support that it granted an extension when the license period had expired for 1 provider with a license renewed during fiscal year 2019.

Criteria

Federal regulation 45 *CFR* 98.41 states that the lead agency (MDE) shall have in effect under State, local, or tribal law requirements that are designed, implemented, and enforced to protect the health and safety of children and provides the minimum health and safety topics that must include training on and be applicable to child care providers of services. The regulation also allows for MDE to include additional requirements determined to be necessary to promote child development and to protect children's health and safety as long as the additional requirements are not inconsistent with the parental choice safeguards. Federal regulation 45 *CFR* 98.44 requires MDE to identify in its CCDF State Plan established requirements for pre-service or orientation training in the established health and safety standards and for ongoing professional development that maintains and updates the health and safety standards described in federal regulation 45 *CFR* 98.41.

Federal regulation 45 *CFR* 98.42(b)(2) states that MDE shall certify in its CCDF State Plan that it has monitoring policies and practices applicable to all child care providers eligible to deliver services for which assistance is provided under the CCDF Cluster. MDE must require inspections of licensed child care providers at licensure and not less than annually for compliance with all health and safety requirements described in federal regulation 45 *CFR* 98.41 and fire standards.

Section 5 of MDE's CCDF State Plan for Federal Fiscal Years 2019-2021 provides the State's standards and monitoring processes to ensure providers meet health and safety requirements in the federal regulations.

Cause

MDE was operating under a waiver for health and safety requirements until September 30, 2018. MDE and LARA were still in the process of finalizing changes needed to their monitoring of provider health and safety requirements during fiscal year 2019.

Effect

We consider this to be a material weakness and material noncompliance because of the high error rates and because child care providers may not have complied with all applicable health and safety requirements to receive CCDF Cluster funds resulting in potential improper payments to providers. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend MDE and LARA maintain sufficient documentation to support child care providers meet applicable health and safety requirements to be eligible for CCDF Cluster payments.

Management Views

LARA and MDE agree with the finding.

FINDING 2019-050

CCDF Cluster, CFDA 93.575 and 93.596, Special Tests and Provisions - Fraud Detection and Repayment

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Federal Award Identification Number (FAIN) and Year	G1703MICCDF 10/01/2016 - 09/30/2017 G1803MICCDF 10/01/2017 - 09/30/2018 G1901MICCDF 10/01/2018 - 09/30/2019
(FAIN) and Year (Continued)	G1901MICCDD 10/01/2018 - 09/30/2019 G1901MICCDM 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$219,799,533
Compliance Requirement(s)	Special Tests and Provisions – Fraud Detection and Repayment
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-053
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Background

In accordance with the interagency agreement between MDE and MDHHS for fiscal year 2019, MDHHS was responsible for working with MDE to recoup funds from any provider or client that had an outstanding financial obligation. MDE, as the lead agency, was responsible for establishing a recoupment policy and approving MDHHS's collection efforts. MDE and MDHHS identified child care payments for repayment during the intentional program violation (IPV) review process. If certain criteria were met, this process may have led to the conviction of child care clients and providers on fraud charges.

Condition

MDHHS's Bridges does not routinely send automated notices to providers and clients who had been convicted of fraud and were late in remitting required payments. In addition, MDE and MDHHS had not developed an interim manual process during fiscal year 2019 until such time that this can be automated in Bridges.

MDE did not regularly instruct MDHHS to submit delinquent provider and client claims to the Michigan Department of Treasury for additional collection efforts.

Criteria

Federal regulation 45 *CFR* 98.60(i) requires MDE to recover child care payments that are the result of fraud from the individual responsible for committing the fraud.

Cause

MDE informed us that Bridges work requests were reprioritized for the changes required to be implemented by September 30, 2018 under the reauthorized Child Care and Development Block Grant Act of 2014; therefore, the delinquency date for collections had not been programmed into the Bridges Benefit Recovery System to allow for automated tracking of delinquent claims. In the interim, MDE had not established a manual recoupment policy for MDHHS's collection and referral of claims to the Michigan Department of Treasury.

Effect

The risk that fraudulent child care payments may not be recovered increases when all appropriate repayment efforts are not pursued. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE, in conjunction with MDHHS, develop and implement sufficient processes to help ensure that they pursue repayment efforts for child care fraud convictions.

Management Views

MDE and MDHHS agrees with the finding.

FINDING 2019-051

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments on Behalf of Ineligible Beneficiaries

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$1,820
Repeat Finding	2018-057
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that beneficiary eligibility was updated in CHAMPS. As a result, MDHHS issued \$2,367 for 18 (60%) of 30 payments sampled from a \$5,062,561 population of beneficiary payments with no corresponding Medicaid coverage.

Criteria

Federal regulation 42 *CFR* 435.1002(b) indicates that federal funding is available only for services provided to eligible beneficiaries.

Cause

MDHHS informed us that because of system and interface issues in both Bridges and CHAMPS, eligibility information was not always properly updated, resulting in beneficiaries appearing eligible in CHAMPS and payments being processed based on that eligibility.

Effect

MDHHS made payments on behalf of ineligible beneficiaries. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$1,820 - federal share of payments made to providers on behalf of ineligible beneficiaries.
- \$548 - State share of payments made to providers on behalf of ineligible beneficiaries.

Recommendation

We recommend that MDHHS ensure that beneficiary eligibility is updated in CHAMPS.

Management Views

MDHHS agrees with the finding.

FINDING 2019-052

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - MiAIMS User Access

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-058
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not establish effective access controls over Michigan Adult Integrated Management System (MiAIMS) users. MiAIMS is utilized to record Home Help Program (HHP) case

management activities and process payment authorizations. HHP payments totaled \$324 million in fiscal year 2019. We noted:

- a. MDHHS did not complete an annual review of all MiAIMS users. MDHHS implemented a recertification process in August 2019 but had only recertified 489 (52%) of 942 MiAIMS users as of September 30, 2019.
- b. MDHHS did not perform semiannual reviews for privileged MiAIMS users.
- c. MDHHS did not consistently follow its established policies and procedures over the granting of access to MiAIMS. Our review disclosed:
 - (1) MDHHS did not maintain documentation for 1 (11%) of 9 sampled security agreements.
 - (2) MDHHS did not ensure that security access forms were properly approved for 1 (13%) of 8 sampled security agreements.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that separation of duties must be implemented through assigned information system access authorizations and that privileged user accounts should be reviewed for compliance with account management requirements semiannually for all privileged users and annually for all other accounts.

Cause

For parts a. and b., MDHHS informed us that it had not implemented a user access review process until August 2019. MDHHS also informed us that it had not received security agreements from all MiAIMS users to complete the annual review by fiscal year-end.

For part c., MDHHS informed us that local office security coordinators and supervisors did not receive adequate training regarding the MiAIMS user access process.

Effect

Without effective user access controls, individuals may obtain unauthorized or inappropriate access to MiAIMS.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish effective user access controls over MiAIMS.

Management Views

MDHHS agrees with the finding.

FINDING 2019-053

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Ineligible HHP Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$145,678
Repeat Finding	2018-059
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that HHP clients met HHP eligibility criteria for the services provided. We noted:

- a. 666 payments totaling \$180,648 for days the client resided in a nursing facility.
- b. 96 payments totaling \$45,384 for days the client was hospitalized.

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under HHP. MDHHS has developed the Adult Services Manual (ASM) to further define specific policies and procedures for delivery of Medicaid HHP services.

ASM Section 135 prohibits payment for HHP services on days that a client is admitted to a hospital or nursing home and for all subsequent days of hospitalization, including the day of discharge.

Cause

MDHHS informed us that it has worked with its Office of the Inspector General to implement a post-payment review process to identify providers who were reimbursed when clients were hospitalized or admitted to nursing facilities; however, the post-payment review process is complicated by the lag time (up to one year) associated with MDHHS receiving and processing hospital and nursing facility claims and delays in changes to clients' level of care.

Effect

MDHHS paid a total of \$226,032 for ineligible services from October 1, 2018 through September 30, 2019 for individuals who did not qualify for them because they were hospitalized or were in a nursing facility. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$145,678 - federal share of amounts paid for HHP services for clients from October 1, 2018 through September 30, 2019 who were either hospitalized or in a nursing facility during that same time period.
- \$80,354 - State share of costs that MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure that HHP clients meet HHP eligibility criteria for the services provided.

Management Views

MDHHS agrees with the finding.

FINDING 2019-054

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Home Health Services and Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$16,883
Repeat Finding	2018-060
State Agency	Michigan Department of Health and Human Services

Condition

As originally reported in the performance audit of Home Health Services, Michigan Department of Health and Human Services (391-0700-15), located at audgen.michigan.gov/wp-content/uploads/2016/07/r391070015.pdf, MDHHS did not ensure that home health agencies (HHAs) always maintained appropriate documentation (Finding #1).

Our review of HHAs' documentation of services provided to 15 beneficiaries disclosed that beneficiaries' plans of care did not include all required elements for 12 (80%) of 15 beneficiaries reviewed. Some of the missing elements included the provider's National Provider Identifier, the beneficiary's cognitive status, and information related to advance directives.

Criteria

According to its Medicaid State Plan, MDHHS provides coverage of home health services for eligible Medicaid beneficiaries. Also, MDHHS's policy contained in its Medicaid Provider Manual establishes limitations, restrictions, and other requirements that must be met in order for MDHHS to reimburse Medicaid home health fee-for-service (FFS) claims. In addition, federal regulation 45 *CFR* 75.403 requires that costs conform to any limitations or exclusions and be consistent with policies and procedures that apply to the federal award.

Cause

MDHHS informed us that its standard notifications have not resolved the issue of plans of care with missing information.

Effect

MDHHS did not ensure that HHAs maintained appropriate documentation to support payments made to the HHAs. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$16,883 - federal share of payments made during fiscal year 2019 on behalf of sampled beneficiaries without approval and documentation to support services received.
- \$8,092 - State share of costs that MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure that HHAs maintain appropriate documentation.

Management Views

MDHHS agrees with the finding.

FINDING 2019-055

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Home Help Payment Oversight

Federal Agency	U.S Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$8,307
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not review home help provider invoices to help ensure that home help payments were reflective of the services provided, accurately calculated, and properly approved.

We noted:

- a. 38 payments to individual providers and 24 payments to agency providers, totaling \$3,894 and \$7,910, respectively, for services not supported by the monthly invoice or quarterly log.
- b. 6 payments to individual or agency providers, totaling \$697, for services not reduced by 50% when the client is in a shared living arrangement with other adults who reside in the home.
- c. 44 payments issued to agency providers for services not approved by the adult services supervisor.

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under HHP. MDHHS has developed the ASM to further define specific policies and procedures for delivery of Medicaid HHP services.

ASM Section 140 requires individual providers to submit monthly invoices through CHAMPS for reimbursement and ASM Section 136 requires agency providers to submit monthly invoices or quarterly logs to the adult services workers (ASWs) for approval and reimbursement.

ASM Section 120 requires payments for instrumental activities of daily living (IADL) assessed hours to be reduced by 50% when the client is in a shared living arrangement with other adults who reside in the home, unless the IADLs are completed separately from others who reside in the home.

Cause

For part a., although the Electronic Service Verifications/Paper Service Verifications collect information on completed services, there was no automated review to determine if all services were provided before payment was issued and MDHHS had not established specific criteria for what should be included on agency invoices resulting in missing information on submitted verifications.

For part b., MDHHS informed us that staff provided inadequate worker documentation in case files to support a full IADL payment.

For part c., MDHHS stated that its policy was unclear and allowed for different interpretations on when supervisor approval was required.

Effect

MDHHS paid a total of \$12,501 for services from October 1, 2018 through September 30, 2019 that were not supported by home help provider invoices or accurately calculated. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulations 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$8,307 - federal share.
- \$4,194 - State share.

Recommendation

We recommend that MDHHS review home help provider invoices to help ensure that home help payments are reflective of the services provided, accurately calculated, and properly approved.

Management Views

MDHHS agrees with the finding.

FINDING 2019-056

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Agency Provider Overpayments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$609
Repeat Finding	2018-061, part b.
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that providers paid at the agency rate were on MDHHS's list of approved agencies. Individual provider pay rates ranged from \$9.25 to \$11.00 per hour, whereas agency provider rates ranged from \$13.50 to \$15.50 per hour. MDHHS paid 2 (17%) of 12 providers \$3,000 at the agency rate during fiscal year 2019, an amount that exceeded the individual rates by \$945.

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under HHP. MDHHS developed the ASM to further define specific policies and procedures for delivery of Medicaid HHP services.

ASM Section 136 requires an agency provider to be a current Medicare certified HHA, to be a Community Mental Health Services Program that works with clients who use arrangements that

support self-determination, or to provide MDHHS with the agency's federal employment identification number and evidence that the agency either employed or subcontracted with two or more individuals, excluding the owner, to receive the agency pay rate. ASM Section 136 also states that, after an agency is on the approved provider list, an ASW can authorize payment to the agency at the applicable agency pay rate. Prior to appearing on the approved provider list, ASWs can authorize agencies to be paid at only the applicable individual provider pay rate.

Cause

MDHHS informed us that MiAIMS interfaces with CHAMPS to determine the existence of the approved agency indicator only when a new authorization is entered into MiAIMS and not for each subsequent monthly payment. Therefore, if the CHAMPS approved agency indicator is removed after initial authorization, MiAIMS will continue to make payments at the agency rate. MDHHS also informed us that when ASWs note the agency indicator is removed in CHAMPS, they will manually create new authorizations in MiAIMS that utilize the individual pay rates instead of the agency pay rates. The 2 providers noted were not manually updated in MiAIMS.

Effect

MDHHS overpaid agencies \$945 during fiscal year 2019. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulations 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$609 - federal share of the payments made to providers that exceeded the individual rates.
- \$336 - State share of payments made to providers that exceeded the individual rates and MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure that providers paid at the agency rate are on the MDHHS's list of approved agencies.

Management Views

MDHHS agrees with the finding.

FINDING 2019-057

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Practitioner Reimbursement

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778	
Federal Award Identification Number (FAIN) and Year	1905MI5MAP	10/01/2018 - 09/30/2019
	1905MI5ADM	10/01/2018 - 09/30/2019
	1905MIINCT	10/01/2018 - 09/30/2019
	1905MIIMPL	10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395	

Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	1905MI5MAP - \$148,880
Repeat Finding	2018-064
State Agency	Michigan Department of Health and Human Services

Condition

As originally reported in our performance audit of Medicaid Practitioner Fee-for-Service Reimbursement, Department of Community Health (391-0713-13), located at audgen.michigan.gov/finalpdfs/13_14/r391071313.pdf, MDHHS did not ensure proper payment of practitioner fee-for-service (FFS) claims. We conducted follow-up procedures during the fiscal year 2019 single audit and identified one reportable condition that continued to impact single audit conclusions related to FFS claims paid for beneficiaries simultaneously enrolled in an MHP (Finding #2).

Criteria

According to its Medicaid State Plan, MDHHS provides coverage of practitioner services for eligible Medicaid beneficiaries. Also, MDHHS's policy contained in its Medicaid Provider Manual establishes limitations, restrictions, and other requirements that must be met in order for MDHHS to reimburse Medicaid practitioner FFS claims. In addition, Subpart E of federal regulation 45 *CFR* 75 requires that costs conform to any limitations, exclusions, or conditions and be consistent with policies that apply to the federal award.

Cause

MDHHS stated that eligibility and enrollment are not static, and that CHAMPS is not the system of record for eligibility. CHAMPS must make payments to FFS providers and managed care entities based upon the eligibility and enrollment on the system at the time the payment is made. This sometimes resulted in monthly capitation payments to MHPs for the same months in which FFS payments were made.

Effect

Based on follow-up procedures conducted during the fiscal year 2019 single audit, we determined that MDHHS made improper FFS practitioner payments of \$169,451 from October 1, 2018 through September 30, 2019. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$148,880 - federal share of improper payments made to providers from October 1, 2018 through September 30, 2019.
- \$20,571 - State share of costs that MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure proper payment of practitioner FFS claims for the Medicaid Cluster.

Management Views

MDHHS agrees with the finding.

FINDING 2019-058**Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Special Tests and Provisions - MARIS User Access**

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Special Tests and Provisions - Utilization Control and Program Integrity and Medicaid Fraud Control Unit
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not establish effective access controls over Medicaid Audit Recovery and Investigation System (MARIS) users. MDHHS staff use MARIS to track and investigate complaints alleging Medicaid fraud, waste, or abuse. We noted:

- a. MDHHS did not maintain documentation that access was requested for 1 of 4 sampled users.
- b. MDHHS did not maintain documentation that specified the level of access required for 2 of 3 sampled users with access requests.
- c. MDHHS did not perform semiannual certification of privileged MARIS user accounts to ensure compliance with account management requirements.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires agencies to review privileged user accounts for compliance with account management requirements semiannually.

Cause

For part a., MDHHS informed us that internal control was not sufficient to ensure that user access request documentation was retained.

For part b., MDHHS informed us that when a user access request did not specify the level of access needed, it established the user's role based on the needs of their position.

For part c., MDHHS did not implement a semiannual review process for all users until August 2019.

Effect

Without effective user access controls, individuals may obtain unauthorized or inappropriate access to MARIS.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish effective user access controls over MARIS.

Management Views

MDHHS partially agrees with the finding. MDHHS agrees that semiannual reviews were not conducted on privileged users; however, there was minimal risk that an Office of Inspector General (OIG) employee was provided access inappropriately or that their access level was inappropriate. The OIG documented the access review and approval process electronically within MiLogin.

MARIS requires a two-step authorization to access the system. In one step, a user must request access to MARIS through the State of Michigan's Single Sign-On software, MiLogin. This is approved or denied by the MARIS business owner/division director through MiLogin.

MARIS is used exclusively by the OIG. Any OIG new hire is accompanied with an administration-wide, new staff announcement, which defines the staff member's position/role in the administration, e.g., investigator or manager. All staff are established in MARIS by a MARIS system administrator within the OIG; if the administrator is unsure of the employee's role, they reach out to the employee's supervisor to obtain further information. MDHHS does not believe that a separate process to document the request and the requested access level is necessary.

As noted in the finding, the administration instituted a semiannual review process for all MARIS users as of August 2019.

Auditor's Comments to Management Views

The SOM Technical Standard requires agencies to implement **and document** controls to ensure that users are only granted access necessary to accomplish assigned tasks in accordance with the roles and responsibilities of their job functions. For parts a. and b. of the finding, MDHHS did not retain documentation of the request for access in MiLogin or the e-mails supporting the roles needed. Therefore, this finding stands as written.

FINDING 2019-059

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Special Tests and Provisions – Long-Term Care Facility Audits

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, and 93.778
Federal Award Identification Number (FAIN) and Year	1905MI5MAP 10/01/2018 - 09/30/2019 1905MI5ADM 10/01/2018 - 09/30/2019 1905MIINCT 10/01/2018 - 09/30/2019 1905MIIMPL 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$13,660,453,395
Compliance Requirement(s)	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	Undeterminable
Repeat Finding	2018-065
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not complete on-site audits every 4 years for 2 (11%) of the 18 long-term care providers reviewed. Also, we noted that 11 (61%) of the 18 sampled audits took MDHHS over 2 years to complete after the cost report was received.

Criteria

In accordance with federal regulation 42 *CFR* 447.253, MDHHS's Medicaid State Plan requires that an on-site audit will be conducted no less than once every four years.

Cause

MDHHS indicated that it was in the process of amending the Medicaid State Plan and updating policy to remove the on-site audit requirement during fiscal year 2019. Throughout this time, MDHHS used a risk-based approach to conduct on-site audits and for those not selected, electronic audit documentation was obtained.

Effect

Untimely cost report audits cause delays in identification and resolution of items that could affect final cost settlements and prospective rate determinations. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS ensure that audits of long-term care providers are completed timely.

Management Views

MDHHS agrees with the finding.

FINDING 2019-060

Immunization Cooperative Agreements, CFDA 93.268, Period of Performance - Expenditures Incurred Outside the Period of Performance

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Immunization Cooperative Agreements: CFDA 93.268
Federal Award Identification Number (FAIN) and Year	NH23IP000752 04/01/2017 - 06/30/2019 NH23IP000783 04/01/2017 - 06/30/2019 NH23IP000854 09/30/2016 - 06/30/2019 NH23IP922635 07/01/2019 - 06/30/2020
Total Expenditures of Federal Awards	\$108,996,179
Compliance Requirement(s)	Period of Performance
Type of Finding	Noncompliance
Known Questioned Costs by FAIN	NH23IP000752 - \$363,694
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS requested and received reimbursement of \$363,694 for local health department immunization action plan (IAP) expenditures which were incurred outside the period of performance noted in the federal grant award.

Criteria

Federal regulation 45 *CFR* 75.309 requires grantees to charge to the federal award only costs that were incurred during the period of performance.

Cause

MDHHS informed us that it believed IAP contract payments were on a reimbursement basis; therefore, expenditures paid in July 2019 would be for costs incurred by the local health department for the grant period ended June 30, 2019. However, on the first day of each month, MDHHS prepaid the local health departments 1/12th of its grant.

Effect

By overstating expenditures in a prior period of performance, the federal grantor agency would be unaware of the unused grant award that could be recaptured. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$363,694 - expenditures recorded to the incorrect federal award.

Recommendation

We recommend that MDHHS ensure that local health department IAP expenditures are incurred within the period of performance noted in the federal grant award.

Management Views

MDHHS agrees with the finding.

FINDING 2019-061

Immunization Cooperative Agreements, CFDA 93.268, Special Tests and Provisions - MCIR General Controls

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Immunization Cooperative Agreements: CFDA 93.268
Federal Award Identification Number (FAIN) and Year	NH23IP000752 04/01/2017 - 06/30/2019 NH23IP000783 04/01/2017 - 06/30/2019 NH23IP000854 09/30/2016 - 06/30/2019 NH23IP922635 07/01/2019 - 06/30/2020
Total Expenditures of Federal Awards	\$108,996,179
Compliance Requirement(s)	Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccine
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-067
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Condition

MDHHS and DTMB did not fully establish effective general controls over the Michigan Care Improvement Registry (MCIR). MCIR serves as the central registry for immunization records in the State, as well as the vaccine inventory management system for providers enrolled in the Vaccines for Children program. Our review of selected general controls disclosed:

- a. MDHHS did not fully implement an effective change management process. We sampled records for 40 MCIR changes. The table below documents the control weaknesses noted:

Control Weakness	Number (and Percent) of Sampled Items
MDHHS did not document initiation and approval of the change request.	38 (95%)
MDHHS did not document approvals at one or more stages of the change process.	24 (60%)
MDHHS did not document testing results at one or more stages of process.	30 (75%)
MDHHS did not approve implementing the change in the production environment.	37 (93%)
MDHHS did not document post-implementation approvals.	40 (100%)

- b. DTMB did not fully establish and implement effective security configurations for the MCIR database. The MCIR database management systems contained potentially vulnerable database configurations.
- c. DTMB did not fully establish and implement effective security and access controls over the operating system for MCIR servers.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is

managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

State of Michigan Technical Standard 1340.00.060.04 requires that the Business Owner authorize the change to be developed, authorize push to production, and perform post implementation validation. State of Michigan Technical Procedure 1340.00.060.04.01 requires that each test type have its own set of documentation.

According to the GAO's FISCAM, access to the database should be controlled and monitored because direct access to it could allow an individual to bypass application controls or gain unauthorized access to the operating system. Also, according to FISCAM, entities should control access to audit logs.

State of Michigan Administrative Guide to State Government policy 1340.00 requires approved personnel to adequately manage the configuration of the State's systems, including retaining previous system configurations, configuring approved devices for high-risk areas, tracking and documenting system changes, and assigning privileges of authorized personnel. The policy also states that security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

Cause

For part a., MDHHS had not fully implemented a process to document Change and Release Management requirements at the time of our review.

For part b., DTMB informed us that it had not fully implemented all database specific configuration standards at the time of our review.

For part c., DTMB informed us that it has implemented new internal standards and procedures; however, it is still in the process of operationalizing and updating some remaining procedures.

Effect

Without effective general controls, individuals may obtain unauthorized or inappropriate access or make inappropriate changes to MCIR. As a result, an increased risk exists that MDHHS and DTMB cannot ensure the security of MCIR and its data.

Known Questioned Costs

None.

Recommendation

We recommended that MDHHS and DTMB fully establish effective general controls over MCIR.

Management Views

MDHHS and DTMB agree with the finding.

FINDING 2019-062

Immunization Cooperative Agreements, CFDA 93.268, Special Tests and Provisions - MCIR User Access Controls

Federal Agency	U.S Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Immunization Cooperative Agreements: CFDA 93.268
Federal Award Identification Number (FAIN) and Year	NH23IP000752 04/01/2017 - 06/30/2019 NH23IP000783 04/01/2017 - 06/30/2019 NH23IP000854 09/30/2016 - 06/30/2019 NH23IP922635 07/01/2019 - 06/30/2020
Total Expenditures of Federal Awards	\$108,996,179
Compliance Requirement(s)	Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccine
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-068
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not establish effective access controls over MCIR users. We noted:

- a. MDHHS did not maintain application security agreements for users who are State employees.
- b. MDHHS did not monitor MCIR user accounts for compliance with account management requirements annually.
- c. 2 (25%) of 8 selected users had access rights beyond what was necessary to perform their job responsibilities.

Criteria

Federal regulation 45 *CFR* 75.303 requires the auditee to establish and maintain effective internal control over federal awards that provides reasonable assurance that the auditee is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

According to State of Michigan Administrative Guide to State Government policy 1340.00, security controls must be implemented to protect State of Michigan information from unauthorized access, use, disclosure, modification, destruction, or denial and to ensure confidentiality, integrity, and availability of State of Michigan information.

SOM Technical Standard 1340.00.020.01 requires agencies to implement and document baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires agencies to review user accounts for compliance with account management requirements annually.

Cause

MDHHS informed us that in November 2019, user access controls were adopted utilizing the Database Security Application. However, this process requiring formal approval and annual

recertification was not implemented during the audit period. Also, MDHHS inadvertently granted individuals more access within MCIR than what was needed.

Effect

Without effective user access controls, individuals may obtain unauthorized or inappropriate access to MCIR.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish effective user access controls over MCIR.

Management Views

MDHHS agrees with the finding.

FINDING 2019-063

Child Support Enforcement, CFDA 93.563, Period of Performance - Use of Incorrect Federal Grant Funds for Reimbursement

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Child Support Enforcement: CFDA 93.563	
Federal Award Identification Number (FAIN) and Year	1901 MICEST	10/01/2018 - 9/30/2019
	1901 MICSES	10/01/2018 - 9/30/2019
	1804 MICSES	10/01/2017 - 9/30/2018
	1704 MICEST	10/01/2016 - 9/30/2017
Total Expenditures of Federal Awards	\$140,591,465	
Compliance Requirement(s)	Period of Performance	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs by FAIN	1901 MICSES - \$5,802,618	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Condition

MDHHS did not ensure that it requested reimbursement for Child Support Enforcement (CSE) expenditures using the appropriate federal CSE grant funds. Our review disclosed that MDHHS paid fiscal year 2018 CSE expenditures of \$5,802,618 and requested federal CSE reimbursement from the fiscal year 2019 federal CSE grant funds. The period of performance for the fiscal year 2019 federal CSE grant is from October 1, 2018 through September 30, 2019.

Criteria

Federal regulation 45 CFR 75.309 states that a non-federal entity may charge to the federal award only allowable costs incurred during the period of performance. Also, ACF general terms and conditions for grants states that the grant obligation period will start on the first day of the federal fiscal year for which the award is being issued.

Cause

MDHHS understated its grant year 2018 program expenditures in the federal Payment Management System, therefore, making it appear that MDHHS had drawn federal revenue in excess of its expenditures resulting in ACF requesting funds back and decreasing MDHHS's authorization for grant year 2018. Subsequently, MDHHS drew these fiscal year 2018 expenditures on the fiscal year 2019 grant. MDHHS determined, based on communication with ACF, that it should request reimbursement for fiscal year 2018 expenditures from the fiscal year 2019 grant funds.

Effect

MDHHS requested reimbursement for expenditures that do not qualify for federal reimbursement because these expenditures were outside the period of performance. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$5,802,618 – federal share of expenditures incurred prior to the period of performance.

Recommendation

We recommend that MDHHS request reimbursement for CSE expenditures using the appropriate federal CSE grant funds.

Management Views

MDHHS disagrees with the finding. MDHHS confirmed with the HHS ACF that MDHHS took appropriate action when using current year funding for making prior year increasing adjustments. Per federal regulations 45 *CFR* 95.7 and 2 *CFR* 200, Appendix XI (Compliance Supplement), entitlement grants can use current funding for increasing adjustments up to eight quarters. Federal regulation 45 *CFR* 95.7 allows a state to file a claim for an expenditure within two years after the calendar quarter in which the state agency made the expenditure.

Auditor's Comments to Management Views

MDHHS is correct in stating that, according to federal regulation 45 *CFR* 95.7, it may request reimbursement for up to 2 years; however, to also be in compliance with federal regulation 45 *CFR* 75.309, it should have requested reimbursement against the 2018 grant and not the 2019 grant. Therefore, the finding stands as written.

FINDING 2019-064

Low-Income Home Energy Assistance, CFDA 93.568, Eligibility - Eligibility Determinations

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Federal Award Identification Number (FAIN) and Year	G 18 B1 MI LIEA 10/01/2017 - 09/30/2019 G 18 01 MI LIE4 10/01/2017 - 09/30/2019 G 19 01 MI LIEA 10/01/2018 - 09/30/2020 G 19 01 MI LIE4 10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$172,960,259
Compliance Requirement(s)	Eligibility
Type of Finding	Material Weakness and Material Noncompliance

Known Questioned Costs by FAIN	G 19 01 MI LIEA - \$5,577
Repeat Finding	2018-069
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not maintain sufficient documentation of its efforts to evaluate client eligibility, including the verification of the client's income, assets, and past due notifications received from energy providers for 11 (34%) of 32 sampled LIHEAP-funded State Emergency Relief (SER) energy payments.

Criteria

Federal law 42 *USC* 8624 requires that the State expend funds in accordance with the LIHEAP State Plan and allows MDHHS to use LIHEAP funds to intervene in energy-related crisis situations and assist eligible households to meet the costs of home energy.

MDHHS policy requires county/district office caseworkers to verify and include certain assets or income of SER group members during intake in order to determine eligibility for SER energy services. Also, MDHHS policy states that the payment amount must match the amount on the past due or shut-off notice.

In addition, federal regulation 45 *CFR* 96.30 requires that MDHHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that MDHHS did not use LIHEAP funds in violation of restrictions and prohibitions of LIHEAP laws and federal regulations.

Cause

MDHHS's internal control and monitoring activities were not sufficient to ensure that county/district office caseworkers adhered to established policies and procedures.

Effect

We consider this to be a material weakness and material noncompliance because MDHHS may have made payments on behalf of ineligible recipients and because of the high error rate. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$5,577 - LIHEAP-funded SER energy payments.

Recommendation

We recommend that MDHHS maintain sufficient documentation to support client eligibility for LIHEAP-funded SER energy payments.

Management Views

MDHHS agrees with the finding.

FINDING 2019-065

Foster Care - Title IV-E, CFDA 93.658, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Background Checks

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802
Compliance Requirements	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	19 01 MI FOST - \$1,157
Repeat Finding	2018-071
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that all necessary foster home records checks and out-of-state child abuse and neglect registry checks were completed prior to issuing foster care maintenance payments.

We randomly selected and reviewed 40 foster care payments of which 3 were maintenance payments to tribally licensed providers and 36 were maintenance payments to non-tribal providers. Our review disclosed that the out-of-state child abuse and neglect registry checks on prospective tribal foster parents were not completed prior to issuing 1 maintenance payment and associated tribal foster care license. Also, the records check for an adult member of the household, who turned 18 years of age during the year, was not completed within 30 days for 1 non-tribal maintenance payment.

Criteria

Federal laws 42 USC 671(a)(20)(A) and 42 USC 671(a)(20)(B)(i) require the state to perform criminal records checks and to check any child abuse and neglect registry maintained by the state for any prospective foster parent and request child abuse and neglect registry checks in any other state in which any such prospective parent has resided in the preceding 5 years, before the parent may be finally approved for placement of a child.

Also, the Children's Foster Home Licensing Technical Assistance Manual R 400.12309 (2) and (3) states that the agency shall initiate a new records check of any person who is residing in the home who is 18 years of age or over and that the agency shall initiate a criminal history check of a resident minor within 30 days after turning 18 years of age.

Cause

MDHHS informed us that it historically has placed heavy reliance on honoring tribal sovereignty and did not require that documentation be submitted to support out-of-state child abuse and neglect registry checks to verify for timeliness. MDHHS informed us that an incomplete records check request form for the member who turned 18 was submitted within the 30-day limit; however, the complete request form was not resubmitted until several months later.

Effect

MDHHS may have made payments to ineligible providers. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$1,157 - federal share.

Recommendation

We recommend that MDHHS ensure that all necessary foster home records check and out-of-state child abuse and neglect registry checks are completed prior to issuing foster care maintenance payments.

Management Views

MDHHS agrees with the finding.

FINDING 2019-066

Foster Care - Title IV-E, CFDA 93.658, Reporting - Accuracy of Financial Reports

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Foster Care - Title IV-E: CFDA 93.658
Federal Award Identification Number (FAIN) and Year	19 01 MI FOST 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$126,346,802
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-072
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not submit accurate financial reports to ACF. Our review of the Foster Care - Title IV-E Program quarterly financial reports disclosed:

- MDHHS overstated the Total Number of Children In-Placement - Any Payments or Administrative Costs in All Placement Settings (Line 50) by 3,317 children on the first quarter report and by 3,699 on the second quarter report.
- MDHHS understated the Number of Children Pre-Placement - Title IV-E Funded Candidate Administrative Costs (Line 51) by 494 children on the first quarter report and by 462 on the second quarter report.
- MDHHS overstated Tribal-State Agreement Maintenance Payments - States Foster Family Home (Applicable FMAP Rate) by \$44,050 in the second quarter report.

Criteria

Federal regulation 2 *CFR* 200.302(b)(2) requires grantees to submit accurate financial data in accordance with a grant program's reporting requirements. The reporting instructions include specific details for reporting information, such as expenditures and information on children assisted for the quarter that has just ended.

Cause

MDHHS's internal control and monitoring activities were not sufficient to ensure that financial reports were accurate.

Effect

MDHHS may have diminished the federal grantor's ability to ensure appropriate oversight and monitoring of Foster Care - Title IV-E funds. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS improve its internal control and submit accurate Foster Care - Title IV-E Program financial reports.

Management Views

MDHHS agrees with the finding.

FINDING 2019-067

Adoption Assistance, CFDA 93.659, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments to Ineligible Participants

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 10/01/2017 - 09/30/2018 19 01 MI ADPT 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs by FAIN	19 01 MI ADPT - \$57,417
Repeat Finding	2018-073
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that adoption assistance payments were made to eligible adoptive parents for 20 (48%) of 42 cases identified by MDHHS as potential ineligible program payments.

Criteria

Federal law 42 *USC* 673(a)(3) states that the payments made shall be determined through agreements between the adoptive parents and the state.

In addition, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to adoption assistance payments.

Cause

MDHHS informed us that the adoption assistance agreements completed by MDHHS specifically indicated that the adoptive parents were not eligible for the adoption federal program and were to be funded through another funding source for these cases. Prior to the 2014 MiSACWIS system conversion, the adoptive parents were paid by the other funding source. However, after conversion, staff performed some type of action within MiSACWIS as part of normal business and the funding source changed incorrectly as a result of that worker action.

MDHHS also noted that, in response to the prior audit finding, it created a report of all cases where the funding source changed from the original eligibility determination and corrected the funding source going forward in MiSACWIS for those determined to be in error; however, MDHHS did not complete the necessary accounting transactions to correct the funding source for all of fiscal year 2019.

Effect

MDHHS paid ineligible adoptive parents \$57,417 during fiscal year 2019. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Federal regulation 2 *CFR* 200.516(a)(3) requires the auditor to report known questioned costs that are less than \$25,000 if it is likely that total questioned costs would exceed \$25,000.

- \$57,417 - federal share.
- \$31,671 - State share of costs that MDHHS inappropriately used as matching expenditures for the adoption assistance funds.

Recommendation

We recommend that MDHHS ensure that adoption assistance payments are made to eligible adoptive parents.

Management Views

MDHHS agrees with the finding.

FINDING 2019-068

Adoption Assistance, CFDA 93.659, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking – Adoption Assistance Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT 10/01/2017 - 09/30/2018 19 01 MI ADPT 10/01/2018 - 09/30/2019
Total Expenditures of Federal Awards	\$105,937,344
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking

Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that adoption assistance payments to adoptive parents were accurately calculated in accordance with the negotiated rate for 3 (8%) of 40 cases reviewed.

Criteria

Federal law 42 *USC* 673(a)(3) states that the payments made shall be determined through agreements between the adoptive parents and the State.

In addition, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to adoption assistance payments.

Cause

MDHHS informed us that adoption assistance applications received on or after January 21, 2014 were not eligible for a clothing allowance. MDHHS manually created negotiated rate offsets in MISACWIS until the system was updated on June 18, 2015 to not include the clothing allowance in future calculated rates. The negotiated rate offset was not manually removed by MDHHS when the child turned 13, causing MISACWIS to calculate and pay a rate to the adoptive parents that was less than the negotiated rate.

Effect

MDHHS made payments to adoptive parents that were not consistent with the agreed upon negotiated rate. The federal agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure that adoption assistance payments to adoptive parents are accurately calculated in accordance with the negotiated rate.

Management Views

MDHHS agrees with the finding.

FINDING 2019-069

Adoption Assistance, CFDA 93.659, Matching, Level of Effort, and Earmarking and Reporting - Annual Adoption Savings Calculation and Accounting Report

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Adoption Assistance: CFDA 93.659	
Federal Award Identification Number (FAIN) and Year	18 01 MI ADPT	10/01/2017 - 09/30/2018
	19 01 MI ADPT	10/01/2018 - 09/30/2019

Total Expenditures of Federal Awards	\$105,937,344
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Reporting
Type of Finding	Material Weakness
Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-074, part a.
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure the accuracy of the savings reported to HHS on the cumulative Annual Adoption Savings Calculation and Accounting Report.

MDHHS utilizes a query to determine applicable only status and non-applicable status cases to calculate the required savings for applicable only status cases. We noted the following in our review of MDHHS's query results:

- a. Five (17%) of the 30 cases determined by MDHHS to be applicable only status were not accurately accounted for in this status. In 3 cases, the status was actually non-applicable and MDHHS inappropriately reported savings associated with these 3 cases. In 2 additional cases, MDHHS did not correctly report the dollar amount of savings associated with the cases.
- b. MDHHS did not rerun its corrected query to report accurate savings for fiscal years 2015, 2016, and 2017. The amount of savings reported for these fiscal years is \$20,602,079 (57%) of the total cumulative \$35,979,989 savings reported on the fiscal year 2019 report.

Criteria

Federal law 42 *USC* 673 (a)(8)(A) requires MDHHS to calculate savings realized as a result of applying revised eligibility requirements during the fiscal year.

Federal law 42 *USC* 673(a)(8)(D)(i) requires MDHHS to spend an amount equal to the calculated savings on any service provided to children of families under Part B or E of Title IV of the federal Social Security Act.

Federal laws 42 *USC* 673(a)(8)(B)(ii) and 42 *USC* (a)(8)(B)(iii) require MDHHS to report annually to HHS the savings realized and how the savings were spent on the Annual Adoption Savings Calculation and Accounting Report.

Cause

For part a., MDHHS informed us that it has worked with the federal government to develop a query to calculate the savings; however, inaccurate query criteria was not always detected.

For part b., MDHHS informed us that it had a limited time period to update its report during fiscal year 2019 and chose to focus on correcting fiscal year 2018 query results only.

Effect

MDHHS may have improperly calculated savings and inaccurately reported the information to HHS. We consider this to be a material weakness because of the error rates noted during fiscal year 2019 and errors noted in previous fiscal years that have not been corrected. The federal grantor agency could issue sanction or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure the accuracy of the savings reported to HHS on the Annual Adoption Savings Calculation and Accounting Report.

Management Views

MDHHS agrees with the finding.

FINDING 2019-070

Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, Matching, Level of Effort, and Earmarking - Maintenance of Effort - State Expenditures

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959	
Federal Award Identification Number (FAIN) and Year	TI010026-18	10/01/2017 - 09/30/2019
	B08TI010026-18	10/01/2017 - 09/30/2019
	B08TI010026-19	10/01/2018 - 09/30/2020
Total Expenditures of Federal Awards	\$61,034,084	
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness	
Known Questioned Costs by FAIN	\$0	
Repeat Finding	2018-079	
State Agency	Michigan Department of Health and Human Services	

Condition

MDHHS did not have adequate controls in place to help ensure that it would meet the maintenance of effort (MOE) requirement for State expenditures.

Although we calculated the fiscal year 2018 MOE with corrected information and determined that MDHHS complied with this requirement, our review of the MOE information reported to the federal awarding agency disclosed the following:

- MDHHS did not include co-occurring disorder expenditures of \$1.2 million, which was inconsistent with prior years and understates the 2-year average State expenditures needed to meet the MOE requirement in fiscal years 2019 and 2020.
- MDHHS overstated fiscal year 2016 co-occurring disorder expenditures by \$2.7 million, resulting in an overstatement of the fiscal year 2018 preceding 2-year average State expenditure amount by \$1.4 million.
- MDHHS did not submit its final State MOE expenditures to the federal awarding agency until May 20, 2020, approximately 11 months after the due date of June 2019.

Criteria

Federal law 42 *USC* 300x-30(a) requires MDHHS to maintain expenditures at a level that is not less than the average level of such expenditures maintained by the state for the 2-year period preceding the fiscal year for which the state is applying for the grant. Federal regulation 45 *CFR* 96.134(d) requires MDHHS to consistently apply the composition of the base expenditure amount from year to year. Estimated MOE expenditures are reported by MDHHS to the federal awarding agency 3 months after the fiscal year has ended, and final MOE expenditures are reported 9 months after the fiscal year has ended. Therefore, final fiscal year 2018 State MOE expenditures should have been calculated and reported in June 2019.

Cause

MDHHS informed us that it did not include co-occurring disorder expenditures in the fiscal year 2018 MOE calculation because it had already met its minimum expenditure level. Also, MDHHS informed us that it had not fully developed written policies or procedures regarding the calculation of the MOE requirement for State expenditures until January 2020.

Effect

We consider this to be a material weakness because MDHHS's lack of written policies or procedures led to its improper calculation of State MOE expenditures and inaccurate reporting of expenditures to the federal awarding agency. In addition, without effective controls and consistent application of State MOE expenditures, MDHHS cannot ensure that required levels of State expenditures will be met. Failure to meet the requirement could result in sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS implement controls that help ensure compliance with the MOE requirement for State expenditures.

Management Views

MDHHS agrees with the finding.

FINDING 2019-071

Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, Subrecipient Monitoring - Risk Assessments

Federal Agency	U.S. Department of Health and Human Services		
Pass-Through Entity	Not Applicable		
Assistance Listing and CFDA Number	Block Grants for Prevention and Treatment of Substance Abuse: CFDA 93.959		
Federal Award Identification Number (FAIN) and Year	TI010026-18	10/01/2017 - 09/30/2019	
	B08TI010026-18	10/01/2017 - 09/30/2019	
	B08TI010026-19	10/01/2018 - 09/30/2020	
Total Expenditures of Federal Awards	\$61,034,084		
Compliance Requirement(s)	Subrecipient Monitoring		
Type of Finding	Significant Deficiency		

Known Questioned Costs by FAIN	\$0
Repeat Finding	2018-080
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not evaluate 12 (43%) of 28 subrecipients' risk of noncompliance with program requirements. In addition, MDHHS did not consider subrecipient risk assessment scores when determining appropriate monitoring activities. Our review noted that MDHHS's highest-risk subrecipient underwent less monitoring than 4 sampled lower-risk subrecipients.

Criteria

Federal regulation 45 *CFR* 75.352(b) requires MDHHS to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring related to the subaward.

Cause

MDHHS informed us that it did not evaluate risk of noncompliance for the 12 recipients because of the lack of clear direction on the responsibilities of different MDHHS departments that contribute risk assessment data. In addition, MDHHS informed us that the higher-risk subrecipient received less monitoring than lower-risk subrecipients because of the lack of checks and balances between different MDHHS departments.

Effect

Insufficient monitoring of high-risk subrecipients could increase subrecipients', and potentially MDHHS's, noncompliance with federal statutes, regulations, or the terms and conditions of federal awards. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendations

We recommend that MDHHS evaluate each subrecipient's risk of noncompliance with program requirements.

We also recommend that MDHHS consider its subrecipient risk assessments when determining appropriate monitoring activities for each subrecipient.

Management Views

MDHHS agrees with the finding.

FINDING 2019-072

Disability Insurance/SSI Cluster, CFDA 96.001, Reporting - Accuracy of Reports

Federal Agency	Social Security Administration	
Pass-Through Entity	Not Applicable	
Assistance Listing and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001	
Federal Award Identification Number (FAIN) and Year	1704MIDI00	10/01/2016 - 09/30/2021
	1804MIDI00	10/01/2017 - 09/30/2022
	1904MIDI00	10/01/2018 - 09/30/2023

Total Expenditures of Federal Awards	\$87,456,925
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs by FAIN	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not report the correct number of hours that the Disability Insurance/SSI Cluster employees worked in its fiscal year 2019 third quarter Time Report of Personnel Services for Disability Determination Services (SSA-4514).

We estimated that MDHHS understated the 225,805 total hours reported on the fiscal year 2019 third quarter SSA-4514 by 47,246 (21%) hours.

Criteria

Section 39506.231 of the Program Operations Manual System requires MDHHS to submit a quarterly SSA-4514 report that reflects all the hours worked by employees engaged in the Disability Insurance/SSI Cluster during the reporting period.

Cause

MDHHS relied on a query to generate the SSA-4514 that was not working properly.

Effect

Reporting incomplete information diminishes the Social Security Administration's ability to oversee and monitor the Disability Insurance/SSI Cluster. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure that it reports the correct number of hours that the Disability Insurance/SSI Cluster employees worked in its quarterly SSA-4514.

Management Views

MDHHS agrees with the finding.

Findings Identified by Other Auditors

FINDING 2019-073

Unemployment Insurance, CFDA 17.225

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency - Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Finding 2019-001.

FINDING 2019-074**Unemployment Insurance, CFDA 17.225**

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency - Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Finding 2019-002.

FINDING 2019-075**Unemployment Insurance, CFDA 17.225**

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency - Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Finding 2019-003.

FINDING 2019-076**Unemployment Insurance, CFDA 17.225**

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency - Administration Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Finding 2019-001.

AUDITEE SECTION



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

CHRIS KOLB
DIRECTOR

STATE OF MICHIGAN
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2019

Prior Audit Findings Related to Financial Statements

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 1
Initial Year Written: Fiscal Year 2018
Finding Title: Improved guidance and oversight needed for third party service organization monitoring.

Finding: The State should enhance its oversight of third-party service organizations.

Current Status: State agencies and the Office of Internal Audit Services (OIAS) did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: State agencies and OIAS continue to evaluate review templates and processes related to oversight of third-party service organizations.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 1.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 2
Initial Year Written: Fiscal Year 2018
Finding Title: Detailed procedures needed for cash deposits.

Finding: The Michigan Department of Treasury (Treasury) did not establish detailed procedures for all State agencies regarding cash deposits.

Current Status: Treasury corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 3
Initial Year Written: Fiscal Year 2018
Finding Title: Improvements needed to limit access to confidential information in SIGMA.

Finding: Treasury and the Michigan Department of Health and Human Services (MDHHS) did not sufficiently limit access to confidential information to appropriate users of the information in the Statewide Integrated Governmental Management Applications (SIGMA) system.

Current Status: MDHHS and Treasury did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: Confidential information identified this audit was different in nature than the prior audit and prior year corrective action did not address these types of transactions.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 2.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 4
Initial Year Written: Fiscal Year 2018
Finding Title: Significant improvement needed for financial accounting practices related to capital assets.

Finding: State agencies and the Office of Financial Management (OFM), within the State Budget Office (SBO), did not have sufficient internal control in place to help ensure the accuracy and completeness of the accounting for capital assets, which led to significant correcting transactions.

Current Status: State agencies and OFM did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: Specific internal control weaknesses identified were different in nature than the prior audit and prior year corrective action did not address the issues noted this year.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 7.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 5
Initial Year Written: Fiscal Year 2017
Finding Title: Various improvements needed to internal control.

Finding: State agencies and OFM, within SBO, should improve internal control to help ensure the completeness and accuracy of the State of Michigan Comprehensive Annual Financial Report (SOMCAFR).

Current Status: State agencies and OFM partially corrected the deficiencies noted in the finding. Part a.(1) is no longer applicable because conversion did not occur in fiscal year 2019. State agencies and OFM corrected parts

a.(2), c., and d. of the finding.

Reason(s) For Recurrence: For part b., the corrective action implemented was not comprehensive and did not always include such things as record count, dollar amount, and control totals.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 5.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 6
Initial Year Written: Fiscal Year 2013
Finding Title: Continued improvements needed to processes for establishing and monitoring tax receivables and payables.

Finding: Treasury and OFM, within SBO, should continue to enhance internal control to prevent, or detect and correct, misstatements and help ensure the accuracy of tax accruals.

Current Status: Treasury and OFM partially corrected the deficiencies noted in the finding. Treasury and OFM corrected parts b., c., and f. of the finding.

Reason(s) For Recurrence: For part a., multiple years of data are needed to make a determination of whether a methodology change is warranted. For parts d. and e., the reporting required for corrective action has not yet been able to be successfully created.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 3, parts c., d., and g.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 7
Initial Year Written: Fiscal Year 2017
Finding Title: Improvements needed to MDHHS procedures and communications.

Finding: MDHHS did not have sufficient procedures and enhanced communications among department staff to help ensure the accuracy of accounts receivable and accounts payable transactions.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS corrected parts a. through c. and e. through g. of the finding.

Reason(s) For Recurrence: For part d., new staffing and limited resources caused a delay in corrective action. For part h., limited staffing resources delayed getting the new invoice created and rolled out for agency providers and limited available information technology (IT) funds have delayed corrective action related to individual providers.

Corrective Action: See corrective action for Findings Related to the

Financial Statements, Finding 6, parts e.(2) and e.(3).

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 8
Initial Year Written: Fiscal Year 2017
Finding Title: Improvements needed to various departments' financial accounting practices.

Finding: Various State agencies did not have sufficient internal control to help ensure the accuracy of the accounting information recorded in the *SOMCAFR*.

Current Status: State agencies partially corrected the deficiencies noted in the finding. State agencies corrected parts a.(1), b., and c. of the finding.

Reason(s) For Recurrence: For part a.(2), fiscal year 2020 was the first year a comprehensive reconciliation process was able to be created and completed on the offset fund. This is a legacy system and a process was not able to be developed historically because of reporting limitations. For part a.(3), increased communications and a more thorough supervisor review were needed.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 6, parts d.(1) and d.(3).

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 9
Initial Year Written: Fiscal Year 2012
Finding Title: Improvements needed to MDOT accounts payable.

Finding: The Michigan Department of Transportation (MDOT) did not have sufficient internal control in place to evaluate the dates of service when processing payments and liquidating prior year accounts payable estimates.

Current Status: MDOT did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: MDOT thought there were system limitations that prevented them from accurately tying which payments related to dates of service, however, MDOT has now been able to identify some reports that will help with this.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 8.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 10
Initial Year Written: Fiscal Year 2018

Finding Title: Improvements needed to State compliance with revenue allocations.

Finding: Treasury and MDOT did not have sufficient internal control to help ensure compliance with various sections of the *Michigan Compiled Laws* related to the allocation of revenues and, as a result, tax revenue was incorrectly allocated and was not available for its intended purpose.

Current Status: Treasury and MDOT corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: Finding 11
Initial Year Written: Fiscal Year 2018
Finding Title: Improvement needed to statutory revenue allocations among State funds.

Finding: Treasury should further establish a process to help ensure the accuracy of statutory sales tax revenue allocations among State funds.

Current Status: Treasury did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: Treasury had deemed the estimation methodology was accurate for fiscal year 2019 but will use the suggested methodology starting in fiscal year 2020 after comparing to the industry estimate to determine appropriateness.

Corrective Action: See corrective action for Findings Related to the Financial Statements, Finding 6, part d.(2).

Prior Audit Findings Related to Federal Awards

Audit Period: October 1, 2013 through September 30, 2014
Finding Number: 2014-005
Initial Year Written: Fiscal Year 2013
Finding Title: High-Risk Security and Access Controls
Finding: MDHHS and DTMB had not established effective security management and access controls for significant systems used to administer federal programs.

Current Status: MDHHS and the Department of Technology, Management, and Budget (DTMB) corrected the deficiencies noted in the finding as of March 6, 2019.

Audit Period: October 1, 2014 through September 30, 2015
Finding Number: 2015-023
Initial Year Written: Fiscal Year 2015
Finding Title: Fish and Wildlife Cluster, CFDA 15.605, 15.611, and 15.626, Reporting and Special Tests and Provisions - RSS Controls

Finding: The Department of Natural Resources (DNR) did not obtain a third-party review of the operating effectiveness of general controls that covered all of the contractual responsibilities, such as processing integrity, of the vendor hosting the Retail Sales System (RSS).

Current Status: The audit finding does not warrant further action.

Two years have passed since the audit report in which the finding occurred was submitted to the Federal Audit Clearinghouse.

The U.S. Department of the Interior is not currently following up with DNR on the audit finding and a management decision was not issued.

Audit Period: October 1, 2015 through September 30, 2016
Finding Number: 2016-055
Initial Year Written: Fiscal Year 2015
Finding Title: Children's Health Insurance Program, CFDA 93.767, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Reclassification Errors

Finding: MDHHS inappropriately reclassified 4 (19%) of 21 payments from the Medicaid Cluster to the Children's Health Insurance Program (CHIP).

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: Limited IT resources and funding limitations have delayed implementation of all corrective actions.

Corrective Action: See corrective action for Finding 2019-016.

Audit Period: October 1, 2016 through September 30, 2017
Finding Number: 2017-021
Initial Year Written: Fiscal Year 2017
Finding Title: MDE, Subrecipient Monitoring - Subaward Information

Finding: The Michigan Department of Education (MDE) did not report to its subrecipients all subaward information as required by the Uniform Guidance.

Current Status: MDE partially corrected the deficiencies noted in the finding. MDE corrected part b. of the finding in fiscal year 2018.

Reason(s) for Recurrence: MDE is still in the development phase of revising the subrecipient application in the Michigan Electronic Grants System Plus (MEGS+) for requirement changes in the fiscal year 2021 applications. These revisions will include indirect cost rate tracking

Corrective Action: In fiscal year 2019, MDE began providing a portion of

the Grant Award Notification (GAN) information to subrecipients as required in federal regulation 2 *CFR* 200.331(a). MDE is in the process of implementing a system change to include indirect cost rate tracking to ensure that all subaward information is reported to subrecipients as required by the Uniform Guidance. MDE anticipates corrective action by September 30, 2020.

Audit Period: October 1, 2016 through September 30, 2017
Finding Number: 2017-055
Initial Year Written: Fiscal Year 2017
Finding Title: Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - HHP Provider Overpayments

Finding: MDHHS did not ensure that payments to Home Help Program (HHP) providers in excess of the authorized amount received prior approval for 5 (19%) of 26 sampled overpayments.

Current Status: MDHHS corrected the deficiencies noted in the finding as of September 23, 2019.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-001
Initial Year Written: Fiscal Year 2018
Finding Title: Access Limitations for Confidential Information in SIGMA

Finding: MDHHS interfaced transactions from the Michigan Statewide Automated Child Welfare Information System (MiSACWIS) and the Bridges Integrated Automated Eligibility System (Bridges) to SIGMA that displayed certain identifying information within the check description in SIGMA.

MDHHS did not provide sufficient guidance to staff to ensure that confidential documentation was not included in SIGMA as transaction support.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: For part a., MDHHS has continued to work with SIGMA, subsystem leads, DTMB DataStage, MDHHS compliance and various business and technical leads to identify the best approach to remediate the deficiencies; however, the system changes to correct the deficiency have yet to be implemented.

For part b., MDHHS no longer attaches documentation with confidential information in SIGMA; however, this process was not fully implemented until October 31, 2018.

Corrective Action: See corrective action for Finding 2019-001.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-002
Initial Year Written: Fiscal Year 2011
Finding Title: Bridges Interface and Change Controls

Finding: MDHHS and DTMB did not ensure that effective interface and change controls were implemented for Bridges related to eligibility and benefit level for the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Child Care and Development Fund (CCDF) Cluster, Medicaid Cluster, Low-Income Home Energy Assistance Program (LIHEAP), and CHIP.

Current Status: MDHHS and DTMB did not correct the deficiencies noted in parts through a. through c. of the finding. The deficiencies noted in parts d. through f. of the finding are no longer applicable because ClearCase and ClearQuest were replaced in November 2018.

Reason(s) For Recurrence: For parts a. and b., MDHHS and DTMB determined that consistent design requirements were not in place when the Bridges interfaces were designed and implemented.

For part c., MDHHS's development of its new Compliance Office and subsequent change in the privacy and security roles within the agency have delayed the review of existing data sharing agreements.

Corrective Action: See corrective action for Finding 2019-002.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-003
Initial Year Written: Fiscal Year 2011
Finding Title: Bridges Security Management and Access Controls

Finding: MDHHS and DTMB had not established effective security management and access controls over Bridges users.

Current Status: MDHHS and DTMB did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: For part a., MDHHS internal control and monitoring activities were not sufficient to ensure that incompatible role exception requests were maintained and updated annually.

For parts b. and f., MDHHS internal control and monitoring activities were not sufficient to ensure timely completion and maintenance of security monitoring reports because of a lack of resources.

For part c., DTMB database specific configuration standards were not fully implemented during fiscal year 2019.

For part d., MDHHS has not been able to appropriately update processes and the Bridges security agreement form in a timely manner for the Bridges Universal Case Load (UCL) implementation because of constant UCL changes. These updates would assist requestors with adequately documenting UCL approvals and security administrators with appropriately granting Bridges UCL access.

For part e., DTMB has implemented many new operating system standards; however, DTMB was still in the process of operationalizing and updating some remaining processes during fiscal year 2019.

For part g., MDHHS internal control and monitoring activities were not sufficient to ensure timely completion and maintenance of security monitoring reports.

Corrective Action: See corrective action for Finding 2019-003.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-004
Initial Year Written: Fiscal Year 2016
Finding Title: Income Eligibility and Verification System

Finding: MDHHS and DTMB did not request and obtain Income Eligibility and Verification System (IEVS) information for all recipients. In addition, MDHHS did not ensure that county/district office caseworkers considered and used IEVS information when making eligibility and benefit level determinations for these programs.

Current Status: MDHHS and DTMB partially corrected the deficiencies noted in the finding. MDHHS corrected part h. of the finding.

Reason(s) For Recurrence: For parts a. through d., MDHHS and DTMB determined it would take considerable resources to correct the cited deficiencies. The departments instead devoted valuable IT resources to the Bridges Modernization Project rather than correcting deficiencies in the current version of Bridges.

For part e., MDHHS did not establish and implement the applicable IEVS interfaces to validate income, social security number, criminal background, or citizenship because it believes this is only required at adoption because program eligibility is based on the child and not the adoptive parents. MDHHS has clarified this in its state plan and is awaiting federal approval.

For part f., MDHHS did not obtain access to the Social Security Administration's (SSA's) death records because of changes in the SSA's death records subscription process.

For part g., there was a disconnect in the remittance process of the paper warrant payment to the U.S. Department of Health and Human

Services (HHS) Administration for Children and Families (ACF), which caused a delay in getting the file.

Corrective Action: See corrective action for Finding 2019-004.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-005
Initial Year Written: Fiscal Year 2016
Finding Title: ADP Security Program

Finding: MDHHS and DTMB did not ensure that a comprehensive automated data processing (ADP) security program was established for information systems used to administer their federal programs.

Current Status: MDHHS and DTMB partially corrected the deficiencies noted in the finding. The departments corrected part c. of the finding.

Reason(s) For Recurrence: MDHHS and DTMB have focused resources on federal and State mandates while also maintaining operational needs and addressing IT security risks highlighted in prior audits. Limited resources at MDHHS and DTMB have caused delays in the completion of a comprehensive ADP security program.

Corrective Action: See corrective action for Finding 2019-005.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-006
Initial Year Written: Fiscal Year 2014
Finding Title: MiSACWIS Security Management and Access Controls

Finding: MDHHS and DTMB had not established effective security management and access controls over MiSACWIS.

Current Status: MDHHS and DTMB did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: For parts a. and b., MDHHS local office security coordinators and security administrators did not follow established policies and procedures regarding granting of MiSACWIS access.

For part c., DTMB did not correct this deficiency due to limited resources and staff turnover.

For part d., DTMB has implemented many new operating system standards; however, DTMB was still in the process of operationalizing and updating some remaining processes during fiscal year 2019.

For part e., MDHHS was establishing a process to identify and monitor high-risk transactions; however, this process was not in place during

fiscal year 2019.

For part f., MDHHS developed and implemented a process to monitor user accounts; however, this process was not in place during fiscal year 2019.

Corrective Action: See corrective action for Finding 2019-006.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-007
Initial Year Written: Fiscal Year 2013
Finding Title: CHAMPS Security Management and Access Controls

Finding: MDHHS and DTMB had not established effective security management and access controls over the Community Health Automated Medicaid Processing System (CHAMPS).

Current Status: MDHHS and DTMB did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: For parts a. and b., DTMB implemented many new operating system standards; however, DTMB was still in the process of operationalizing and updating some remaining processes during fiscal year 2019.

For part c., due to a system error, users were granted access that had been previously revoked.

Corrective Action: See corrective action for Finding 2019-007.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-008
Initial Year Written: Fiscal Year 2018
Finding Title: EGrAMS Security Management and Access Controls

Finding: MDHHS had not established effective security management and access controls over Electronic Grants Administration and Management System (EGrAMS) users.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: For part a., user access is recertified and rolled forward each year based on the original approved and signed access form because of the nature of grant agreements. Also, the checklist used for the annual recertification is a job aid that is discarded after the reviewer completes the recertification.

For part b., MDHHS had not performed semi-annual reviews because it had a limited number of privileged users and would be able to identify if access was no longer needed.

Corrective Action: See corrective action for Finding 2019-008.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-009
Initial Year Written: Fiscal Year 2013
Finding Title: MDE, IT General Controls

Finding: MDE and DTMB did not fully establish effective general controls over MEGS+, Food Nutrition System - Fiscal Reporting System (FNS-FRS), Cash Management System (CMS), and Grant Electronic Monitoring System/Michigan Administrative Review System (GEMS/MARS).

Current Status: MDE and DTMB did not correct the deficiencies noted in the finding for the systems noted in Finding 2019-009 and FNS-FRS.

Reason(s) For Recurrence: DTMB resource constraints contributed to the repeat finding. After resource constraints were resolved, DTMB developed necessary training and processes.

Corrective Action: See corrective action for Finding 2019-009.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-010
Initial Year Written: Fiscal Year 2017
Finding Title: MDE, IT Security Management and Access Controls

Finding: MDE did not fully establish effective security management and access controls over MEGS+, FNS-FRS, CMS, and GEMS/MARS.

Current Status: MDE did not correct the deficiencies noted in the finding for the systems noted in Finding 2019-010 and FNS-FRS.

Reason(s) For Recurrence: The revised policy was not finalized until December 1, 2019.

Corrective Action: See corrective action for Finding 2019-010.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-011
Initial Year Written: Fiscal Year 2014
Finding Title: MDHHS, PACAP - Completeness and Accuracy of the PACAP

Finding: MDHHS did not ensure that it had a complete and accurate narrative in its amended Public Assistance Cost Allocation Plan (PACAP).

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS did not correct part a. of the finding for the programs included

in Finding 2019-011 and LIHEAP. MDHHS corrected parts b. and c. of the finding.

Reason(s) For Recurrence: MDHHS created a report to identify SIGMA coding that does not match the PACAP narrative; however, MDHHS did not always correct coding discrepancies identified in the report.

Corrective Action: See corrective action for Finding 2019-011.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-012
Initial Year Written: Fiscal Year 2014
Finding Title: MDHHS, PACAP - Inappropriate PACAP Allocation

Finding: MDHHS did not ensure that it used the appropriate PACAP data and account codes to allocate expenditures to its federal programs.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS did not correct part a. of the finding for the programs included in Finding 2019-012 and LIHEAP. MDHHS corrected part b. of the finding.

Reason(s) For Recurrence: MDHHS increased quality control procedures; however, some errors occurred before the quality control procedures were implemented.

Corrective Action: See corrective action for Finding 2019-012.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-013
Initial Year Written: Fiscal Year 2015
Finding Title: MDHHS, PACAP - Inappropriate PACAP Allocation Basis

Finding: MDHHS did not allocate federal expenditures based on the allocation methods described in the PACAP for 8 (50%) of the 16 sampled cost pools.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-014
Initial Year Written: Fiscal Year 2018
Finding Title: MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; and Matching, Level of Effort, and Earmarking - Expenditure Processing for Medical Payments

Finding: MDHHS did not ensure that Bridges and CHAMPS contained the correct Medicaid Cluster and CHIP eligibility information to record

expenditures to the appropriate program at the time of payment and to ensure that the related federal draw was accurate and timely.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: Due to funding limitations and competing IT priorities, the Bridges enhancement to correct eligibility classifications has not been prioritized for development.

Corrective Action: See corrective action for Finding 2019-016.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-015

Initial Year Written: Fiscal Year 2017

Finding Title: MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Eligibility Interface Errors

Finding: MDHHS did not maintain documentation to support that eligibility records with identified errors and excluded from eligibility interface processing for 6 (60%) of 10 sampled daily interface runs were investigated, corrected, and resubmitted for processing as appropriate.

Also, MDHHS did not investigate, correct, and resubmit for processing in a timely manner eligibility records with identified errors for 3 (30%) of 10 sampled daily interface runs.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: MDHHS staffing was not sufficient to ensure timely remediation

Corrective Action: See corrective action for Finding 2019-018.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-016

Initial Year Written: Fiscal Year 2008

Finding Title: MDHHS, Allowable Costs/Cost Principles and Special Tests and Provisions - Provider Eligibility

Finding: MDHHS did not obtain all required disclosures or ensure that disclosures were timely updated and approved in CHAMPS for the Prepaid Inpatient Health Plan (PIHP) entities, Medicaid Health Plan entities, the Dental Health Plan entity, or the Pharmacy Benefits Manager during the audit period. In addition, MDHHS did not monitor its MI Choice Waiver Program (MI Choice) entities' network of providers or its Dental Health Plan entity's network of providers to ensure that the providers entered into provider agreements and made required disclosures.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS began monitoring its Dental Health Plan entity's network of providers during fiscal year 2019.

Reason(s) for Recurrence: Due to staff turnover and limited staff resources, MDHHS was unable to timely update and approve all required disclosures. In addition, limited resources resulted in the MI Choice entities' network of providers not being monitored for provider agreements and required disclosures.

Corrective Action: See corrective action for Finding 2019-019.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-017
Initial Year Written: Fiscal Year 2018
Finding Title: MDHHS, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Pharmacy Rebate Validations

Finding: MDHHS did not complete and obtain management approval for 7 (88%) of 8 pharmacy rebate validations totaling \$1.2 billion, which are performed to help ensure that MDHHS received the expected rebate amounts.

Current Status: MDHHS corrected the deficiencies noted in the finding as of September 23, 2019.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-018
Initial Year Written: Fiscal Year 2018
Finding Title: MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Provider Eligibility

Finding: MDHHS made 1 (50%) of 2 sampled foster care maintenance and treatment payments related to the Continuum of Care funding model to an ineligible provider.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-019
Initial Year Written: Fiscal Year 2018
Finding Title: MDHHS, Cash Management - Cash Management Process

Finding: MDHHS did not design its cash draw process to prepare reimbursement requests in accordance with the Cash Management Improvement Act (CMIA).

In addition, MDHHS did not report complete and accurate information to Treasury for noncompliant cash draws.

Current Status:

MDHHS partially corrected the deficiencies noted in the finding. MDHHS corrected the deficiencies noted for the SNAP Cluster, Aging Cluster, and the Immunization Cooperative Agreements program. MDHHS did not correct the deficiencies noted for the programs included in Finding 2019-013.

Reason(s) for Recurrence: For part a., MDHHS delayed some 2019 draws because it was in the process of changing funding techniques prescribed in the CMIA and to further review the cash draw issues that were identified in fiscal year 2018, the implementation year for SIGMA. In addition, staffing issues such as having inexperienced staff and being understaffed, as well as competing priorities, contributed to the delay in the draws.

For part b., MDHHS internal control and monitoring activities were not sufficient to ensure that MDHHS reported complete and accurate information to Treasury. In addition, staffing limitations, as well as competing priorities, contributed to the incomplete and inaccurate information reported to Treasury.

Corrective Action: See corrective action for Finding 2019-013.

Audit Period:

October 1, 2017 through September 30, 2018

Finding Number:

2018-020

Initial Year Written:

Fiscal Year 2018

Finding Title:

MDHHS, Subrecipient Monitoring - Subaward Information

Finding:

MDHHS did not report to its subrecipients all subaward information as required by the Uniform Guidance.

Current Status:

MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Due to oversight and human error, MDHHS did not amend all subawards once subaward information was available, did not always add subaward information to agreements or the website, and did not always provide the correct subaward information to subrecipients. In addition, in some instances the information was not available at the time MDHHS developed and executed the subawards.

Corrective Action: See corrective action for Finding 2019-014.

Audit Period:

October 1, 2017 through September 30, 2018

Finding Number:

2018-021

Initial Year Written:

Fiscal Year 2017

Finding Title:

MDE, Cash Management - Cash Management Process

Finding: MDE did not draw funds in accordance with the CMIA agreement and did not notify Treasury of the noncompliant draws.

Current Status: MDE partially corrected the deficiencies noted in the finding. MDE did not correct parts a., b., and d. of the finding for the program included in Finding 2019-048 and the Title I Grants to Local Educational Agencies program. MDE corrected part c. of the finding.

Reason(s) for Recurrence: Updated manual processes did not properly address the issue. MDE will update the system to address the findings. Due to limited resources, MDE did not fully analyze the root cause to allow for proper troubleshooting during fiscal year 2019.

Corrective Action: See corrective action for Finding 2019-048.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-022
Initial Year Written: Fiscal Year 2016
Finding Title: DTMB, Procurement and Suspension and Debarment - Lack of Required Contract Provisions

Finding: DTMB did not include all applicable required provisions in 15 (83%) of 18 sampled contracts of federal awards executed during fiscal year 2018.

Current Status: DTMB Central Procurement did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Due to an oversight, the solicitation manager did not attach the Federal Provisions Addendum to a cooperative agreement (one which was competitively bid by another state), which was leveraged by the state.

Corrective Action: The solicitation manager has been advised of the necessity of attaching the Federal Provisions Addendum to all state contracts with federal funds, including cooperative agreements bid out by other states. DTMB Central Procurement will continue to ensure that the Federal Provisions Addendum, which contains all required federal provisions, is attached to all statewide contracts and contracts containing federal funds. In addition, the importance and requirements for usage of the Federal Provisions Addendum continues to be reviewed with purchasing professionals in the Achievement in Michigan Procurement certification program.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-023
Initial Year Written: Fiscal Year 2018
Finding Title: SNAP Cluster, CFDA 10.551 and 10.561, Allowable Costs/Cost

Principles and Matching, Level of Effort, and Earmarking - Outreach FFP

Finding: MDHHS did not have sufficient controls in place to monitor the total State and vendor match for outreach activities.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-024

Initial Year Written: Fiscal Year 2018

Finding Title: SNAP Cluster, CFDA 10.551 and 10.561, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - System and Organization Controls

Finding: MDHHS could improve its monitoring effectiveness of general controls, such as security, for the subservice organizations that provide various services to the State's electronic benefits transfer (EBT) service provider.

Current Status: MDHHS partially corrected the deficiencies noted in the finding.
MDHHS corrected part b. of the finding.

Reason(s) for Recurrence: A review of the operating effectiveness of general controls for the subservice organizations was not included in MDHHS monitoring activities of the State's EBT service provider.

Corrective Action: See corrective action for Finding 2019-020.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-025

Initial Year Written: Fiscal Year 2015

Finding Title: WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Allowable Costs/Cost Principles - MI-WIC IT General Controls

Finding: MDHHS and DTMB did not fully establish effective general controls over the Michigan Women, Infants, and Children Information System (MI-WIC).

Current Status: MDHHS and DTMB did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: DTMB had not fully implemented all database specific configuration standards at the time of review. Also, DTMB has implemented many new operating system standards; however, DTMB was still in the process of operationalizing and updating some remaining processes during fiscal year 2019.

Corrective Action: See corrective action for Finding 2019-021.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-026
Initial Year Written: Fiscal Year 2017
Finding Title: WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Procurement and Suspension and Debarment - Procurement Procedures

Finding: MDHHS did not procure services in accordance with State policies and procedures.

Current Status: The deficiencies noted for the finding are no longer applicable because MDHHS changed contractors in fiscal year 2019 and the procurement was not subject to the same requirements.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-027
Initial Year Written: Fiscal Year 2018
Finding Title: WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Special Tests and Provisions - Compliance Buys of High-Risk Vendors

Finding: MDHHS did not conduct compliance buys on a minimum of 5% of the 1,749 vendors authorized by MDHHS as of October 1, 2017.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: The proper funding was removed from the Women, Infants, and Children (WIC) line item in the fiscal year 2019 budget and therefore, MDHHS were not able to hire the appropriate contracted services for the inventory audits. The funding was restored in the fiscal year 2020 budget.

Corrective Action: See corrective action for Finding 2019-023.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-028
Initial Year Written: Fiscal Year 2018
Finding Title: Child and Adult Care Food Program, CFDA 10.558, Subrecipient Monitoring - Subaward Information

Finding: MDE did not report to its subrecipients all subaward information as required by the Uniform Guidance.

Current Status: MDE did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDE is still in the development phase of revising the subrecipient application in MEGS+ for requirement changes

in the fiscal year 2021 applications. These revisions will include indirect cost rate tracking.

Corrective Action: In fiscal year 2019, MDE began providing a portion of the GAN information to subrecipients as required in federal regulation 2 CFR 200.331(a). MDE is in the process of implementing a system change to include indirect cost rate tracking to ensure that all subaward information is reported to subrecipients as required by the Uniform Guidance. MDE anticipates corrective action by September 30, 2020.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-029
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Period of Performance - Propriety of Expenditures

Finding: The Department of Military and Veterans Affairs (DMVA) did not ensure that controls for the propriety of expenditures were in place.

Current Status: DMVA partially corrected the deficiencies noted in the finding. DMVA corrected parts b. and c. of the finding.

Reason(s) for Recurrence: Employee time sheets were not always properly approved because supervisors were in the process of being changed, a supervisor was not assigned in SIGMA at that time, or the employee did not follow DMVA's process to subsequently certify a supervisor submitted timesheet.

Corrective Action: See corrective action for Finding 2019-024.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-030
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Cash Management - Timeliness of Cash Draws

Finding: DMVA did not design its cash draw process to prepare reimbursement requests in accordance with the CMIA agreement. In addition, DMVA did not report complete and accurate information to Treasury for noncompliant cash draws.

Current Status: DMVA partially corrected the deficiencies noted in the finding. DMVA corrected part b. of the finding.

Reason(s) for Recurrence: For part a., prior year-end closing activities and delays in receiving information from federal program managers impacted the timeliness of draws.

For part c., based on DMVA's interpretation of Treasury's instructions, DMVA excluded untimely draw requests made during fiscal year 2019 when it had not received the funds as of September 30, 2019. Also, DMVA did not consider all factors impacting the timeliness of draws when explaining the reason for the cash draw noncompliance.

Corrective Action: See corrective action for Finding 2019-025.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-031
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Ineligible Requests for Reimbursement

Finding: DMVA did not ensure that it had executed initial cooperative agreement modifications or had sufficient funding before it submitted 143 (15%) of 960 requests for reimbursement of program expenditures totaling \$8,675,876 to the United States Property and Fiscal Office (USPFO).

Current Status: DMVA partially corrected the deficiencies noted in the finding. DMVA implemented controls to track reimbursements compared to funding. DMVA changed its tracking worksheets to track the cumulative amount of reimbursement requests and the amount of remaining funds available. In addition, DMVA had initial cooperative agreement modifications signed at the beginning of fiscal year 2019.

Reason(s) for Recurrence: DMVA had already submitted 2019 appendices requests for reimbursement prior to the execution of cooperative agreement modifications with funding at the time the worksheets were adjusted.

For prior funding years, DMVA submitted some reimbursement requests without sufficient funding because it anticipated that the USPFO would execute a cooperative agreement modification to adjust the funding during the closeout process to cover the reimbursements. In addition, federal program managers did not always submit necessary financial information to the USPFO to generate the cooperative agreement modifications.

Corrective Action: See corrective action for Finding 2019-026.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-032
Initial Year Written: Fiscal Year 2018
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Notifications for Appendices Exceeding 90% Threshold

Finding: DMVA did not notify the USPFO when 12 (92%) of 13 fiscal year 2018 appendices exceeded 90% of the Annual Funding Program (AFP) limitation amount.

Current Status: DMVA partially corrected the deficiencies noted in the finding. DMVA implemented controls to track if appendices are expected to exceed 90%.

Reason(s) for Recurrence: DMVA only sent notices to the USPFO when the running balance identified that the prepared reimbursement requests exceeded 90% of the AFP. DMVA did not send the notices when the running balance identified the remaining estimated expenditures and outstanding obligations at fiscal year-end would cause the National Guard Bureau's share to exceed 90%.

Corrective Action: See corrective action for Finding 2019-027.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-033
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Disclosure of Obligations

Finding: DMVA did not properly disclose obligations on extension requests sent to the USPFO.

Current Status: DMVA partially corrected the deficiencies noted in the finding. DMVA corrected part b. of the finding.

Reason(s) for Recurrence: Due to an oversight, one obligation was not properly disclosed to the USPFO.

For the other expenditure, DMVA did not have a process to identify recurring monthly expenditures that do not relate to purchase orders or for invoices that have not yet been received when DMVA prepares the list of obligations for the extension requests.

Corrective Action: See corrective action for Finding 2019-028.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-034
Initial Year Written: Fiscal Year 2018
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Performance - Timeliness of Appendix Final Accounting

Finding: DMVA did not submit on a timely basis a final accounting of all funding and disbursements for 2 (13%) of 16 appendix agreements that closed

during fiscal year 2018.

Current Status: DMVA did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: For one appendix, the untimely submittal was an oversight and for the other, DMVA could not reach agreement with various federal representatives as to when it was acceptable to close out the appendix agreement.

Corrective Action: See corrective action for Finding 2019-029.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-035
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Procurement and Suspension and Debarment - Procurement Procedures

Finding: DMVA did not ensure that all procurements followed State policies and procedures.

Current Status: DMVA partially corrected the deficiencies noted in the finding. DMVA corrected part a. of the finding.

Reason(s) for Recurrence: Not completing and maintaining the due diligence form was an oversight.

Corrective Action: For part b., DMVA communicated to field staff the requirement that they provide justification and a due diligence statement on contract purchases under \$5,000. However, DTMB Central Procurement subsequently made updates to the Michigan Procurement Policy Manual on April 23, 2020, to state that "due diligence is encouraged" rather than it being required on contract purchases under \$5,000.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-036
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Procurement and Suspension and Debarment - Procurement Documentation

Finding: DMVA and DTMB did not maintain documentation to substantiate that 4 (57%) of 7 sampled contractors expected to receive more than \$25,000 were not suspended or debarred prior to contract execution or purchase order approval.

Current Status: DMVA and DTMB corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-037
Initial Year Written: Fiscal Year 2016
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Procurement and Suspension and Debarment - Required Provisions

Finding: DMVA and DTMB did not include all applicable required provisions in 2 (20%) of 10 contracts and purchase orders executed during fiscal year 2018.

Current Status: DMVA and DTMB corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-038
Initial Year Written: Fiscal Year 2018
Finding Title: Highway Planning and Construction Cluster, CFDA 20.205 and 20.219, Cash Management - Timeliness of Cash Draws

Finding: MDOT did not request vendor and construction payment cash draws in accordance with the CMIA agreement. In addition, MDOT did not report complete and accurate information to Treasury for noncompliant cash draws.

Current Status: MDOT partially corrected the deficiencies noted in the finding. MDOT requested vendor and construction payment cash draws in accordance with the CMIA agreement.

Reason(s) for Recurrence: MDOT's interpretation of guidance received from the Federal Highway Administration was that when advance notice was given MDOT was not eligible to receive interest on cash draws that were not in compliance with the CMIA.

Corrective Action: MDOT will be including non-compliant draws in their yearly CMIA reporting to Treasury.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-039
Initial Year Written: Fiscal Year 2018
Finding Title: Title I Grants to Local Educational Agencies, CFDA 84.010, Matching, Level of Effort, and Earmarking - Allocation of Funds to Local Educational Agencies

Finding: During the allocation process for school year 2017-18, MDE did not properly calculate the hold-harmless base amount for the prior year to reflect the estimated enrollment count for all 7 of the significantly expanded charter schools.

Current Status: MDE corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-040
Initial Year Written: Fiscal Year 2018
Finding Title: Title I Grants to Local Educational Agencies, CFDA 84.010, Subrecipient Monitoring - Management Decisions

Finding: MDE did not issue the required management decisions in a timely manner for 1 (13%) of 8 subrecipient single audit reports with findings selected for review.

Current Status: MDE did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Monthly deadline notifications were not automated in GEMS/MARS until September 30, 2019, effective for management decisions reviewed during fiscal year 2020.

Corrective Action: MDE has automated monthly deadline notifications to program offices for management decisions in GEMS/MARS. This will ensure MDE timely issues required management decisions for subrecipient single audit reports with findings.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-041
Initial Year Written: Fiscal Year 2018
Finding Title: Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Cash Management - Cash Management Process

Finding: The Department of Licensing and Regulatory Affairs (LARA) did not follow its established cash draw process to prepare reimbursement requests in accordance with the CMIA Treasury State Agreement. In addition, LARA did not report complete and accurate information to Treasury for these noncompliant cash draws.

Current Status: LARA and the Department of Labor and Economic Opportunity (LEO) did not correct the deficiencies noted in the finding. The Michigan Bureau of Services for Blind Persons transferred to LEO by Executive Order No. 2019-13 on August 11, 2019 and is no longer part of LARA.

Reason(s) for Recurrence: The grant changed departments mid-year, and this created non-compliance as authority was not available timely.

Corrective Action: See corrective action for Finding 2019-033.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-042

Initial Year Written: Fiscal Year 2018
Finding Title: Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Eligibility - Eligibility Determinations

Finding: MDHHS did not complete eligibility determinations in a timely manner for 6 (16%) of 38 case records reviewed.

Current Status: MDHHS and LEO did not correct the deficiencies noted in the finding. Michigan Rehabilitation Services transferred to LEO by Executive Order No. 2019-13 on August 11, 2019 and is no longer part of MDHHS.

Reason(s) for Recurrence: The departments had not fully implemented corrective action for fiscal year 2019. The data pulled did not consider eligibility extensions, which as a result, skewed the data. Once these were considered, compliance exceeded 90%.

Corrective Action: LEO has developed procedures and internal controls for counselors and supervisors to track, monitor, and improve compliance with timely eligibility determinations as required. LEO has trained counselors, support staff and managers on the use of Activity Due reports in the Accessible Web-based Activity and Reporting Environment to monitor eligibility determinations. LEO has reviewed and updated counselor performance objectives to include a timely eligibility determination standard. LEO has developed a continuous improvement plan to include timely eligibility determinations for use by district offices and monitored quarterly by the Program Enhancement Division. Quarterly monitor progress by reviewing Case Service Report (RSA-911) data elements used to report elapsed time from application to eligibility. The resulting data was used as a progress measure against a 90% compliance rate standard.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-043
Initial Year Written: Fiscal Year 2018
Finding Title: Aging Cluster, CFDA 93.044, 93.045, and 93.053, Subrecipient Monitoring - AIS FIRST User Access

Finding: MDHHS did not establish effective access controls over Aging Information System (AIS) Financial Information Reporting System Tool (FIRST) application users.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS corrected part b. of the finding.

Reason(s) for Recurrence: For parts a. and c., MDHHS began developing a new AIS FIRST system functionality during fiscal year 2019 to better manage, verify, and control AIS FIRST access and access rights, but the system functionality was not implemented until October 2019. For part d., the annual and semi-annual reviews were in development during fiscal year 2019 but were not implemented until

fiscal year 2020.

Corrective Action: See corrective action for Finding 2019-037.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-044
Initial Year Written: Fiscal Year 2011
Finding Title: TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Lack of Eligibility Documentation

Finding: MDHHS did not maintain sufficient case record documentation to support client eligibility for 9 (41%) of 22 sampled TANF Cluster assistance case records.

In addition, we noted that MDHHS counted all 9 of the case records that did not have documentation to support client eligibility toward the State's maintenance of effort (MOE) requirement.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS did not have sufficient controls in place to ensure that required verification documentation was maintained in the client's case record. In addition, MDHHS initially suspended the fugitive felon policy because of litigation and as a result, MDHHS did not require workers to follow-up on any client's unanswered fugitive felon questions.

Corrective Action: See corrective action for Finding 2019-038.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-045
Initial Year Written: Fiscal Year 2014
Finding Title: TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Lack of Income Eligibility Documentation

Finding: MDHHS did not maintain sufficient documentation of its efforts to evaluate client income eligibility.

In addition, we noted that MDHHS counted all 5 of the case records that did not have documentation to support client eligibility toward the State's MOE requirement.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Controls were not sufficient to ensure that local office staff reinstated the case after the good cause determination

was documented in the client's case record.

Corrective Action: See corrective action for Finding 2019-039.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-046
Initial Year Written: Fiscal Year 2018
Finding Title: TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Ineligible Emergency Foster Care Assistance

Finding: MDHHS did not appropriately consider a child's household circumstances to ensure that the child met eligibility requirements for 1 (8%) of 13 sampled TANF Cluster-funded emergency foster care case records.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS included relevant data elements from MiSACWIS that were necessary to determine whether the claim should be considered a TANF Emergency Assistance expenditure.

Corrective Action: See corrective action for Finding 2019-042.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-047
Initial Year Written: Fiscal Year 2017
Finding Title: TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Eligibility Redeterminations for TANF-Funded Adoption Subsidy

Finding: MDHHS did not conduct an annual eligibility redetermination to ensure that the adoptive family met eligibility requirements for 1 (5%) of 19 sampled TANF Cluster-funded adoption subsidy case records.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Controls were not sufficient to ensure that the required documentation was obtained prior to issuing benefit payments.

Corrective Action: See corrective action for Finding 2019-040.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-048
Initial Year Written: Fiscal Year 2017
Finding Title: TANF Cluster, CFDA 93.558, Reporting - Accuracy of Reports

Finding: MDHHS did not submit accurate financial and special reports to HHS's ACF.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-049

Initial Year Written: Fiscal Year 2016

Finding Title: TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Non-Cooperation

Finding: MDHHS did not appropriately and timely sanction TANF Cluster families who did not cooperate with establishing paternity and child support orders in 10 (17%) of the 60 case records we reviewed.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS corrected part b. of the finding.

Reason(s) for Recurrence: MDHHS's internal control did not prevent county/district office caseworkers from inappropriately reinstating benefits before clients serve the one-month sanction period. In addition, MDHHS's internal control did not ensure that the child support non-cooperation data interface between the Michigan Child Support Enforcement System and Bridges properly updated the case records for cases that had an on-going case action at the time of the interface. Also, in some cases, the automated interface failed to close the cases and send the families an appropriate negative action notice.

Corrective Action: See corrective action for Finding 2019-043.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-050

Initial Year Written: Fiscal Year 2016

Finding Title: TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Penalty for Refusal to Work

Finding: MDHHS did not appropriately sanction 3 (5%) of 60 sampled TANF Cluster recipients who were not cooperating in employment-related activities and were not subject to good cause exceptions established by MDHHS.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: The penalty counter in Bridges was not accurate and, therefore, did not apply the appropriate sanction periods for the employment-related noncooperation. The recipients could not be sanctioned because they did not receive the correct sanction letter due to system errors.

Corrective Action: See corrective action for Finding 2019-044.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-051
Initial Year Written: Fiscal Year 2005
Finding Title: CCDF Cluster, CFDA 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Lack of Documentation

Finding: MDE and MDHHS did not maintain sufficient documentation to support client and/or child eligibility for CCDF Cluster child care payments.

Current Status: MDE and MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Internal control and monitoring activities were not sufficient to ensure that MDHHS maintained or appropriately considered the required verification documentation in the client's case record to support eligibility.

Corrective Action: See corrective action for Finding 2019-047.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-052
Initial Year Written: Fiscal Year 2017
Finding Title: CCDF Cluster, CFDA 93.575 and 93.596, Period of Performance and Reporting - Identification of Obligations

Finding: MDE did not accurately identify and report to ACF the CCDF Cluster obligations at the end of its discretionary grants' period of performance.

Current Status: MDE corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-053
Initial Year Written: Fiscal Year 2011
Finding Title: CCDF Cluster, CFDA 93.575 and 93.596, Special Tests and Provisions - Fraud Detection and Repayment

Finding: MDHHS's Bridges does not routinely send automated notices to providers and clients who had been convicted of fraud and were late in remitting required payments. In addition, MDE and MDHHS had not developed an interim manual process until such time that this can be automated in Bridges.

MDE did not regularly instruct MDHHS to submit delinquent provider and client claims to Treasury for additional collection efforts.

Current Status: MDE and MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDE continued to determine needs to establish a manual process for providers and clients while MDHHS waited for automation in Bridges.

Corrective Action: See corrective action for Finding 2019-050.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-054
Initial Year Written: Fiscal Year 2015
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Transitional Medicaid Eligibility

Finding: MDHHS did not ensure that Bridges and CHAMPS contained the appropriate termination date for beneficiaries receiving transitional medical assistance Medicaid coverage.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: There was a breakdown of internal processes that caused the delay in timely renewals of some beneficiaries within the transitional medical assistance aid category.

Corrective Action: See corrective action for Finding 2019-017.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-055
Initial Year Written: Fiscal Year 2017
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments After Date of Death

Finding: MDHHS did not timely update CHAMPS for paper death records received.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-056
Initial Year Written: Fiscal Year 2008
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Beneficiary Eligibility

Finding: MDHHS did not ensure or demonstrate compliance with federal laws and regulations relating to beneficiary eligibility for Medicaid services for 13 (22%) of 60 Medicaid cases.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: For part a., MDHHS did not properly consider all available beneficiary information when determining beneficiary eligibility because of system issues and staff actions.

For part b., internal controls were not always sufficient to ensure that documentation was retained.

For part c., there was a breakdown of internal processes that caused the delay in timely renewals of some beneficiaries within the transitional medical assistance aid category

Corrective Action: See corrective for Finding 2019-015 for parts a. and b. and Finding 2019-017 for part c.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-057

Initial Year Written: Fiscal Year 2017

Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments on Behalf of Ineligible Beneficiaries

Finding: MDHHS did not ensure that beneficiary eligibility was updated in CHAMPS.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Because of system and interface issues in both Bridges and CHAMPS, eligibility information was not always properly updated, resulting in beneficiaries appearing eligible in CHAMPS and payments being processed based on that eligibility.

Corrective Action: See corrective action for Finding 2019-051.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-058

Initial Year Written: Fiscal Year 2018

Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - MiAIMS User Access

Finding: MDHHS did not establish effective access controls over Michigan Adult Integrated Management System (MiAIMS) users.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Due to limited resources, MDHHS had not fully developed or implemented the new process for the approval and monitoring of MiAIMS user access.

Corrective Action: See corrective action for Finding 2019-052.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-059

Initial Year Written: Fiscal Year 2013

Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Ineligible HHP Payments

Finding: MDHHS did not ensure that HHP clients met HHP eligibility criteria prior to paying for HHP services.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS implemented a post-payment review process to identify providers who were reimbursed when clients were hospitalized or admitted to nursing facilities; however, the post-payment review process is complicated by the lag time (up to one year) associated with MDHHS receiving and processing hospital and nursing facility claims and delays in changes to clients' level of care.

Corrective Action: See corrective action for Finding 2019-053.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-060

Initial Year Written: Fiscal Year 2015

Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Home Health Services and Documentation

Finding: MDHHS did not ensure that home health agencies always maintained appropriate documentation.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: Standard notifications have not resolved the issue of plans of care with missing information. MDHHS needs to work with providers to identify more effective methods of supporting full compliance with Medicaid policy.

Corrective Action: See corrective action for Finding 2019-054.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-061
Initial Year Written: Fiscal Year 2013
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Agency Provider Overpayments

Finding: MDHHS did not ensure that agency providers met the requirements to receive the higher agency pay rate.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS corrected part a. of the finding.

Reason(s) for Recurrence: MiAIMS interfaces with CHAMPS to determine the existence of the approved agency indicator only when a new authorization is entered in MiAIMS and not for each subsequent monthly payment. Therefore, if the CHAMPS approved agency indicator is removed after initial authorization, MiAIMS will continue to make payments at the agency rate. Also, when the adult service workers note the agency indicator is removed in CHAMPS, they will manually create new authorizations in MiAIMS that utilize the individual pay rate instead of the agency pay rates.

Corrective Action: See corrective action for Finding 2019-056.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-062
Initial Year Written: Fiscal Year 2018
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Cost Settlement Calculations

Finding: MDHHS did not ensure that final cost settlements were accurately calculated for 3 (21%) of 14 sampled long-term care providers.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-063
Initial Year Written: Fiscal Year 2018
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Dental Provider Overpayments

Finding: MDHHS did not ensure that supplemental payment adjustments to dental providers were accurately calculated in accordance with its

Medicaid State Plan.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-064
Initial Year Written: Fiscal Year 2013
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Practitioner Reimbursement

Finding: MDHHS did not ensure proper payment of practitioner fee-for-service claims.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: CHAMPS correctly made payments to Medicaid providers based on the beneficiary's eligibility at the time of service and payment; however, subsequent to those payments, eligibility was retroactively modified in Bridges which resulted in retroactive changes to CHAMPS benefit plans.

Corrective Action: See corrective action for Finding 2019-057.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-065
Initial Year Written: Fiscal Year 2018
Finding Title: Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Long-Term Care Facility Audits

Finding: MDHHS did not ensure that audits of long-term care providers were completed timely and accurately.

Current Status: MDHHS partially corrected the deficiencies noted in the finding.
MDHHS corrected part b. of the finding.

Reason(s) for Recurrence: MDHHS was in the process of amending the Medicaid State Plan and updating policy to remove the on-site audit requirement during fiscal year 2019. Throughout this time, MDHHS used a risk -based approach to conduct onsite audits and for those not selected, electronic audit documentation was obtained.

Corrective Action: See corrective action for Finding 2019-059.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-066
Initial Year Written: Fiscal Year 2018
Finding Title: Immunization Cooperative Agreements, CFDA 93.268, Reporting -

Accuracy of Financial Reports

Finding: MDHHS overstated expenditures and federal cash receipts by \$1.3 million on 1 of 2 reviewed annual federal financial reports.

Current Status: MDHHS corrected the deficiencies noted in the finding as of September 4, 2019.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-067

Initial Year Written: Fiscal Year 2018

Finding Title: Immunization Cooperative Agreements, CFDA 93.268, Special Tests and Provisions - MCIR General Controls

Finding: MDHHS and DTMB did not fully establish effective general controls over the Michigan Care Improvement Registry (MCIR).

Current Status: MDHHS and DTMB did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: For part a., DTMB has not yet implemented the tool for scanning the databases for vulnerabilities.

For part b., DTMB has implemented many new operating system standards; however, DTMB was still in the process of operationalizing and updating some remaining processes during fiscal year 2019.

Corrective Action: See corrective action for Finding 2019-061.

Audit Period: October 1, 2017 through September 30, 2018

Finding Number: 2018-068

Initial Year Written: Fiscal Year 2018

Finding Title: Immunization Cooperative Agreements, CFDA 93.268, Special Tests and Provisions - MCIR User Access Controls

Finding: MDHHS did not establish effective access controls over MCIR users.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: In fiscal year 2019, MDHHS was in development and testing for a new Database Security Application electronic access form that was not ready for production in fiscal year 2019. Therefore, MCIR continued to document State employee approval for MCIR access through e-mail instead of using a security agreement. In addition, MDHHS was placing reliance on site administrators to remove site users in a timely fashion, as well as relying on a system process in MCIR to auto-expire access.

Corrective Action: See corrective action for Finding 2019-062.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-069
Initial Year Written: Fiscal Year 2016
Finding Title: Low-Income Home Energy Assistance, CFDA 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Eligibility Determinations

Finding: MDHHS did not maintain sufficient documentation of its efforts to evaluate client eligibility, verify income and assets, and properly authorize payments and did not document results in accordance with policy for 5 (29%) of 17 sampled LIHEAP-funded State Emergency Relief energy payments.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS's internal control and monitoring activities were not sufficient to ensure that county/district office caseworkers adhered to established policies and procedures.

Corrective Action: See corrective action for Finding 2019-064.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-070
Initial Year Written: Fiscal Year 2018
Finding Title: Low-Income Home Energy Assistance, CFDA 93.568, Matching, Level of Effort, and Earmarking - Administrative Expenditures in Excess of the Earmark Threshold

Finding: MDHHS did not appropriately record LIHEAP expenditures as administrative costs in SIGMA. In addition, MDHHS drew down federal funds of \$10.7 million for administrative expenditures that were in excess of the allowable federal amount.

Current Status: MDHHS corrected the deficiencies noted in the finding as of September 30, 2019.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-071
Initial Year Written: Fiscal Year 2017
Finding Title: Foster Care - Title IV-E, CFDA 93.658, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Foster Parent Household Background Checks

Finding: MDHHS did not ensure that criminal records checks and child abuse and neglect registry checks on prospective tribal foster parents were completed prior to issuing foster care payments for 1 sampled maintenance payment to a tribally licensed provider.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS historically has placed heavy reliance on honoring tribal sovereignty and did not require that documentation be submitted to support criminal records checks and child abuse and neglect registry checks to verify for timeliness. In addition, MDHHS did not complete implementation of the corrective action in fiscal year 2019, which included extensive consultation with tribal partners.

Corrective Action: See corrective action for Finding 2019-065.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-072
Initial Year Written: Fiscal Year 2018
Finding Title: Foster Care - Title IV-E, CFDA 93.658, Reporting - Accuracy of Financial Reports

Finding: MDHHS did not submit accurate financial reports to ACF.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS's internal control and monitoring activities were not sufficient to ensure that financial reports were accurate.

Corrective Action: See corrective action for Finding 2019-066.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-073
Initial Year Written: Fiscal Year 2018
Finding Title: Adoption Assistance, CFDA 93.659, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Payments to Ineligible Participants

Finding: MDHHS did not ensure that adoption assistance payments were made to eligible adoptive parents for 18 (21%) of 86 cases reviewed.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS created a report of all cases where the funding source changed from the original eligibility determination and corrected the funding source going forward in MiSACWIS for those determined to be in error, however, MDHHS did not complete the necessary accounting transactions to correct the funding source for all of fiscal year 2019.

Corrective Action: See corrective action for Finding 2019-067.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-074
Initial Year Written: Fiscal Year 2015
Finding Title: Adoption Assistance, CFDA 93.659, Matching, Level of Effort, and Earmarking and Reporting - Annual Adoption Savings Calculation and Accounting Report

Finding: MDHHS did not ensure the accuracy of the savings reported to HHS on the Annual Adoption Savings Calculation and Accounting Report.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. MDHHS corrected part b. of the finding.

Reason(s) for Recurrence: MDHHS worked with the federal government to develop a query to calculate the savings; however, inaccurate query criteria is not always detected.

Corrective Action: See corrective action for Finding 2019-069.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-075
Initial Year Written: Fiscal Year 2017
Finding Title: Adoption Assistance, CFDA 93.659, Reporting - Accuracy of Financial Report

Finding: MDHHS understated the Adoption Assistance Program's current quarter claims and the federal share of current quarter claims by \$11.6 million and \$7.5 million, respectively, on its fiscal year 2018 first quarter federal financial report.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-076
Initial Year Written: Fiscal Year 2018
Finding Title: Children's Health Insurance Program, CFDA 93.767, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Medical Records

Finding: MDHHS was unable to obtain medical records from CHIP providers to support 2 of 3 reviewed CHIP fee-for-service claims.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-077

Initial Year Written: Fiscal Year 2018
Finding Title: Children's Health Insurance Program, CFDA 93.767, Reporting - Classification of Expenditures

Finding: MDHHS misclassified amounts between CHIP expenditure line items on its fiscal year 2018 second and third quarter federal financial reports totaling \$4,228,890 and \$4,305,931, respectively.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-078
Initial Year Written: Fiscal Year 2018
Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, and Earmarking; and Subrecipient Monitoring - FSR Approvals

Finding: MDHHS did not document its review and approval of financial status reports (FSRs) submitted by PIHPs for 35 (100%) of 35 sample items.

Current Status: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-079
Initial Year Written: Fiscal Year 2017
Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, Matching, Level of Effort, and Earmarking - Maintenance of Effort - State Expenditures

Finding: MDHHS was unable to provide sufficient documentation to demonstrate that it complied with the MOE requirement for State expenditures. In addition, MDHHS did not have adequate controls in place to ensure that it would meet the MOE requirement for State expenditures.

Also, our review of MDHHS's calculations noted inconsistent inclusion and/or exclusion of State expenditures.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: MDHHS did not include co-occurring disorder expenditures in the fiscal year 2018 MOE calculation because it had already met its minimum expenditure level. Also, MDHHS had not fully developed written policies or procedures regarding the calculation of the MOE requirement for State expenditures until January 2020.

Corrective Action: See corrective action for Finding 2019-070.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-080
Initial Year Written: Fiscal Year 2016
Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, Subrecipient Monitoring - Risk Assessments

Finding: MDHHS did not evaluate 2 (11%) of 19 subrecipients' risk of noncompliance with program requirements. In addition, MDHHS did not consider subrecipient risk assessment scores when determining appropriate monitoring activities.

Current Status: MDHHS did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: The risk of noncompliance was not properly evaluated due to staff oversight. In addition, MDHHS's Bureau of Community Services did not have a cohesive monitoring activities protocol among its divisions.

Corrective Action: See corrective action for Finding 2019-071.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-081
Initial Year Written: Fiscal Year 2018
Finding Title: Homeland Security Biowatch Program, CFDA 97.091, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Improper Employee Activity Charged

Finding: The Department of Environment, Great Lakes, and Energy (EGLE) internal control over travel and personnel costs were not effective and resulted in the issuance of disciplinary action for 4 employees and 1 supervisor, including the dismissal of 2 employees.

Current Status: EGLE partially corrected the deficiencies noted in the finding. EGLE implemented a Standard Operating Procedure to address the issues but failed to rectify discrepancies within the review process to assure full compliance.

Reason(s) for Recurrence: While the overall controls have been implemented, discrepancies with how time was recorded was not rectified with supervisor review for a specific employee's travel log. While the supervisor is reviewing the daily logs, the thoroughness of the review and providing feedback to staff when inconsistencies are present is not always occurring. If fully implemented, the control in place will be effective.

Corrective Action: Additional training, direction on how to fill out the form, and an increased awareness on the part of the supervisor of the need for a more thorough review of the daily logs based upon the Standard Operating Procedure.

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-082
Initial Year Written: Fiscal Year 2017
Finding Title: Unemployment Insurance, CFDA 17.225 and 17.225 (ARRA)

Finding: See Talent Investment Agency, Unemployment Insurance Agency - Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2018, Corrective Action Plan, Finding 2018-001

Current Status: The Unemployment Insurance Agency (UIA) did not correct the deficiencies noted in the finding. See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Summary Schedule of Prior Audit Findings, Finding 2018-001

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-083
Initial Year Written: Fiscal Year 2017
Finding Title: Unemployment Insurance, CFDA 17.225 and 17.225 (ARRA)

Finding: See Talent Investment Agency, Unemployment Insurance Agency - Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2018, Corrective Action Plan, Finding 2018-002

Current Status: UIA corrected the deficiencies noted in the finding. See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Summary Schedule of Prior Audit Findings, Finding 2018-002

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-084
Initial Year Written: Fiscal Year 2017
Finding Title: Unemployment Insurance, CFDA 17.225 and 17.225 (ARRA)

Finding: See Talent Investment Agency, Unemployment Insurance Agency - Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2018, Corrective Action Plan, Finding 2018-003

Current Status: UIA did not correct the deficiencies noted in the finding. See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Summary Schedule of Prior Audit Findings, Finding 2018-003

Audit Period: October 1, 2017 through September 30, 2018
Finding Number: 2018-085
Initial Year Written: Fiscal Year 2018
Finding Title: Unemployment Insurance, CFDA 17.225 and 17.225 (ARRA)

Finding: See Talent Investment Agency, Unemployment Insurance Agency - Unemployment Administration Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2018, Corrective Action Plan, Finding 2018-001

Current Status: UIA did not correct the deficiencies noted in the finding. See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Administration Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Summary Schedule of Prior Audit Findings, Finding 2018-001



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

CHRIS KOLB
DIRECTOR

Management Views and Corrective Action Plan

Findings Related to the Financial Statements

Finding 1

Third party service organization monitoring

Management Views

State agencies, as well as the Office of Internal Audit Services (OIAS) and the Office of Financial Management (OFM), within the State Budget Office (SBO), agree that oversight of third-party service organizations should continue to be enhanced.

Planned Corrective Action

OIAS will review all 2019 System and Organization Controls (SOC) report review templates for correct scope and reporting periods and collaborate with the departments to address these areas prior to the fiscal year 2020 State of Michigan Comprehensive Annual Financial Report audit cycle. In addition, OIAS will review these templates on an annual basis prior to submission to the Office of the Auditor General.

Regarding part b., database administration controls have been added to the scope of the SOC review for fiscal year 2020 and will remain in scope going forward. SBO agrees with the need to continually assess the level of coverage obtained in the Annual Security Review service level requirement, but does not agree with the assertion that the level of coverage obtained was not sufficiently assessed. Processing integrity, confidentiality and privacy principles do not need to be covered in the SOC 2 review because we have enough assurances as a result of compensating controls and the additional controls provided by the Annual Third Party Vulnerability Exam and Federal Risk and Authorization Management Program Certification processes.

Anticipated Completion Date

December 31, 2020

Responsible Individual(s)

Rick Lowe, SBO

Finding 2

Access limitations for confidential information in SIGMA

Management Views

The Michigan Department of Corrections (MDOC), Michigan Department of Treasury (Treasury), Michigan Department of Health and Human Services (MDHHS), and OFM agree that State agencies should limit access to confidential information to appropriate users of the information.

Planned Corrective Action

For part a., MDOC and Treasury will redact confidential information from future Statewide Integrated Governmental Management Applications (SIGMA) system transaction support and all existing confidential information was removed.

For part b., MDHHS's Financial Support Division has continued to work collaboratively with subsystem leads, MDHHS Compliance, Department of Technology, Management, and Budget (DTMB) DataStage, and SIGMA to discuss the best approach to mitigate personally identifiable information (PII) in SIGMA. MDHHS has determined the most efficient and cost-effective way to mitigate PII information within SIGMA is with modifications to the data by DataStage and not the individual subsystems. In addition, modifications will be made to SIGMA to accommodate the electronic funds transfer (EFT) remittance advice. The Statement of Work, Business Requirements, and other required documents have been completed. MDHHS is currently working with all parties to establish a timeline for coordinating the necessary efforts to mitigate displaying of any PII information within SIGMA Financial.

Anticipated Completion Date

- a. Completed
- b. March 31, 2021

Responsible Individual(s)

- a. Lia Gulick and Tori Ellison, MDOC
Tim Johnson, Treasury
- b. Robin Keene, MDHHS

Finding 3

Establishment and monitoring of tax receivables and payables

Management Views

Treasury and OFM agree that internal controls related to tax accruals should continue to be improved.

Planned Corrective Action

- a. Treasury procedures were updated to document the correct receivables report and related values to be used for the Governmental Accounting Standards Board (GASB) Statement No. 34 calculation. OFM created a new tax accrual workbook with detailed instructions on how to populate the workbook and locked all formulas to avoid accidental edits.
- b. Treasury procedures were updated to document methodology changes and to report significant changes to the GASB Statement No. 34 process in a timely manner.
- c. Treasury is currently completing the second year of reviewing individual income tax (IIT) payable backlogs used for tax accruals to actual refunds issued in the following fiscal year. After the evaluation is complete, Treasury will consider if an adjustment to the current methodology is warranted. In addition, Treasury developed a process to compare business tax accruals to actual activity and has completed comparing accruals to actual activity for two years of data. Once three years of data is compiled Treasury will consider if a change in methodology is warranted.

- d. The Treasury IIT legacy system does not have the capability to capture the coupon period for IIT payments received in October and November necessary to determine if part of the receipt population should be excluded from the tax accruals without manually pulling supporting documentation by individual transaction. Treasury is currently working towards replacing the legacy system and the ability to capture the coupon date is included in the new system specifications. Until the system is replaced Treasury will continue to a sample estimated IIT payments collected during October and November to identify payments for tax periods after September 30 and to adjust the month-end IIT accrued receivable accordingly. Treasury will also evaluate whether it is appropriate to project their sample results into the population and record an estimated reduction.
- e. Treasury will update procedures to compare the November tax accruals estimates to actual and will work with OFM to determine if an adjustment entry is needed.
- f. Desk procedures were updated, and additional supervisory review is being completed to help ensure there are not transposition errors on the collected data which can cause a misstatement the State Education Tax receivable.
- g. Treasury continues to review the reporting capabilities and related costs to create the reporting mechanisms versus related benefit to accurately determine how much sales tax revenue should be accrued to the Comprehensive Transportation Fund at the end of the fiscal year.
- h. Treasury has corrected the report to separately display the two distinct data fields.

Anticipated Completion Date

- a. Completed
- b. Completed
- c. The anticipated completion date for the IIT accrual is October 30, 2020, and the anticipated completion date for business tax accruals is November 30, 2021.
- d. September 30, 2023
- e. December 15, 2020
- f. Completed
- g. September 30, 2021
- h. Completed

Responsible Individual(s)

- a. Stacey Bliesener, Treasury
Brandon McAndrew, OFM
- b. Stacey Bliesener, Treasury
- c. Lisa Bordinaro, Treasury
- d. Tim Johnson, Treasury
- e. Tim Johnson, Treasury
- f. Jim Mills, Treasury
- g. Tim Johnson, Treasury
- h. Michael Vincent, Treasury

Finding 4
MiCARS Internal Control

Management Views

State agencies and OFM agree that internal controls related to the Michigan Cashiering and Receivable System (MiCARS) transactions should be improved.

Planned Corrective Action

For part a., Michigan State Police (MSP) will write additional procedures to ensure that there are compensating controls for segregation of duties for reconciliation of interface transactions between MiCARS and SIGMA and invoice adjustments. In addition, MSP is also requesting an enhancement to MiCARS to update field names for “write-off” and “adjustment” to appropriately identify invoice changes.

For part b., State agencies utilizing MiCARS (Michigan Department of Transportation (MDOT); MSP; MDHHS; Michigan Department of Agriculture and Rural Development (MDARD); Department of Environment, Great Lakes, and Energy (EGLE); and Department of Natural Resources (DNR)) are working on putting procedures in place to require documentation of approvals outside of MiCARS for applicable invoices and also exploring an enhancement for approvals in MiCARS.

Anticipated Completion Date

- a. September 30, 2020
- b. DNR: Completed
EGLE: October 31, 2020
MDARD: Completed
MDHHS: September 1, 2020
MDOT: Completed
MSP: September 30, 2020

Responsible Individual(s)

- a. Brenda Reynolds, MSP
- b. Amy Henderson, DNR
Paul McDonald, EGLE
Andrea Mowry, MDARD and MDOT
Carol O’Callaghan and Mary McGrath, MDHHS
Brenda Reynolds, MSP

Finding 5
Interface control improvements

Management Views

MDOT, MSP and OFM agree that complete interface controls over SIGMA should be established and implemented.

Planned Corrective Action

For part a., MDOT implemented a daily reconciliation process on January 1, 2020 that reconciles expenditures transactions in the American Association of State Highway and Transportation Officials software (AASHTOWare) to expenditure transactions in SIGMA. This new process reconciles both dollar amounts and record counts.

For part b., MSP updated the reconciliation process that reconciles MiCARS transactions to SIGMA in February of 2020. The process reconciles both dollar amounts and record counts.

Anticipated Completion Date
Completed

Responsible Individual(s)
Nathan Heath and Carol Rademacher, MDOT
Brenda Reynolds, MSP

Finding 6
Various departments financial accounting practices

Management Views
State agencies and OFM agree that internal controls should be enhanced.

Planned Corrective Action

- a. OFM updated procedures and the report being used to ensure only the current fiscal year data is being captured and updated the formula used to calculate sick leave reductions.
- b. DTMB revised its year-end process to include review of all capital assets and prepaid expenditures to ensure proper classification.
- c. The Michigan Department of Education (MDE) has updated its year-end procedures to ensure a specialist and manager meet to review accounts payable/accounts receivable supporting documentation from applicable sub systems prior to entry into SIGMA.
- d. (1) Treasury created new reporting capabilities from the legacy system along with desk procedures to reconcile the offset fund from October 1, 2019 forward and will be writing off the unreconciled amount.
- d. (2) Treasury will compare the actual taxes received numbers reported in SAP for residential utilities to the historical estimate provided by Treasury's Office of Revenue and Tax Analysis.
- d. (3) Treasury will increase communication with major Treasury business areas related to contingencies and ensure that supporting documentation for the entries is thoroughly reviewed.
- e. (1) MDHHS will review the payable methodology to identify potential revisions that could be made to improve the accuracy of the payable.
- e. (2) MDHHS will continue to work with DTMB to ensure that the query is providing appropriate child support data.
- e. (3) MDHHS developed a standardized Home Help Agency Invoice that requires information needed to support the payment; this will provide adequate documentation to support payments made to agency providers. Individual home help provider verifications are currently in the format of an Electronic Service Verification or Paper Service Verification. This will eventually be replaced with Electronic Visit Verification. Once this is done, the Home Help

payment system will be updated or replaced so that service verification will be automated to verify that services were provided before payment is made. Currently, because of the information technology (IT) shortfall, there is no available funding to implement these system changes.

- f. MDOC has established an annual internal meeting with its Legal Affairs Administrator, Budget Officer, Budget and Administration Deputy Director, and Chief Accountant to review pending lawsuits to determine if payables need to be established for the prior fiscal year.
- g. MSP updated year-end procedures related to accounts payable.
- h. (1) MDOT will record a receivable from the local transit authorities.
- h. (2) MDOT will implement controls to ensure that user access in Field Manager is reviewed on a bi-annual basis and that individuals without a valid business need are removed.
- h. (3) MDOT is developing specific controls in the new software, AASHTOWare Construction and Materials, that will prevent an individual from approving their own inspector daily reports. This software is being piloted and statewide rollout is targeted for fiscal year 2022.

Anticipated Completion Date

- a. Completed
- b. Completed
- c. Completed
- d. (1) December 15, 2020
- d. (2) November 30, 2020
- d. (3) December 15, 2020
- e. (1) November 30, 2020
- e. (2) November 30, 2020
- e. (3) Completed for agency providers. The anticipated completion date for corrective action related to individual providers is unknown at this time as it is subject to available IT funds.
- f. Completed
- g. Completed
- h. (1) December 15, 2020
- h. (2) November 1, 2020
- h. (3) September 30, 2022

Responsible Individual(s)

- a. Brandon McAndrew, OFM
- b. Tim Martin, DTMB
- c. Philip Boone, MDE
- d. (1) Darika Egeler, Treasury
- d. (2) Rebecca Kelly, Treasury
- d. (3) Lisa Bordinaro, Treasury
- e. (1) Steven Bendele and Teresa Schneider, MDHHS
- e. (2) Sonya Butler, MDHHS
- e. (3) Michelle Martin, MDHHS
- f. Lia Gulick & Tori Ellison, MDOC
- g. Penny Burger, MSP
- h. (1) Jean Ruestman, MDOT
- h. (2) Jason Gutting, MDOT

- h. (3) Jason Gutting, MDOT

Finding 7

Financial accounting practices related to capital assets

Management Views

State agencies and OFM agree that internal controls should be enhanced.

Planned Corrective Action

- a. State agencies have updated procedures and assignment responsibilities to ensure that equipment is removed from SIGMA upon disposal.
- b. The SIGMA MI-FA-0011 Lease Report has been updated and now identifies when an asset exists and is linked to an inactive lease. Agencies will review this report and ensure that all assets that are linked to inactive leases are addressed. OFM will also monitor to ensure all identified assets are resolved.

Anticipated Completion Date

- a. DTMB: Completed
DNR: September 30, 2021
Labor and Economic Opportunity (LEO): Completed
MDHHS: Completed
- b. Completed

Responsible Individual(s)

- a. Erick Simmer & Tim Martin, DTMB
Amy Henderson, DNR
Brian Carpenter, LEO
Will Doxie, MDHHS
- b. Gina Feguer, Department of State
Krista Ward and Tori Ellison, MDOC
Kathy Fay, MSP
Erick Simmer and Tim Martin, DTMB
Will Doxie, MDHHS

Finding 8

MDOT accounts payable

Management Views

MDOT and OFM agree that the process used to establish these payables should be refined.

Planned Corrective Action

For construction contract payables, MDOT will be incorporating a report into the payable establishment process that identifies work that the contractor has performed, but MDOT has either not yet accepted or paid for. For consultant contract payables, MDOT has reached out to the consultant community stakeholders and will be providing additional guidance and direction to them to ensure that they are estimating payables in accordance with established accounting standards.

Anticipated Completion Date

October 31, 2020

Responsible Individual(s)

Andrea Mowry, Carol Rademacher, and Adam Feldpausch, MDOT

Finding 9

Medicaid payables and receivables

Management Views

MDHHS and OFM agree that internal controls related to Medicaid accruals should be enhanced.

Planned Corrective Action

For parts a. and b., MDHHS will ensure comparisons between estimates and actuals are completed and documented and will record adjustments when appropriate.

For part c., MDHHS has updated the Health Plan review procedures to ensure the correct formula is being used for year-end accrual review.

For part d., MDHHS will evaluate their review process and make applicable changes to their procedures.

Anticipated Completion Date

- a. October 31, 2020
- b. January 31, 2021
- c. Completed
- d. December 31, 2020

Responsible Individual(s)

Carol O'Callaghan and Janelle Kohtz, MDHHS

Findings Related to Federal Awards

Finding 2019-001

Access Limitations for Confidential Information in SIGMA

Management Views

MDHHS, the Department of Licensing and Regulatory Affairs (LARA), LEO, and MDE agree with the finding.

Related to the Rehabilitation Services – Vocational Rehabilitation Grants to States program, Michigan Rehabilitation Services (MRS) and the Michigan Bureau of Services for Blind Persons (BSBP) transferred to LEO by Executive Order No. 2019-13 on August 11, 2019 and are no longer part of MDHHS and LARA.

BSBP and MRS both identify certain client PII included within SIGMA payment records for a limited number of vendor transactions, so that the vendors can discern which client accounts they are receiving payment for.

A disclosure of client PII to LEO fiscal personnel by the State agencies for administration of the Vocational Rehabilitation (VR) program is permitted pursuant to 34 *CFR* 361.38(b). Therefore, LEO fiscal personnel viewing a BSBP or MRS client PII in a SIGMA payment record does not create a deficient practice. BSBP and MRS were unaware that additional SIGMA users could also view this information.

Planned Corrective Action

Rehabilitation Services – Vocational Rehabilitation Grants to States program:

For parts a. and b., LEO will work collaboratively with DTMB and SIGMA to determine the best approach to limit access to confidential information in SIGMA. LEO has notified DTMB personnel assigned to LEO and has been advised the issue is being reviewed for correction. DTMB will be acting as the liaison between LEO and SIGMA for corrective action.

Other programs:

For part a., MDHHS's Financial Support Division has continued to work collaboratively with subsystem leads, MDHHS Compliance, DTMB DataStage, and SIGMA to discuss the best approach to mitigate PII information in SIGMA. MDHHS has determined the most efficient and cost-effective way to mitigate PII information within SIGMA is with modifications to the data by DTMB DataStage and not the individual subsystems. In addition, modifications will be made to SIGMA to accommodate the EFT remittance advice. The Statement of Work, Business Requirements, and other required documents have been completed. MDHHS is currently working with all parties to establish a timeline for coordinating the necessary efforts to mitigate displaying of any PII information within SIGMA Financial.

For part b., MDHHS is no longer attaching documentation with confidential information into SIGMA. These documents are now being retained in Content Manager which has security restricted to only necessary MDHHS and audit staff. This process was fully implemented by October 31, 2018.

Anticipated Completion Date

Rehabilitation Services – Vocational Rehabilitation Grants to States program:

For parts a. and b., LEO is requesting that this issue be resolved by March 31, 2021.

Other programs:

MDHHS anticipates corrective action for part a. will be complete by November 30, 2020.

MDHHS has completed corrective action related to part b. of finding.

Responsible Individual(s)

- a. Mike Pemble and Amie Weber, LEO; Nancy Palmateer and Tiziana Galeazzi, DTMB; and Robin Keene, MDHHS
- b. Mike Pemble and Amie Weber, LEO; Nancy Palmateer and Tiziana Galeazzi, DTMB; and Teresa Schneider, MDHHS

Finding 2019-002
Bridges Interface Controls

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For part a., DTMB started work on this process as part of the now paused Bridges Integrated Automated Eligibility Determination System (Bridges) Modernization project. When authorized to do so by MDHHS, DTMB will work to ensure that the file control and batch summary tables used to reconcile Bridges interfaces consistently account for header and trailer records, represent control totals of information processed, and indicate whether the interface processed with or without exceptions.

For part b., when work is recommenced on part a., DTMB, in conjunction with MDHHS, will establish procedures to account for all interfaced records and to ensure that all records identified with errors and excluded from interface processing are investigated, corrected, and resubmitted for processing as appropriate.

For part c., the MDHHS Compliance and Data Governance Bureau has identified the outstanding sharing agreements. The coronavirus disease of 2019 (COVID-19) State of Emergency resulted in many priorities being shifted to support emergency activities. MDHHS will begin the process of creating a plan for remediation and prioritization for completion of missing sharing agreements based on risk to the programs and agency and anticipates having corrective action plans in place by the end of October 2020 and the data sharing agreements in place by the end of January 2021.

Anticipated Completion Date

- a. and b. July 31, 2021, subject to MDHHS Projects Prioritization
- c. January 2021

Responsible Individual(s)

- a. and b. Nathan Buckwalter and Cindy Peruchietti, DTMB
- c. Jim Bowen and Deon Nelson, MDHHS

Finding 2019-003
Bridges Security Management and Access Controls

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For parts a., b., d., f., MDHHS will begin developing and implementing the Database Security Application (DSA) Bridges form which establishes a method to document user access request approval electronically; a method to more completely document incompatible role approval electronically; and methods to more completely and regularly monitor users utilizing the DSA Periodic Access Review (PAR) and/or Form Initiated Renewal on Expiration processes, which automatically creates appropriate renewal requests along with automatically submitting a drop access request for users that have not completed the required periodic and/or renewal access review.

For part c., DTMB will develop an organization-wide security framework for database security configuration management.

For part e., as of December 2019, DTMB developed and implemented remaining internal procedures for security management and access controls over the operating system for Bridges servers.

For part g., MDHHS will establish a monthly documentation and storage repository for all Bridges local office high-risk transaction report reconciliations to ensure proper monitoring of those transactions are occurring regularly and available for audit purposes.

For part h., MDHHS, along with DTMB, is enhancing documentation of the non-local office high-risk transactions within the Bridges application, which includes development of the procedures for properly monitoring those transactions. Beginning March 2020, the current high-risk transaction report is reviewed monthly and proper approval and documentation is retained.

MDHHS, along with DTMB, are developing additional Bridges non-local office high risk transaction ad-hoc reports that identify actions performed by all central office staff. Additionally, the newly enhanced high-risk transactions dashboard will be leveraged for all non-local office users.

Anticipated Completion Date

a., b., d., f. December 2021

c. DTMB has not yet determined an anticipated completion date.

e. Completed

g. December 2020

h. March 2021

Responsible Individual(s)

a., b., d., f. Candy Calvert and Jim Bowen, MDHHS

c. Cindy Peruchietti and Nathan Buckwalter, DTMB

e. Jack Harris and Dave Roach, DTMB

g. Candy Calvert, MDHHS, and Agency Services supporting Bridges, DTMB

h. Candy Calvert and Laurie Johnson, MDHHS, and Agency Services supporting Bridges, DTMB

Finding 2019-004

Income Eligibility and Verification System

Management Views

MDHHS and DTMB agree with parts a. through d., f., and g. of the finding. MDHHS disagrees with parts e. and h. of the finding.

For part e., MDHHS disagrees that the Income Eligibility and Verification System (IEVS) information is required to be requested and obtained for recipients funded by the Temporary Assistance for Needy Families (TANF) Cluster adoption subsidies. Guidance from the U.S. Department of Health and Human Services (HHS) Administration for Children and Families (ACF) states that if income or citizenship and alienage are not eligibility criteria for receipt of the benefit, then verification of income or citizenship and alienage through IEVS is unnecessary.

Citizenship and alienage are not eligibility criteria for adoption subsidy eligibility since the eligibility is based on the child and not the adoptive parents.

For part h., MDHHS disagrees that IEVS information is required to be requested and obtained for modified adjusted gross income (MAGI) based recipients since eligibility is verified upon determination through the MAGI eligibility determination process and then granted for a 12-month continuous eligibility period. Requesting and obtaining IEVS information throughout the eligibility period would be irrelevant since eligibility is continuous.

Planned Corrective Action

For part a., MDHHS and DTMB will fully establish effective processing controls over Bridges interfaces to ensure that the data exchanged between Bridges and IEVS data sources are processed accurately, completely, and timely.

For parts b., c., and d., related to the TANF, Supplemental Nutrition Assistance Program (SNAP), and Medicaid Clusters, MDHHS's Economic Stability Administration (ESA) will continue to provide training and policy support to ensure that the local office specialists appropriately utilize the IEVS interface information in determining recipients' eligibility when applicable. ESA will be reviewing policy for direct assistance benefits that simplify the verification process while maintaining State and federal compliance.

For part e., MDHHS has added clarification to its TANF State Plan, and is awaiting federal approval.

For part f., MDHHS will continue to work internally, and with the National Technical Information Service, to be able to download and utilize the Death Master file.

For part g., related to SNAP, ESA has worked with the MDHHS Bureau of Finance and Accounting and established a process for timely submission of payment for the National Directory of New Hire interface. The fiscal year 2019 payment was complete as of February 26, 2019.

Anticipated Completion Date

- a. July 31, 2021, subject to MDHHS Project Prioritization
- b., c., and d. Ongoing
- e. MDHHS submitted the TANF State Plan clarification for approval on January 24, 2020 but cannot estimate when federal approval will be received.
- f. December 31, 2020
- g. Completed

Responsible Individual(s)

- a. Sanjay Srivastava, DTMB
- b., c., and d. Terrence Beurer and Joshua Rivera, MDHHS
- e. Kenton Schulze, MDHHS
- f. Brant Cole, MDHHS
- g. Terrence Beurer, Joshua Rivera, and Dawn Sweeney, MDHHS

Finding 2019-005
ADP Security Program

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For part a., DTMB has implemented a new system called the Michigan Continuity Management Solution that will allow each business area to create, manage, and store both disaster recovery plans (DRP) and business continuity plans (BCP) for systems. MDHHS will work with DTMB to prioritize the systems identified to have BCPs established.

For part b., MDHHS will assess, identify, and prioritize the completion of the DRPs for the systems cited in the audit finding in accordance with the State of Michigan (SOM) Technical Standard 1340.00.070.02 (Information Technology Continuity of Business Planning Standard). DTMB will support the completion of the DRPs as well as the testing of the necessary DRPs based on this assessment and based on guidance in the identified standard. Budget constraints could impact the completion and testing of the DRPs; as such, the corrective action implementation date has not yet been determined.

Anticipated Completion Date

- a. September 2021
- b. DTMB has not yet determined an anticipated completion date.

Responsible Individual(s)

Compliance Office, MDHHS

Agency Services supporting MDHHS, DTMB

Finding 2019-006
MiSACWIS Security Management and Access Controls

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For parts a., b., and f., MDHHS is implementing the DSA, which establishes a method to document user access request approval electronically, a method to more completely document incompatible role approval electronically, and methods to more completely and regularly monitor users by automatically removing access for users that have not submitted appropriate renewal requests and automatically removing access for privileged users that have not received a required periodic access review.

For part c., DTMB will develop an organization-wide security framework for database security configuration management.

For part d., DTMB developed and implemented remaining internal procedures for security management and access controls over the operating system for the Michigan Statewide Automated Child Welfare Information System (MiSACWIS) servers. This was completed as of December 2019.

For part e., MDHHS, along with DTMB, is still working on identifying and documenting the high-risk transactions within the MiSACWIS application and to develop the procedures for properly monitoring those transactions. A plan for implementing and maintaining those procedures will also be completed.

Anticipated Completion Date

a., b., e., and f. February 2021

c. DTMB has not yet determined an anticipated completion date.

d. Completed

Responsible Individual(s)

a., b., and f. Kim Chapin and Jim Bowen, MDHHS

c. Nathan Buckwalter and Cindy Peruchietti, DTMB

d. Jack Harris and Dave Roach, DTMB

e. Kim Chapin, MDHHS, and Nathan Buckwalter and Cindy Peruchietti, DTMB

Finding 2019-007

CHAMPS Security Management and Access Controls

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For part a., DTMB will develop an organization-wide security framework for database security configuration management.

For part b., as of December 2019, DTMB developed and implemented remaining internal procedures for security management and access controls over the operating system for the Community Health Automated Medicaid Processing System (CHAMPS) servers.

For part c., MDHHS implemented a system fix in March 2020. In addition, MDHHS plans to develop a reconciliation process by the end of September 2020 that will utilize an existing CHAMPS online search to identify high risk CHAMPS users and reconcile to the high risk users on the DSA report. MDHHS will follow up on any identified exceptions.

For part d., MDHHS will begin reviewing privileged user access semi-annually through the PAR process within the DSA that will be implemented September 30, 2020.

Anticipated Completion Date

a. DTMB has not yet determined an anticipated completion date.

b. Completed

c. and d. September 2020

Responsible Individual(s)

a. Cindy Peruchietti and Nathan Buckwalter, DTMB

b. Jack Harris and Dave Roach, DTMB

c. and d. Jim Bowen and Deon Nelson, MDHHS

Finding 2019-008
EGrAMS Security Management and Access Controls

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS management will implement sufficient internal controls to ensure certification of user accounts are completed in compliance with SOM Technical Standard 1340.00.020.01 (Access Control Standard).

Annually, MDHHS will create and send an Electronic Grants Administration and Management System (EGrAMS) User Access Annual Reconciliation Survey to supervisors to verify that their staff have the appropriate EGrAMS security access. Semi-annually, MDHHS will create and send a list of privileged users to the MDHHS Bureau of Grants and Purchasing Bureau Director for review and verification.

Anticipated Completion Date

September 30, 2020

Responsible Individual(s)

Jeanette Hensler, MDHHS

Finding 2019-009
MDE, IT General Controls

Management Views:

MDE and DTMB agree with the finding.

Planned Corrective Action

For part a., DTMB will continue to train staff on change management processes through quarterly meetings. The first quarterly meeting was held August 31, 2020. Bi-monthly, DTMB Agency Services and MDE through the Office of Systems, Evaluation, and Technology and the system owners will review a sample of work items and will address any deviations with SOM Technical Standard 1340.00.060.01 (Enterprise Change Management Procedure). The first review was completed on August 31, 2020.

For part b., as of April 2020, DTMB developed and implemented internal standards and procedures for security management over the operating system for the Michigan Electronic Grants System Plus (MEGS+), Cash Management System, Food Nutrition System – Fiscal Reporting System, and Grant Electronic Monitoring System/Michigan Administrative Review System (GEMS/MARS) servers.

Anticipated Completion Date

Completed

Responsible Individual(s)

- a. Cindy Peruchietti, DTMB
- b. James Hogan, Jack Harris, and Dave Roach, DTMB

Finding 2019-010**MDE, IT Security Management and Access Controls****Management Views**

MDE agrees with the finding.

Planned Corrective Action

For part a., MDE's Agency Security Officer will share the requirements for access controls and the MDE policy on security management for MDE information systems with all business owners.

For part b., the MDE policy on security management for MDE information systems requires all business owners to certify semiannually that all administrative accounts are up to date and in compliance by June 30 and December 31. This policy was updated on December 1, 2019 and is in place. MDE will ensure all office directors and business owners are aware of the current policy.

For part c., MDE will work with business owners and DTMB to establish an automated process to review and certify all non-privileged accounts on an annual basis.

Anticipated Completion Date

- a. October 31, 2020
- b. Completed
- c. December 31, 2020

Responsible Individual(s)

Dave Judd, MDE
Mike Flaminio, MDE

Finding 2019-011**MDHHS, PACAP – Completeness and Accuracy of the PACAP****Management Views**

MDHHS agrees with the finding. MDHHS decreased the number of identified cost pools with inaccurate coding from 11 pools in fiscal year 2018 (69%) to seven pools in fiscal year 2019 (41%). The total instances of incompatible combinations for all seven pools totaled \$46,288 for the fiscal year. MDHHS analyzed the remaining exceptions and determined that two (29%) of the seven pools identified with exceptions only noted instances of high-level expenditure corrections and were allocated appropriately based on the document coding and statistics. As a result of this analysis and comparison of the minimal dollar impact of the exceptions noted in the remaining five pools to the overall federal grants, MDHHS determined it would not be efficient to make corrections for the fiscal year 2019 Public Assistance Cost Allocation Plan (PACAP).

Planned Corrective Action

MDHHS created and utilized a report that identifies SIGMA coding that does not match the PACAP narrative and began utilizing the report July 1, 2019. MDHHS expects further improvements in coding accuracy during fiscal year 2020 because the report will be utilized for the entire fiscal year.

Anticipated Completion Date
Completed

Responsible Individual(s)
Suzi Kyes, MDHHS
Carol O'Callaghan, MDHHS

Finding 2019-012
MDHHS, PACAP – Inappropriate PACAP Allocation

Management Views

MDHHS agrees with the finding. For part a., as a result of additional quality control measures that were implemented in July 2019, the number of statistical groups identified in the finding decreased from 27 instances for fiscal year 2018 to 11 for fiscal year 2019, which is a 59% decrease. For all 11 statistics identified, the total average quarterly variance was only \$22,557 and nine (82%) of the 11 statistics occurred before July 2019. MDHHS anticipates a further decrease in statistical errors for fiscal year 2020.

Planned Corrective Action

For part a., MDHHS implemented additional quality control measures in July 2019, including improved statistical input processes and statistical trend analysis based on quarterly Cost Allocation Validation Report database reports.

For part b., MDHHS plans to use the corresponding quarterly statistics for the two cost pools identified beginning October 2020.

For part c., MDHHS now manually compares SIGMA employee records to the population of participants to determine which employees need to be manually added or removed beginning July 1, 2020. These changes are notated manually to document why the employee was added or removed. The Child Placement Agency rosters continue to be completed by a vendor. MDHHS will continue to work on improvements to the database that will allow utilization of the full functionality of the database to help automate these steps in the future.

Anticipated Completion Date

- a. Completed
- b. October 2020
- c. Completed

Responsible Individual(s)
Suzi Kyes, MDHHS
Carol O'Callaghan, MDHHS

Finding 2019-013
MDHHS, Cash Management Process

Management Views

MDHHS and LEO agree with the finding.

Planned Corrective Action

Rehabilitation Services – Vocational Rehabilitation Grants to States program:

MRS transferred to LEO by Executive Order No. 2019-13 on August 11, 2019 and is no longer part of MDHHS. Spending authority became available for LEO during fiscal year 2020, and LEO began making cash draws in December 2019. The LEO Federal Finance Manager will continue to monitor the draws made by the assigned accountant to ensure compliance with the Cash Management Improvement Act (CMIA) going forward.

Other Programs:

During fiscal year 2019, MDHHS provided updates to Treasury for the fiscal year 2019 CMIA Treasury State Agreement (TSA) and the updated funding techniques have been approved in the 2019 TSA. The new funding techniques more accurately reflect how the SIGMA automated processes function and better internal controls have been applied to federal draws by noting any CMIA deviations on the draw cover sheet and the grant summary.

MDHHS is continuing to develop a grant draw tracking database that will track the funding technique timing and any deviations. In addition, MDHHS will provide training to staff and CMIA compliance will be incorporated in staff performance reviews.

Anticipated Completion Date

Corrective action is complete for the Rehabilitation Services – Vocational Rehabilitation Grants to States program. For the remaining programs, MDHHS will have the tracking database and training completed by March 31, 2021.

Responsible Individual(s)

Dawn Lake, LEO
Rebecca Jones, MDHHS
Carol O'Callaghan, MDHHS

Finding 2019-014

MDHHS, Subaward Information

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

For the WIC Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) and the Block Grant for Prevention and Treatment of Substance Abuse, MDHHS did not have all available information at the time the subaward was executed, so MDHHS included the best information available. MDHHS interpreted the regulations to require the updated information only to be reported if an amendment was necessary for some other purpose, therefore, MDHHS did not amend this agreement solely to provide the additional information. MDHHS will revise processes to strengthen internal control to identify information not initially available and verify that the subaward information conforms with federal regulations 2 *CFR* 200.331(a) and 45 *CFR* 75.352(a).

For the Crime Victims Assistance Program, MDHHS agrees it provided the incorrect Federal Award Identification Number (FAIN) to four of the 29 subrecipients reviewed and incorrect federal award date to 25 of the 29 subrecipients reviewed. However, the other fields required in federal regulations 2 *CFR* 200.331(a) and 45 *CFR* 75.352(a) that MDHHS provided were

correct, including the Catalog of Federal Domestic Assistance (CFDA) number, which is the basis for the subrecipients tracking. MDHHS will revise processes to strengthen internal control to identify and verify the subaward information conforms with federal regulations 2 CFR 200.331(a) and 45 CFR 75.352(a).

For TANF, the agreements identified were not maintained in EGrAMS during the audit period, but they have now been transitioned to EGrAMS. MDHHS will continue to maintain the identified agreements in EGrAMS because it contains agreement templates that have the functionality to populate the required data elements if available. The grants division section manager responsible for reviewing the grant agreements will continue to ensure the required data elements are populating on the agreements. If elements are not available at the time the award is issued, the grants division will follow up to ensure the information is conveyed to the grantee during the grant period when it becomes available. MDHHS will begin running an annual query of the EGrAMS vendor table to determine if any Dun & Bradstreet (DUNS) numbers are missing and correct if necessary.

For Child Support Enforcement, MDHHS agrees that the dollar amount made available under each federal award was not reported to subrecipients. Prior to September 27, 2019, the HHS ACF quarterly Notice of Award documents did not include the federal award date or FAIN, but did list a grant document number. The September 27, 2019 Notice of Award document does include the federal award date as well as the award number and the FAIN, which are one in the same in this instance, but it is important to note that this is not always the case and it was not clarified on the document. Therefore, the federal award date and the FAIN were not provided to subrecipients because MDHHS did not know that the award number was also the FAIN. MDHHS has posted the quarterly HHS ACF Notice of Award documents to the MDHHS Office of Child Support website starting with the September 27, 2019 document and will continue to post them upon receipt.

Anticipated Completion Date
Completed

Responsible Individual(s)
Jeanette Hensler, MDHHS
Sonya Butler, MDHHS

Finding 2019-015
MDHHS, Beneficiary Eligibility

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS will develop training specific to workers utilizing required information in the case file and documenting information required to be utilized during eligibility determination. This will be a single training module to help ensure workers are reviewing and maintaining required eligibility documentation when determining eligibility for both Medicaid and Children's Health Insurance Program (CHIP) cases.

Anticipated Completion Date
December 31, 2020

Responsible Individual(s)
Logan Dreasky, MDHHS

Finding 2019-016
MDHHS, Expenditure Processing for Medical Payments

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS has submitted a work request (WR) to ensure correct eligibility classifications in Bridges at the time of payment; however due to funding limitations and competing IT priorities, this enhancement has not yet been prioritized for development. However, MDHHS would like to note that although these expenditures were determined not to be CHIP eligible, they are Medicaid eligible which is a net difference in federal funding of \$744.

MDHHS will continue its manual process of transferring expenditures from Medicaid to CHIP, on a quarterly basis, by completing a summary-level adjustment determined by analyzing CHAMPS payment data and Bridges eligibility data. In addition, MDHHS began retaining the detailed expenditure level transactions for audit purposes during fiscal year 2020. Finally, MDHHS will review and update the CHIP transfer data query to ensure that only children eligible for CHIP enhanced match are included in the transfer report.

Anticipated Completion Date
The manual process of transferring expenditures on a quarterly basis from Medicaid to CHIP is ongoing. MDHHS will review and update the CHIP transfer data query by October 2020. MDHHS anticipates that the Bridges enhancement will be completed by October 2022.

Responsible Individual(s)
Erin Emerson, MDHHS
Crystal Kline, MDHHS

Finding 2019-017
MDHHS - Transitional Medicaid and CHIP Eligibility

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS has developed a query that will be implemented by October 2020 to identify beneficiaries on a monthly basis that are nearing the end of Transitional Medicaid Assistance eligibility and will work with staff to determine applicable actions.

Anticipated Completion Date
October 2020 and ongoing

Responsible Individual(s)
Logan Dreasky, MDHHS
Andrea Piper, MDHHS

Finding 2019-018
MDHHS, Eligibility Interface Errors

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS's Medical Services Administration (MSA) will work to develop a process for reviewing eligibility interface errors identified on the member level error (MLE) report on a timely basis. This process will include some type of comparison of identified duplicates on the MLE report with the PD-001 Potential Duplicate Individual Report (produced by Bridges and reviewed by ESA) to ensure that no potential duplicate records are being missed between the two reports.

Anticipated Completion Date
The process will be developed by December 31, 2020 and the comparison will be completed by March 31, 2021.

Responsible Individual(s)
Brant Cole, MDHHS

Finding 2019-019
MDHHS, Provider Eligibility

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS will increase efficiencies for obtaining, updating, and approving required disclosures by updating the disclosure forms and improving documentation of data collection activities.

MDHHS is also developing policy to require atypical providers, including those in the MI Choice Waiver Program (MI Choice) entities' provider networks, to enroll in CHAMPS. Once this occurs, MSA will be able to monitor MI Choice provider enrollments through queries of CHAMPS data to ensure compliance with federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106 and 42 *CFR* 457.935. Providers would begin enrolling in CHAMPS on October 1, 2020 and it is anticipated that the enrollment process would take approximately six months to complete.

Anticipated Completion Date
March 31, 2021

Responsible Individual(s)
Samantha Rutledge-Wolf, MDHHS
Elizabeth Gallagher, MDHHS

Finding 2019-020

SNAP Cluster, CFDA 10.551 and 10.561, System and Organization Controls

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

The MDHHS SNAP Administrator and Electronic Benefits Transfer (EBT) Coordinator are in the process of awarding a new contract for EBT services and will negotiate with the contractor to require a SOC report for subcontractors.

Anticipated Completion Date

Contract negotiations are expected to be completed by December 31, 2020 and the review of the SOC report will be completed by April 30, 2021.

Responsible Individual(s)

Dawn Sweeney, MDHHS
Andrew Piper, MDHHS

Finding 2019-021

WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, MI-WIC IT General Controls

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For part a., DTMB will develop an organization-wide security framework for database security configuration management and an organization-wide database privileged access rectification framework.

For part b., DTMB developed and implemented the remaining internal procedures for security management and access controls over the operating system for the Michigan Women, Infants, and Children Information System (MI-WIC) servers. This was completed as of December 2019.

Anticipated Completion Date

- a. DTMB has not yet determined an anticipated completion date.
- b. Completed

Responsible Individual(s)

- a. Nathan Buckwalter and Cindy Peruchietti, DTMB
- b. Jack Harris and Dave Roach, DTMB

Finding 2019-022

WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, MI-WIC User Access

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

The Michigan Women, Infants, and Children Data and Systems Management (DSM) team in collaboration with DTMB will conduct a review of the MI-WIC user roles to determine which roles meet the criteria of privileged accounts in accordance with SOM Technical Standard 1340.00.020.01 (Access Control Standard). The DSM team, led by the MI-WIC System Administrator will coordinate and perform role reviews of all privileged accounts semi-annually, to be completed by March 31st and September 30th of each year until resources are available for system enhancements. The privileged accounts were identified during July 2020 and the first review of privileged and non-privileged accounts will be performed by September 30, 2020.

The MI-WIC system will be enhanced to flag privileged roles to automatically expire on March 31st and September 30th each year unless reviewed and approved by the designated staff. Enhancements to MI-WIC will be completed at a future date as resources and funding allow.

Anticipated Completion Date

September 30, 2020

Responsible Individual(s)

Bagyalakshmi Kodur, MDHHS
Anthony Spagnuolo, MDHHS

Finding 2019-023

WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Compliance Buys of High-Risk Vendors

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

The Michigan State Plan amendment was approved by the U.S. Department of Agriculture on June 4, 2019. However, due to the termination of the compliance buy contract during fiscal year 2018 and lack of trained departmental staff, funding for 2019 was temporarily taken out of the budget. Adequate funding has been secured for fiscal year 2020. The WIC Program is pursuing a specialized compliance buy contractor to meet the required minimum of 5% of currently authorized vendors. The agreement is being finalized and WIC expects the required investigations to be completed by September 30, 2020.

Anticipated Completion Date

September 30, 2020

Responsible Individual(s)

Christina Herring-Johnson, MDHHS
Kimberly Keilen, MDHHS

Finding 2019-024

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Propriety of Expenditures

Management Views

The Department of Military and Veterans Affairs (DMVA) agrees with the finding.

Planned Corrective Action

Corrective action has been issued to the human resources (HR) staffer responsible for the errors and lack of appropriate follow-up action required to properly verify time submissions. Additionally, the HR Director now reviews the SIGMA Post Certification Timesheet Submission Reports (e.g. by employee, by manager) on a bi-weekly basis to review outstanding supervisor and employee certifications to monitor ongoing compliance of appropriate follow through on outstanding items. Lastly, DMVA is exploring options to change the reporting relationship of a group of staff that report to federal supervisors to mitigate for ongoing challenges with timely payroll approvals.

Anticipated Completion Date

December 2020

Responsible Individual(s)

Noelle Rouse, DMVA

Finding 2019-025

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Timeliness of Cash Draws

Management Views

DMVA agrees with the finding.

Planned Corrective Action

For part a., the DMVA Office of Financial Services (OFS) hired an additional staff member to assist with the federal billing process for the portion of responsibility that falls within OFS. OFS will also be more diligent following up with program managers and escalating delayed responses.

For part b., OFS met with Treasury to discuss proper reporting. For federal billings generated during the current fiscal year, but not reimbursed prior to the cash management report cut off, the federal billing should be added to the cash management report for the fiscal year in which it is reimbursed. OFS will consider all factors impacting the timeliness of draws when explaining the reason for the cash draw noncompliance.

Anticipated Completion Date

December 31, 2020

Responsible Individual(s)

Julie Mullins, DMVA

Finding 2019-026

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Requests for Reimbursement

Management Views

DMVA agrees with the finding.

Planned Corrective Action

DMVA revised its reimbursement tracking worksheets for each appendix to ensure reimbursements were not requested prior to the execution of cooperative agreement funding modifications. When preparing reimbursement requests for prior years, DMVA will ensure agreements are properly funded prior to requests for reimbursement instead of anticipating funding modifications will be completed at the time of close out.

DMVA is also reviewing open award documents throughout the year to close or reduce awards to not overstate outstanding obligations.

Anticipated Completion Date

Completed

Responsible Individual(s)

Julie Mullins, DMVA

Finding 2019-027

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Notifications for Appendices Exceeding 90% Threshold

Management Views

DMVA agrees with the finding.

Planned Corrective Action

DMVA will send a memo to the United States Property and Fiscal Office (USPFO) when it is estimated that costs will exceed the 90% Annual Funding Program (AFP) limitation amount, rather than when known actual costs exceed the AFP limitation. DMVA has added a column to the reimbursement tracking worksheet that calculates the percentage of estimated AFP spent and has also added a column to the tracking worksheet for "Date Memo Sent".

Anticipated Completion Date

Completed

Responsible Individual(s)

Julie Mullins, DMVA

Finding 2019-028

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Disclosure of Obligations

Management Views

DMVA agrees with the finding.

Planned Corrective Action

For appendices 1001, 1002, 1004, and 1007, when the monthly expenditure reports are run for both projects and non-project expenditures, the line number/tab/approved extension request that contains the outstanding obligation is noted on the report before submitting to the Construction and Facilities Management Office (CFMO). DMVA implemented the following process for all appendices beginning with the May 2020 expenditure reports: OFS will run the monthly expenditure reports for all appendices and update respective spreadsheets. For any expenditure that is not tied to the current fiscal year and program period, OFS will note the approved Master Cooperative Agreement Extension Request, including tab and line number that includes the outstanding obligation, in the right margin.

OFS's current practice is to send an e-mail to USPFO when OFS comes across an outstanding obligation that was missed on a previous extension request and include any backup received from the federal program manager (PM). OFS also adds it to the next quarterly extension request that is prepared and submitted to USPFO for approval. This process was in place during fiscal year 2019, but not documented for the two expenditures cited in the finding. To better ensure that OFS does not miss expenditures from any federal fiscal years that are not on delivery orders or purchase orders, OFS will run a report on prior federal fiscal years and will do this every quarter for all appendices prior to the preparation of an extension request. If OFS finds an item that was not included on an extension request, OFS will request to have it added prior to submitting a request for reimbursement. OFS confirmed with USPFO that OFS may proceed in this manner.

OFS will require assistance from CFMO to provide a list quarterly of all open projects. OFS will be able to compare this list to the encumbrance report and check for projects initiated, but the Contract Order has not reached OFS yet.

Anticipated Completion Date

Completed

Responsible Individual(s)

Julie Mullins, DMVA

Finding 2019-029

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Timeliness of Appendix Final Accounting

Management Views

DMVA agrees with the finding.

Planned Corrective Action

DMVA has updated its reimbursement tracking and added a column for "Final Payment Email Sent" for each reimbursement request. This will trigger that a review must take place with each reimbursement request. DMVA has begun meeting with the USPFO and PMs to discuss issues with each appendix. These meetings provide an opportunity to discuss issues ahead of closeout versus at the time of closeout.

Anticipated Completion Date

Completed

Responsible Individual(s)
Julie Mullins, DMVA

Finding 2019-030
Grants to States for Construction of State Home Facilities, CFDA 64.005, Overdrawn Funds

Management Views
DMVA agrees with the finding.

Planned Corrective Action
DTMB will notify DMVA when construction costs are paid. DMVA will draw down federal funds after verifying payment documents are final.

Anticipated Completion Date
Completed

Responsible Individual(s)
Mike Hassan, DMVA
Latissa Dozier, DTMB
TJ Reese, DTMB

Finding 2019-031
Grants to States for Construction of State Home Facilities, CFDA 64.005, Required Provisions

Management Views
DMVA and DTMB agree with the finding.

Planned Corrective Action
DMVA will indicate the fund source on form DTMB-400 Project Request and Approval. When a DTMB-400 form indicates federal funds, DTMB Office of Design and Construction (DTMB-DCD) will include applicable federal provisions when generating contracts and purchase orders on DMVA's behalf.

Anticipated Completion Date
Completed

Responsible Individual(s)
Mike Hassan, DMVA
Design and Construction Contract Services Manager, DTMB

Finding 2019-032**Grants to States for Construction of State Home Facilities, CFDA 64.005, Wage Rate Requirements****Management Views**

DMVA and DTMB agree with the finding. For part a., environmental and construction projects are bid by DTMB-DCD. Failure to include prevailing wage rate provisions in one contract was an oversight. For part b., DTMB-DCD requested the vendor collect and retain the weekly certified payroll. DTMB-DCD and DMVA can access and obtain the weekly certified payroll at any time. The U.S. Department of Veterans Affairs (USDVA) had previously informed DMVA that weekly certified payroll did not need to be submitted on a weekly basis but rather upon the USDVA's request.

Planned Corrective Action

For part a., DTMB-DCD will complete a change order on the one contract to include the required prevailing wage rate provisions.

For part b., DTMB-DCD and DMVA has requested the contractor to transmit the weekly certified payroll.

Anticipated Completion Date

Completed

Responsible Individual(s)

Mike Hasson, DMVA

Design and Construction Contract Services Manager, DTMB

Finding 2019-033**Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Cash Management Process****Management Views**

LARA and LEO agree with the finding. BSBP transferred to LEO by Executive Order No. 2019-13 on August 11, 2019 and is no longer part of LARA. However, the cash draw process remained at LARA through the end of fiscal year 2019 and draws were delayed due to year end closing activities. When spending authority became available at LEO during fiscal year 2020, expenditures were reviewed in detail and cash draws were made on a bi-weekly basis starting on November 8, 2019, and bi-weekly draws were completed as of that date going forward.

Planned Corrective Action

LEO's Federal Finance Manager will continue to monitor the assigned accountant's draws to ensure that they remain timely and accurate.

Anticipated Completion Date

Completed

Responsible Individual(s)

Dawn Lake, LEO

Finding 2019-034**Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Pre-Employment Transition Services Earmarking Threshold****Management Views**

LEO disagrees with the finding and has the documentation necessary to demonstrate it met the federal reserve and expend requirements.

The VR award is a one-year award with a one-year period of performance that may be extended an additional year if carryover requirements are met. LEO met the requirements to extend the federal fiscal year (FFY) 2018 award to a two-year period of performance. The overlap of a carryover year (e.g., eligible FFY 2018 VR award with a FFY 2019 carryover year) with a VR award in its year of appropriation (e.g., FFY 2019) does not require a VR agency to prioritize or otherwise obligate and liquidate VR funds for pre-employment transition services from either award in any particular order.

Planned Corrective Action

LEO has communicated its process to Rehabilitation Services Administration (RSA). LEO interprets RSA's response to indicate LEO is in compliance with the reserve and expend requirement. As such, no corrective action is necessary.

Anticipated Completion Date

Not applicable

Responsible Individual(s)

Mike Pemble, LEO

Bill Robinson, LEO

Finding 2019-035**Supporting Effective Instruction State Grants, CFDA 84.367, Management Decisions****Management Views**

MDE agrees with the finding.

Planned Corrective Action

MDE has automated monthly deadline notifications to program offices for management decisions in GEMS/MARS. This will ensure MDE timely issues required management decisions for subrecipient single audit reports with findings.

Anticipated Completion Date

Completed

Responsible Individual(s)

Paula Daniels, MDE

Caitlin Hengesbach, MDE

Finding 2019-036

Student Support and Academic Enrichment Program, CFDA 84.424, Use of Funds

Management Views

MDE agrees with the finding

Planned Corrective Action

MDE implemented an error message into the Consolidated Application in MEGS+ if the allocation amount of Title IV, Part A, less any transferred amounts, is greater than \$29,999 and the technology category amount is not greater than \$1.

Anticipated Completion Date

Completed

Responsible Individual(s)

Fred Williams, MDE

Shoua Vang, MDE

Finding 2019-037

Aging Cluster, CFDA 93.044, 93.045, and 93.053, AIS FIRST User Access

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

For part a., MDHHS has completed a replacement user agreement for the identified user.

In addition, for parts a. and b., MDHHS began developing new Aging Information System (AIS) Financial Information Reporting System Tool (FIRST) system functionality during fiscal year 2019, and implemented during October 2019, to better manage, verify, and control AIS FIRST access and access rights, including an online "User Rights Termination/Change Request" form built into AIS FIRST to allow users to submit requests to change user access when a user needs a change in access rights or no longer needs access. This accompanied a systemwide reiteration of requirements to notify MDHHS when user status changes.

For part c., system-generated user verification report functionality has been developed for MDHHS to verify internal agency users and external non-agency users need for continued access to AIS FIRST. The process to verify internal agency users has been implemented and the process to verify non-agency external users is in process but has been delayed due to activities related to the COVID-19 pandemic.

For part d., MDHHS's limited number of privileged AIS FIRST user accounts were reviewed as part of the semi-annual verification in October 2019 and June 2020.

Anticipated Completion Date

a. and b. Completed

c. September 30, 2020

d. Completed

Responsible Individual(s)
Scott Wamsley, MDHHS

Finding 2019-038
TANF Cluster, CFDA 93.558, Non-Financial Eligibility Documentation

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS ESA will continue to remind local office staff that policies and procedures must be followed when determining eligibility. ESA will continue training through the Office of Workforce Development and Training (OWDT) website. Additionally, MDHHS plans to develop and implement a fleeing felon policy by March 2021.

Anticipated Completion Date
Ongoing

Responsible Individual(s)
Terrence Beurer, MDHHS
Joshua Rivera, MDHHS
Kenton Schultz, MDHHS
Brian Sanborn, MDHHS

Finding 2019-039
TANF Cluster, CFDA 93.558, Income Eligibility Documentation

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS ESA will continue to educate local office staff on policies and procedures along with online training through the OWDT website.

Anticipated Completion Date
Ongoing

Responsible Individual(s)
Terrence Beurer, MDHHS
Joshua Rivera, MDHHS
Kenton Schultz, MDHHS
Brian Sanborn, MDHHS

Finding 2019-040**TANF Cluster, CFDA 93.558, Eligibility Redeterminations for TANF-Funded Adoption Subsidy****Management Views**

MDHHS partially agrees with this finding. Section 400.115i of the *Michigan Compiled Laws* does not specifically dictate the methodology the adoptive parent must utilize to file the annual report. MDHHS allows flexibility for the parents to either utilize the annual redetermination form or to report the required information through a telephone interview. MDHHS's policy does not require submission of the annual redetermination form when a phone interview is conducted. If the parent chooses to utilize the annual redetermination form, it does need to be signed, returned, and maintained by MDHHS.

Planned Corrective Action

For part a., MDHHS's policy requires that the annual eligibility redetermination must be conducted with a parent. Procedures will be updated to require that upon completion of a phone interview, staff will review and confirm the responses with the parent and document the parent's verbal confirmation in the applicable database. In addition, procedures will be updated to require that if an annual eligibility redetermination form is utilized, the document will be retained and uploaded. MDHHS will train staff on the new process.

For part b., the annual report was not completed in two cases for 2017. In 2018, a data report was built in MiSACWIS that provides the information needed for MDHHS to follow to ensure completion of annual reports and to terminate TANF funding when an annual report is not completed. MDHHS will continue using this data report to verify completion of all annual reports and will terminate TANF funding when an annual report is not completed.

For part c., MDHHS will conduct monthly quality control reviews to verify that TANF eligibility requirements are met.

Anticipated Completion Date

December 1, 2020

Responsible Individual(s)

Patricia Neitman, MDHHS

Finding 2019-041**TANF Cluster, CFDA 93.558, Foster Care Assistance****Management Views**

MDHHS disagrees with the finding. MDHHS asserts that payments to unlicensed relatives are allowable expenditures because these expenditures meet the criteria allowed in the TANF State Plan and federal law 42 USC 608(a)(10)(A) does not apply.

Michigan's TANF State Plan allows TANF funds to be used for an Emergency Relief program, which includes providing "emergency foster family care or residential group care for children separated from their parents if such care cannot be provided under Title IV-E". While the TANF State Plan does not specifically define an emergency, MDHHS believes that any instance when a child must be removed from his or her home constitutes an emergency situation. MDHHS does recognize that an emergency should be time-limited in nature. The State Plan addresses this by specifically limiting the amount of time during which Emergency services can be

provided: “Emergency services are limited to the duration of the emergency, not to exceed 364 days.” In 2019, TANF funds were only used to pay for services to children living with an unlicensed relative for the first 120 days after they were removed. This is well below the current emergency time period allowed in the State Plan, and thus meets the TANF State Plan’s definition of an emergency.

In April 2019, MDHHS changed its policy to allow unlicensed relatives to receive a foster care payment instead of a Family Independence Program (FIP) payment. The TANF State Plan does not specify that emergency relief is only available to licensed relatives and does not indicate the child should be treated differently due to the licensure status of the family or individual with whom they are placed. In addition, the TANF State Plan does not require that the program must have been operating under Aid to Families with Dependent Children (AFDC) or Emergency Relief to be allowed. Therefore, any program that is authorized by law and meets the criteria laid out in the TANF State Plan is allowable.

In addition, the child is living with a relative so they meet TANF purpose one, which is to provide assistance to needy families so that children may be cared for in their own homes or the homes of relatives. Federal Law 42 USC 608(a)(10)(A) requires that a State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance for a minor child who has been, or is expected by a parent (or other caretaker relative) of the child to be, absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days as the State may provide for in the State plan submitted pursuant to section 602 of this title. For this program, all the children are living with caretaker relatives, and are thus not absent from their family’s home, so the temporary absence period does not apply. Further, ACF explicitly allows expenditures to children placed with relatives, stating that TANF may be used to provide a broad range of services, including ongoing assistance and other benefits and services to needy caretaker relatives who can provide a safe place for a needy child to live and avoid his or her placement in foster care.

Planned Corrective Action

Although MDHHS disagrees with the finding, MDHHS will evaluate the TANF State Plan and submit an amendment to ACF to provide necessary clarification.

Anticipated Completion Date

December 31, 2020

Responsible Individual(s)

Louis Long, MDHHS

Finding 2019-042

TANF Cluster, CFDA 93.558, Emergency Foster Care Assistance

Management Views

MDHHS disagrees that a child with a dual court ward status should be ineligible for foster care abuse and neglect services. Although the child in the case identified was eligible for juvenile justice services, the TANF funded payments were for foster care abuse and neglect services for a child that was placed in a foster care placement. The current TANF State Plan and the prior AFDC plan allow for emergency relief for emergency foster family care.

Planned Corrective Action

MDHHS disagrees with the finding and does not intend to take further action.

Anticipated Completion Date

Not applicable

Responsible Individual(s)

Theodore Jay, MDHHS

Louis Long, MDHHS

Finding 2019-043

TANF Cluster, CFDA 93.558, Child Support Non-Cooperation

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS specialists reinstated (FIP) cases prior to the non-cooperation penalty being served, and in one case, the specialist sent out another decision notice which incorrectly carried out the negative action date. These are training issues that are covered under the OWDT website. MDHHS will continue to provide support to the local office staff with training and policy support as needed.

Anticipated Completion Date

Ongoing

Responsible Individual(s)

Terrence Beurer, MDHHS

Josh Rivera, MDHHS

Kent Schultz, MDHHS

Brian Sanborn, MDHHS

Finding 2019-044

TANF Cluster, CFDA 93.558, Penalty for Refusal to Work

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

For part a., the cases identified in the finding were part of a Bridges issue that was previously identified and fixed with WR BRGUS00321074 in 2016. The identified system fix has corrected the issue going forward. However, MDHHS cannot retroactively sanction a recipient due to the previous system issue because the recipients were not notified that there was a noncooperation concern.

For part b., MDHHS will continue to supply specialists conducting determinations with policy and training support, as needed, through OWDT website trainings. In addition, a policy mailbox is available to local office staff for policy clarification and guidance.

Anticipated Completion Date

- a. Completed
- b. Ongoing

Responsible Individual(s)

Joshua Rivera, MDHHS
Dawn Sweeney, MDHHS
Shelley Walker, MDHHS

Finding 2019-045

TANF Cluster, CFDA 93.558, Lack of Child Care for Single Custodial Parent of Child Under Age Six

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS will continue to supply specialists with policy and training support, as needed, OWDT website trainings. In addition, a policy mailbox is available to local office staff for policy clarification and guidance.

Anticipated Completion Date

Ongoing

Responsible Individual(s)

Joshua Rivera, MDHHS
Kenton Schulze, MDHHS
Brian Sanborn, MDHHS
Shelley Walker, MDHHS

Finding 2019-046

CCDF Cluster, CFDA 93.575 and 93.596, MWBC Child Care System User Access

Management Views

LARA and MDE agree with the finding.

Planned Corrective Action

LARA will develop and implement an Access and Security Agreement form that clearly defines Michigan Workforce Background Check (MWBC) Child Care System user access roles and will require users to abide by applicable federal and state laws and LARA security policies. This form will require approval by the manager of LARA's Bureau of Community and Health Systems (BCHS) for MWBC Child Care System account creation and the level of access provided. BCHS will maintain forms for auditing purposes until that employee's termination of employment plus three years.

Anticipated Completion Date

December 2020

Responsible Individual(s)
Kenneth Krajniak, LARA
Heather Hosey, LARA

Finding 2019-047
CCDF Cluster, CFDA 93.575 and 93.596, Client Eligibility

Management Views
MDHHS and MDE agree with the finding.

Planned Corrective Action
MDHHS Public Assistance Operations (PAO), within ESA, will continue assisting the local office staff and Business Service Center (BSC) staff by providing guidance on MDE policies and processes. ESA will provide this guidance to local office and BSC staff by identifying and supplying answers from questions previously answered by MDE or by directing local office and BSC staff to the proper MDE policy. Policy changes or noted trends may be addressed during PAO's Bridges Bits and Bytes (BBB) communication sessions, formerly Partners in Progress (PiP).

Anticipated Completion Date
Ongoing

Responsible Individual(s)
Terrence Beurer, MDHHS
Chris George, MDHHS
Gayle Vail, MDHHS

Finding 2019-048
CCDF Cluster, CFDA 93.575 and 93.596, Cash Management Process

Management Views
MDE agrees with the finding.

Planned Corrective Action
For part a., MDE began taking screen shots of the Payment Management System list of awards on a weekly basis. This allows MDE to update award amounts available for draw prior to the weekly update of the Federal Letter of Credit system.

For part b., the revised process noted in part a. will ensure administrative funds are available and drawn in a timely manner. The federal program began splitting the award into three separate awards. MDE was not aware until after the beginning of the fiscal year. MDE changed its process so that only drawable awards are charged and SIGMA coding was adjusted to allocate costs across the three awards based on available funding.

For part c., MDE will change its CMIA tracking spreadsheet and will use Treasury's receipt date to record the revenue.

Anticipated Completion Date
a. and b. Completed
c. November 30, 2020

Responsible Individual(s)
Brandon Reed, MDE
Rose Zuker, MDE

Finding 2019-049
CCDF Cluster, CFDA 93.575 and 93.596, Provider Health and Safety Requirements

Management Views
LARA and MDE agree with the finding.

Planned Corrective Action

For part a., the required health and safety topics were promulgated into the administrative rules for child care providers in December 2019. The promulgation process began in April 2018 after Public Act 116 was amended. The process of revising the rules to include the required federal standards took 21 months from start to completion.

For part b., on October 1, 2019 MDE implemented new policy that requires all licensed providers and all license exempt unrelated providers to MDE and LARA to complete annual ongoing health and safety training provided by the department. Ongoing health and safety trainings began in March 2020 and will continue to be offered annually.

For part c., LARA will develop and implement a checklist of required health and safety topics to be completed at each licensing visit.

For part d., LARA will ensure the interim inspections are completed within the timelines stated in LARA policies numbered 650 (Interim Inspections – Child Care Homes) and 780 (Interim Inspections – Child Care Centers). Each area manager will review the Bureau Information Tracking System report titled Reminder List of Interims each month to ensure the interim inspections are completed.

For part e., LARA will ensure corrective action plans are signed by the provider. In the event the licensee sent in a corrective action plan without a signature, the licensing consultant will return it to get a signature, or will keep the email from the licensee with it to verify agreement on the part of the licensee.

For part f., child care area managers will follow up with the child care consultants to ensure all documentation of license extensions are maintained in the licensee's file by following policy number 910 (Field Files), which lists the items that should be in the child care licensee file.

Anticipated Completion Date

- a. Completed
- b. Completed
- c. December 30, 2020
- d. Completed
- e. Completed
- f. Completed

Responsible Individual(s)
Sharon Riebel, LARA
Larry Horvath, LARA
Lisa Brewer-Walraven, MDE

Finding 2019-050

CCDF Cluster, CFDA 93.575 and 93.596, Fraud Detection and Repayment

Management Views

MDE and MDHHS agree with the finding.

Planned Corrective Action

MDE staff will continue to enter all non-fraud/intentional program violation (IPV) claims in Bridges, as well as forward all potential fraud/IPV claims to the MDHHS Office of Inspector General (OIG) for criminal investigation of fraud. Regarding the referral of delinquent claims to Treasury, MDE has instructed MDHHS that it is MDE's policy (Bridges Administrative Manual 725) to refer all delinquent Child Development and Care (CDC) claims, which includes those resulting from fraud and IPVs, to Treasury for collection actions. This will be a manual process until Bridges is updated to perform these referrals automatically.

MDE is awaiting a response from its federal funding agency to clarify allowability of writing off receivables resulting from fraud or IPV that are more than six years old without any activity.

To facilitate the write-off of CDC claims older than six years without payment activity for at least six years, MDE has a pending Bridges WR with MDHHS/DTMB to provide a list of all CDC claims established more than six years ago. That Bridges WR has not been fulfilled, and there is no promised date that this data will be made available due to higher priority Bridges WRs that need to be addressed. Therefore, MDE and MDHHS will no longer wait for that Bridges WR to be completed and once federal approval is received, MDHHS will immediately initiate a manual process of searching for these claims and begin writing off any remaining balance of each of them.

Anticipated Completion Date

December 2020

Responsible Individual(s)

Lisa Brewer-Walraven, MDE
Jeff Moeggenborg, MDHHS

Finding 2019-051

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, and 93.778 (ARRA), Payments on Behalf of Ineligible Beneficiaries

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS is developing a comprehensive monitoring process which will identify any records between CHAMPS and Bridges which are out of sync and a methodology to resolve any identified eligibility issues.

Anticipated Completion Date

September 30, 2020

Responsible Individual(s)
Jamy Hengesbach, MDHHS

Finding 2019-052
Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, MiAIMS User Access

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
For part a., MDHHS reviewed all Michigan Adult Integrated Management System (MiAIMS) users for appropriate access. MDHHS completed this review December 31, 2019.

For part b., MDHHS will continue to perform necessary reviews of active users until the DSA is functional. Functionality will then be available to perform the semi-annual reviews and annual reviews electronically.

For part c., MDHHS will maintain necessary documentation electronically when the DSA is functional. Instructions will be sent to staff regarding the new DSA process for user registration when it becomes functional.

Anticipated Completion Date
a. Completed
b. and c. September 30, 2020

Responsible Individual(s)
Michelle Martin, MDHHS

Finding 2019-053
Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Ineligible HHP Payments

Management Views
MDHHS agrees with the finding

Planned Corrective Action
MDHHS will review home help policy to determine if there are modifications to the policy that can be made regarding admission and discharge days. MDHHS will also continue to work with the OIG to develop a post payment monitoring protocol. Once the protocol is finalized, the Home Help Program (HHP) office will develop policy to provide a clear process for Home Help staff.

Anticipated Completion Date
September 2020 and ongoing

Responsible Individual(s)
Michelle Martin, MDHHS

Finding 2019-054**Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Home Health Services and Documentation****Management Views**

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS will continue to enhance home health agencies communications and explore opportunities for changes to its current policies while continuing to conform to federal requirements. However, many of the home health providers also have Medicare patients and exclusively use the Medicare required plan of care form, which is not conducive to some 42 CFR 484.60 requirements. The CFR indicates that the “patient’s mental, psychosocial, and cognitive status” must be assessed; however, these are all components of the beneficiary’s overall mental status and wellbeing and would not necessarily be assessed individually.

Anticipated Completion Date

December 31, 2020

Responsible Individual(s)

Michael Daeschlein, MDHHS

Finding 2019-055**Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Home Help Payment Oversight****Management Views**

MDHHS agrees with the finding.

Planned Corrective Action

For part a., MDHHS implemented a standardized Home Help Agency invoice and corresponding policy on October 1, 2019 that requires information needed to support the payment. Individual caregiver verifications currently in Electronic Service Verifications/Paper Service Verifications will be replaced with Electronic Visit Verification (EVV). The Home Help payment system will be updated or replaced so that verification review will be automated to verify services were provided before payment is made.

For part b., a mini webinar will be developed for adult services staff to discuss shared living, how it impacts instrumental activities of daily living, and what is needed for documentation.

For part c., a new policy was implemented June 1, 2020, that clearly notes supervisor approval is not needed for agency payments.

Anticipated Completion Date

- a. New system changes will take several years to fund and develop. No specific date has been determined at this time for the development and implementation of EVV.
- b. The webinar will be released September 30, 2020 and staff will complete the training by November 30, 2020.
- c. Completed

Responsible Individual(s)
Michelle Martin, MDHHS

Finding 2019-056

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Agency Provider Overpayments

Management Views
MDHHS agrees with the finding.

Planned Corrective Action

MSA issued bulletin MSA 19-18 on July 15, 2019. This bulletin, which was effective October 1, 2019, requires agencies to submit a MSA-1904 Home Help Agency Invoice each month after services are provided and before payment can be made. A monthly report is generated to identify future authorizations and delete payments before they are issued. Workers do not authorize payment until the invoice is reviewed and approved.

Anticipated Completion Date
Completed

Responsible Individual(s)
Michelle Martin, MDHHS

Finding 2019-057

Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Practitioner Reimbursement

Management Views
MDHHS agrees with the finding.

Planned Corrective Action

MDHHS continues to implement changes to minimize the overlap of capitation payments and fee-for-service payments for the same member for the same month. In 2019, MDHHS formed a multi-disciplinary workgroup within the MSA. The workgroup is discussing process improvements for responding to the CHAMPS receipt of retroactive removal of eligibility from Bridges. MDHHS anticipates that the work will be finalized by September 30, 2020.

Additionally, MDHHS is developing an automatic procedure for the system to identify when eligibility is corrected and sent to CHAMPS. The new process will put the correct enrollment back on CHAMPS at the same time the corrected eligibility is received. MDHHS anticipates it will be released into production by September 30, 2020.

MDHHS anticipates that the combination of process changes will mitigate any overlap in payments.

Anticipated Completion Date
September 30, 2020

Responsible Individual(s)
Samantha Rutledge-Wolf, MDHHS

Finding 2019-058**Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, MARIS User Access****Management Views**

MDHHS partially agrees with the finding. MDHHS agrees that semi-annual reviews were not conducted on privileged users, however, there was minimal risk that an OIG employee was provided access inappropriately or that their access level was inappropriate. The OIG documented the access review and approval process electronically within MiLogin.

The Medicaid Audit Recovery and Investigation System (MARIS) requires a two-step authorization to access the system. In one step, a user must request access to MARIS through the State of Michigan's Single Sign-On software, MiLogin. This is approved or denied by the MARIS business owner/division director through MiLogin.

MARIS is used exclusively by the OIG. Any OIG new hire is accompanied with an administration-wide, new staff announcement, which defines the staff member's position/role in the administration, e.g., investigator or manager. All staff are established in MARIS by a MARIS system administrator within the OIG. If the administrator is unsure of the employee's role, they reach out to the employee's supervisor to obtain further information. MDHHS does not believe that a separate process to document the request and the requested access level is necessary.

As noted in the finding, the administration instituted a semi-annual review process for all MARIS users as of August 2019.

Planned Corrective Action

MDHHS incorporated the process for requesting MARIS User Access and Review into the OIG's Policy and Procedure Manual on August 1, 2020.

Anticipated Completion Date

Completed

Responsible Individual(s)

Casey Barton, MDHHS

Finding 2019-059**Medicaid Cluster, CFDA 93.775, 93.777, and 93.778, Long Term Care Facility Audits****Management Views**

MDHHS agrees with the finding.

MDHHS agrees that on-site audits were not completed once every four years for two (11%) of the 18 long-term care providers reviewed. During the fiscal year, MDHHS worked closely with the Centers for Medicare and Medicaid Services to amend the Medicaid State Plan to remove the requirement to conduct on-site audits once every four years and incorporate any changes necessary for Public Act 612 of 2018. Formal approval to remove the requirement was granted by the Centers for Medicare and Medicaid Services in November 2019. In addition, MDHHS also updated policy and released MSA Bulletin 19-28 in October 2019 to remove the on-site audit requirement.

MDHHS also agrees that for 11 of the sampled audits, MDHHS did not complete the audit within two years of receiving the cost report. However, during the audit period there were no state or federal requirements for completing audits within a specific time frame.

Planned Corrective Action

MDHHS has the necessary protocols in place to ensure that all audit timelines established in Public Act 612 of 2018, which became effective in June 2019, will be met.

Anticipated Completion Date

Ongoing

Responsible Individual(s)

Scott Werner, MDHHS

Finding 2019-060

Immunization Cooperative Agreements, CFDA 93.268, Expenditures Incurred Outside the Period of Performance

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS will conduct additional research on coding interfacing from EGRaMS to SIGMA and identify potential improvements that would help ensure MDHHS is appropriately applying charges to the correct grant period.

Anticipated Completion Date

October 1, 2020

Responsible Individual(s)

Cindy Masterson, MDHHS
Carol O'Callaghan, MDHHS
Rebecca Jones, MDHHS

Finding 2019-061

Immunization Cooperative Agreements, CFDA 93.268, MCIR General Controls

Management Views

MDHHS and DTMB agree with the finding.

Planned Corrective Action

For part a., MDHHS began using a new change management system and projects to have new procedures documented and fully implemented by December 2020. During fiscal year 2021, contract ownership will shift from MDHHS to DTMB.

For part b., DTMB will develop an organization-wide security framework for database security configuration management.

For part c., as of December 2019, DTMB developed and implemented remaining internal procedures for security management and access controls over the operating system for the Michigan Care Improvement Registry (MCIR) servers.

Anticipated Completion Date

- a. December 2020
- b. DTMB has not yet determined an anticipated completion date
- c. Completed

Responsible Individual(s)

- a. Tina Scott, MDHHS
- b. Nathan Buckwalter and Cindy Peruchietti, DTMB
- c. Jack Harris and Dave Roach, DTMB

Finding 2019-062

Immunization Cooperative Agreements, CFDA 93.268, MCIR User Access Controls

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS implemented MCIR user access controls within the DSA during November 2019. The DSA contains an electronic MCIR Request for Access form and a formal approval and annual recertification process.

Anticipated Completion Date

Completed

Responsible Individual(s)

Tina Scott, MDHHS
Beatrice Salada, MDHHS

Finding 2019-063

Child Support Enforcement, CFDA 93.563, Use of Incorrect Federal Grant Funds for Reimbursement

Management Views

MDHHS disagrees with the finding. MDHHS confirmed with HHS ACF that MDHHS took appropriate action when using current year funding for making prior year increasing adjustments. Per federal regulation 45 *CFR* 95.7 and 2 *CFR* 200, Appendix XI (Compliance Supplement), entitlement grants can use current funding for increasing adjustments up to eight quarters. Federal regulation 45 *CFR* 95.7 allows a State to file a claim for an expenditure within two years after the calendar quarter in which the State agency made the expenditure.

Planned Corrective Action

MDHHS disagrees with the finding and does not intend to take further action.

Anticipated Completion Date

Not applicable

Responsible Individual(s)
Carol O'Callaghan, MDHHS
Rebecca Jones, MDHHS

Finding 2019-064
Low-Income Home Energy Assistance, CFDA 93.568, Eligibility Determinations

Management Views
MDHHS agrees with the finding

Planned Corrective Action
MDHHS ESA along with State Emergency Relief (SER) program policy staff will continue to provide guidance to local office staff regarding eligibility requirements by continually monitoring the SER policy mailbox and communicating through BBB communication sessions, formerly PiP. The SER policy unit works with the BSCs to provide guidance when trends are noted. ESA is also reviewing policies for direct assistance benefits that simplify the verification process while maintaining State and Federal compliance. As part of this review, ESA implemented changes to the asset policy as of November 2019.

Anticipated Completion Date
Ongoing

Responsible Individual(s)
Josh Rivera, MDHHS
Kent Schulze, MDHHS
Tammy Bair, MDHHS

Finding 2019-065
Foster Care - Title IV-E, CFDA 93.658, Foster Home Records Check

Management Views
MDHHS agrees with the finding.

Planned Corrective Action
MDHHS had several negotiations and consultations with tribal partners regarding the required checks for tribally licensed providers. In collaboration with tribal partners and with approval from the Federal Children's Bureau, MDHHS finalized form MDHHS 5612 (Verification of Tribal Foster Home Safety Requirements), and the form was made available to tribal partners in November 2019 after the audit period. This new form verifies certification of all federal safety requirements being met for the purposes of receiving foster care payments. MDHHS will demonstrate compliance by retaining the certification form along with a copy of the license issued by the licensing entity for all existing licenses. Beginning November 25, 2019, the form was required before reimbursement for all new tribal licenses and tribal renewals.

For the non-tribally licensed providers, the MDHHS Division of Child Welfare Licensing (DCWL) will provide technical assistance to licensing supervisors and training to all staff. In addition, MDHHS DCWL will request that auto notification and tickler functionality be built into the upcoming Comprehensive Child Welfare Information System (CCWIS) to assist child placing agencies with ensuring that all adult household members are cleared timely.

Anticipated Completion Date

Corrective action is complete for the tribally licensed providers.

For the non-tribally licensed providers, DCWL will provide technical assistance and training during October 2020 and corrective action will be ongoing. MDHHS has not yet determined an anticipated completion date to establish auto notification and tickler functionality in the upcoming CCWIS systems.

Responsible Individual(s)

Wendy Campau, MDHHS

Theodore Jay, MDHHS

Nikki Jubeck, MDHHS

Stacey Tadgerson, MDHHS

Tracey Silas, MDHHS

Finding 2019-066

Foster Care - Title IV-E, CFDA 93.658, Accuracy of Financial Reports

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

All identified errors have been corrected or are in process of correction, either with an adjusting entry to a subsequent report or by providing updated information to the HHS ACF. Since all errors were due to keying errors, MDHHS Federal Reporting will develop and implement a process to review formula and keying entries before each report submission.

Anticipated Completion Date

October 1, 2020

Responsible Individual(s)

Tiffany Clarke, MDHHS

Teresa Laurin, MDHHS

Finding 2019-067

Adoption Assistance, CFDA 93.659, Payments to Ineligible Participants

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

The Adoption and Guardianship Assistance Office (AGAO) will provide all necessary reconciliation transactions to Federal Reporting so that the appropriate accounting corrections can be processed for the errors identified. Also, the AGAO will biannually identify cases with potential fund source changes and evaluate for accuracy. Any inaccuracies will be provided to Federal Reporting for correction.

Anticipated Completion Date

The fiscal year 2019 errors will be corrected and the AGAO will begin the biannual identification of cases on October 1, 2020.

Responsible Individual(s)

Dawn Ritter, MDHHS

Finding 2019-068

Adoption Assistance, CFDA 93.659, Adoption Assistance Payments

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS identified children affected during the time frame of January 21, 2014 and June 18, 2015 that turned age 13 and those children that have the potential to be affected upon reaching their 13th birthday. MDHHS is manually correcting the rates for the children that have already turned 13. Also, MDHHS is tracking the upcoming children who will reach age 13 over time and correcting the rates at their 13th birthday month.

Anticipated Completion Date

October 1, 2020

Responsible Individual(s)

Dawn Ritter, MDHHS

Finding 2019-069

Adoption Assistance, CFDA 93.659, Annual Adoption Savings Calculation and Accounting Report

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS will continue to work on additional revisions to the adoption savings query. The query will be run throughout the year for additional testing to improve query accuracy. MDHHS submitted a request through the Departmental Work Intake Process (DWIP) on September 24, 2019 to transition this report to a DTMB report. MDHHS will continue periodically reviewing query data until the report is transitioned.

Anticipated Completion Date

DWIP requested: September 24, 2019

Prioritization of work to transition the report: To be determined.

Responsible Individual(s)

Cathe Hoover, MDHHS

Patricia Neitman, MDHHS

Erin Setla, MDHHS

Rebecca Jones, MDHHS

Finding 2019-070

Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, State Expenditures

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS will continue to review and update written policies and procedures to help ensure maintenance of effort (MOE) calculations are capturing all eligible expenditures. MDHHS plans to revise the 2019 MOE calculation to capture all eligible expenditures and will work with the federal awarding agency to submit the revised calculation in the Web-based Grant Application System by September 30, 2020. In addition, the reimbursement-based model requiring monthly reporting from subrecipients that MDHHS implemented for fiscal year 2020 allows MDHHS to monitor MOE expenditures more closely.

Anticipated Completion Date

September 30, 2020

Responsible Individual(s)

Kristen Jordan, MDHHS

Karen Cashen, MDHHS

Finding 2019-071

Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959, Risk Assessments

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

MDHHS's Bureau of Community Services staff will develop a risk monitoring activities protocol that is cohesive across all divisions, including for the Substance Abuse Prevention and Treatment Block Grant. As part of this development, the Bureau is researching all potential options for remediation including the development of appropriate site visit tools and monitoring schedules for its various divisions. The Bureau will also determine if the Prepaid Inpatient Health Plan site visit schedule will aid with risk monitoring for multiple divisions

Anticipated Completion Date

The risk monitoring activities protocol will be developed by February 1, 2021 for implementation in fiscal year 2021.

Responsible Individual(s)

Kendra Binkley, MDHHS

Finding 2019-072

Disability Insurance/SSI Cluster, CFDA 96.001, Accuracy of Reports

Management Views

MDHHS agrees with the finding.

Planned Corrective Action

As of October 1, 2019, MDHHS ensures that the hours reported on the quarterly Time Report of Personnel Services for Disability Determination Services (SSA-4514) reconcile to payroll data.

Anticipated Completion Date

Completed

Responsible Individual(s)

Cora Rue, MDHHS

Finding 2019-073

Unemployment Insurance, CFDA 17.225

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Corrective Action Plan, Finding 2019-001.

Finding 2019-074

Unemployment Insurance, CFDA 17.225

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Corrective Action Plan, Finding 2019-002.

Finding 2019-075

Unemployment Insurance, CFDA 17.225

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Corrective Action Plan, Finding 2019-003.

Finding 2019-076

Unemployment Insurance, CFDA 17.225

See Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Administration Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2019, Corrective Action Plan, Finding 2019-001.

GLOSSARY

LIST OF ABBREVIATIONS

ACA	Affordable Care Act.	DCWL	Division of Child Welfare Licensing.
ACF	HHS's Administration for Children and Families.	DEQ	Department of Environmental Quality.
ADP	automated data processing.	DHS-60	MDHHS Staff Profile Security Agreement.
AFDC	Aid to Families with Dependent Children.	DMVA	Department of Military and Veterans Affairs.
AFP	Annual Funding Program.	DNR	Department of Natural Resources.
AIS	Aging Information System.	DRP	disaster recovery plan.
AR	authorized requestor.	DSA	Database Security Application.
ARRA	American Recovery and Reinvestment Act of 2009.	DTMB	Department of Technology, Management, and Budget.
ASM	Adult Services Manual.	DWIP	Departmental Work Intake Process.
ASW	adult services worker.	EBT	electronic benefits transfer.
BCP	business continuity plan.	EGLE	Department of Environment, Great Lakes, and Energy.
Bridges	Bridges Integrated Automated Eligibility Determination System.	EGrAMS	Electronic Grants Administration and Management System.
BSBP	Bureau of Services for Blind Persons.	EO	Executive Order.
CAP	cost allocation plan.	ESA	Economic Stability Administration.
CCDF	Child Care and Development Fund.	FAA	Federal Aviation Administration.
CCI	child care institutions.	FAIN	Federal Award Identification Number.
CDC	Child Development and Care.	FFEL	Federal Family Education Loans.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>	FFP	federal financial participation.
CFMO	Construction and Facilities Management Officer.	FFS	fee-for-service.
CFR	<i>Code of Federal Regulations.</i>	FFY	federal fiscal year.
CHAMPS	Community Health Automated Medicaid Processing System.	FIRST	Financial Information Reporting System Tool.
CHIP	Children's Health Insurance Program.	FISCAM	Federal Information System Controls Audit Manual.
CI	Consolidated Inquiry.	FNS-FRS	Food Nutrition System - Fiscal Reporting System.
CMIA	Cash Management Improvement Act.	FOA	Field Operations Administration.
CMS	Cash Management System.	FSR	financial status report.
CPS	DTMB Central Procurement Services.	GAN	Grant Award Notification.
CSA	Children's Services Administration.	GAO	U.S. Government Accountability Office.
CSE	Child Support Enforcement.	GEMS/MARS	Grant Electronic Monitoring System/Michigan Administrative Review System.
DCA	Division of Cost Allocation.		

GOR	Grants Officer Representative.
HHA	home health agency.
HHP	Home Help Program.
HHS	U.S. Department of Health and Human Services.
IADL	instrumental activities of daily living.
IAP	immunization action plan.
IDEA	Individuals with Disabilities Education Act.
IEVS	Income Eligibility and Verification System.
IPV	intentional program violation.
IT	information technology.
LARA	Department of Licensing and Regulatory Affairs.
LEA	local educational agency.
LEO	Department of Labor and Economic Opportunity.
LIHEAP	Low-Income Home Energy Assistance Program.
LOE	level of effort.
LOSC	local office security coordinator.
MAGI	modified adjusted gross income.
MARIS	Medicaid Audit Recovery and Investigation System.
MCA	Master Cooperative Agreement.
MCC	Modernizing Continuum of Care.
MCIR	Michigan Care Improvement Registry.
MDE	Michigan Department of Education.
MDHHS	Michigan Department of Health and Human Services.
MDOT	Michigan Department of Transportation.
MEGS+	Michigan Electronic Grants System Plus.
MHP	Medicaid Health Plan.
MiAIMS	Michigan Adult Integrated Management System.
MI Choice	MI Choice Waiver Program.
MiCSES	Michigan Child Support Enforcement System.
MiND	Michigan Nutrition Data.

MiSACWIS	Michigan Statewide Automated Child Welfare Information System.
MI-WIC	Michigan Women, Infants, and Children Information System.
MLER	Member Level Error Report.
MOE	maintenance of effort.
MPPM	Michigan Procurement Policy Manual.
MRS	Michigan Rehabilitation Services.
MSHDA	Michigan State Housing Development Authority.
MWBC	Michigan Workforce Background Check.
NGB	National Guard Bureau.
NGR	National Guard Regulations.
O&M	Operations and Maintenance.
OAG	Office of the Auditor General.
OIG	MDHHS's Office of Inspector General.
OMB	U.S. Office of Management and Budget.
OWDT	Office of Workforce Development and Training.
PACAP	Public Assistance Cost Allocation Plan.
PBM	Pharmacy Benefits Manager.
PIHP	Prepaid Inpatient Health Plan.
PM	federal program manager.
Pre-ETS	pre-employment transition services.
R&D	research and development.
RMTS	Random Moment Time Study.
RSS	Retail Sales System.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
SF-270	Request for Advance or Reimbursement.
SIGMA	Statewide Integrated Governmental Management Applications.
SNAP	Supplemental Nutrition Assistance Program.
SOC	System and Organization Controls.
SOLQ	State Online Query.

SOM	State of Michigan.
SSA	Social Security Administration.
SSAE	Student Support and Academic Enrichment.
SSI	Supplemental Security Income.
SSP	system security plan.
TANF	Temporary Assistance for Needy Families.
TMA	Transitional Medicaid Assistance.
Treasury	Michigan Department of Treasury.

TSA	Treasury State Agreement.
UCL	Universal Case Load.
USC	<i>United States Code.</i>
USDA	U.S. Department of Agriculture.
USDOE	U.S. Department of Education.
USPFO	United States Property and Fiscal Office.
VR	Vocational Rehabilitation.
WIOA	Worker Innovation and Opportunity Act.

GLOSSARY OF TERMS

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
adverse opinion	A type of modified opinion in which the auditor states that the audited entity did not comply, in all material respects, with the cited compliance requirements that are applicable to each major federal program.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
application controls	Controls that are directly related to individual computer applications. These controls help ensure that transactions are valid, properly authorized, and completely and accurately processed and reported.
auditor's comments to management views	Government auditing standards require auditors to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement. Therefore, when this situation arises, the OAG includes auditor's comments to comply with this standard.
availability	Timely and reliable access to data and information systems.
Bridges Integrated Automated Eligibility Determination System (Bridges)	An automated, integrated service delivery system for Michigan's cash assistance, medical assistance, food assistance, child care assistance, and emergency assistance programs.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
change controls	Controls that ensure that program, system, or infrastructure modifications are properly authorized, tested, documented, and monitored.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of the Uniform Guidance.

<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
confidentiality	Protection of data from unauthorized disclosure.
configuration	The way a system is set up. Configuration can refer to either hardware or software or the combination of both.
database management system (DBMS)	Software that uses a standard method of cataloging, retrieving, and running queries on data. The DBMS manages incoming data, organizes the data, and provides ways for the data to be modified or extracted by users or other programs.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
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.
Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements and/or financial schedules of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
general controls	The structure, policies, and procedures that apply to an entity's overall computer operations. These controls include an entitywide security program, access controls, application development and change controls, segregation of duties, system software controls, and service continuity controls.
in-relation-to opinion	An opinion expressed by the auditor on supplementary information based on auditing procedures applied in the audit of the basic financial statements and certain additional procedures and considering materiality of the basic financial statements taken as a whole.
integrity	Accuracy, completeness, and timeliness of data in an information system.

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.
known questioned costs	Questioned costs that are specifically identified by the auditor.
low-risk auditee	As provided for in the Uniform Guidance, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results.
material misstatement	A misstatement in the basic 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 noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on basic financial statement and/or financial schedule amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
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 basic financial statements will not be prevented, or detected and corrected, on a timely basis.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
operating system	The essential program in a computer that manages all the other programs and maintains disk files, runs applications, and handles devices such as the mouse and printer.
other noncompliance	Violations of contracts or grant agreements that are not material to the basic financial statements but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with <i>Government Auditing Standards</i> .
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

privileged account	An account that has access to all commands and files on an operating system or database management system.
qualified opinion	A type of modified opinion in which the auditor identifies a scope limitation or material noncompliance with one or more of the cited compliance requirements that are applicable to each major federal program.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
security	Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.
segregation of duties	Separation of the management or execution of certain duties or areas of responsibility to prevent or reduce opportunities for unauthorized modification or misuse of data or service; also known as separation of duties.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
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.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance, which is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with the Uniform Guidance.
Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.

subrecipient

A nonfederal entity that receives a subaward from a pass-through entity to carry out part of a federal program but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

**System and
Organization Controls
(SOC) report**

Designed to help organizations that provide services to user entities build trust and confidence in their delivery processes and controls through a report by an independent certified public accountant (CPA). Each type of SOC report is designed to meet specific user needs:

- SOC 1 (Report on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting) - Intended for user entities and the CPAs auditing their financial statements in evaluating the effect of the service organization's controls on the user entities' financial statements.
- SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) - Intended for a broad range of users that need information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.

There are two types of SOC 1 and SOC 2 reports:

- Type 1 - Reports on the fairness of management's description of a service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description, as of a specified date.
- Type 2 - Includes the information in a type 1 report and also addresses the operating effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.
- SOC 3 (Trust Services Report for a Service Organization) - Intended for those needing assurance about a service organization's controls that affect the security, availability, or processing integrity of the systems a service organization employs to process user entities' information, or the confidentiality or privacy of that information, but do not have the need for or the knowledge necessary to make effective use of a SOC 2 report.
- SOC for Cybersecurity. Intended to communicate relevant information about the effectiveness of an organization's cybersecurity risk management programs.

Uniform Guidance

Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Uniform Guidance, which was officially implemented in December 2014 by the Council on Financial Assistance Reform, establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Uniform Guidance supersedes guidance from earlier OMB circulars.

unmodified opinion

The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes:

- a. The basic financial statements or financial schedules are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- b. The audited entity complied, in all material respects, with the cited compliance requirements that are applicable to each major federal program.

**U.S. Office of
Management and
Budget (OMB)**

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.



Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud

Hotline: (517) 334-8060, Ext. 1650

Michigan State Housing Development Authority

(a component unit of the State of Michigan)

Federal Awards Supplemental Information

June 30, 2019

Independent Auditor's Reports

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-4
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	5-7

Schedule of Expenditures of Federal Awards	8
---	---

Notes to Schedule of Expenditures of Federal Awards	9
--	---

Schedule of Findings and Questioned Costs	10-11
--	-------

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan State Housing Development Authority

We have audited the financial statements of the business-type activities and the discretely presented component unit of Michigan State Housing Development Authority (the "Authority") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 22, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 22, 2019.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

March 13, 2020

Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government
Auditing Standards*

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management; the Board of Directors; and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan State Housing Development Authority

We have audited, in accordance with 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 discretely presented component unit of Michigan State Housing Development Authority (the "Authority") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 determination of financial statement amounts. 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*.

To Management; the Board of Directors; and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan State Housing Development Authority

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 22, 2019

Report on Compliance for Each Major Federal
Program and Report on Internal Control Over
Compliance Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan State Housing Development Authority

Report on Compliance for Each Major Federal Program

We have audited Michigan State Housing Development Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ended June 30, 2019.

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan State Housing Development Authority

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

March 13, 2020

Michigan State Housing Development Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Program Title/Project Number/Subrecipient Name	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Section 8 Project-based Cluster:				
Section 8 - Contract Administration	14.182	Various	\$ -	\$ 239,451,965
Section 8 - New Construction/Substantial Rehabilitation	14.182	Various	-	117,348,267
Section 8 - Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	Various	-	1,303,710
Total Section 8 Project-based Cluster			-	358,103,942
Housing Voucher Cluster - Section 8 Cluster:				
Section 8 - Housing Choice Vouchers	14.871	Various	-	204,157,867
Mainstream Vouchers	14.879	Various	-	267,669
Total Housing Voucher - Section 8 Cluster			-	204,425,536
Total U.S. Department of Housing and Urban Development Clusters			-	562,529,478
Home Investment Partnership	14.239	M-18-SG-260100	1,846,854	21,348,094
Housing Counseling Program	14.169	HC170341008	-	50,304
	14.169	HC180341002	452,936	464,521
Total Housing Counseling Program			452,936	514,825
Continuum of Care Program	14.267	MI0518L5F001600	165,369	165,369
	14.267	MI0559L5F001700	179,889	281,955
	14.267	MI0009L5F001710	570,803	570,803
	14.267	MI0007L5F001710	135,855	135,855
Total Continuum of Care Program			1,051,916	1,153,982
Emergency Solutions Grants Program	14.231	E-16-DC-260001	973	973
	14.231	E-17-DC-260001	2,129,067	2,129,067
	14.231	E-18-DC-260001	2,201,077	2,201,077
Total Emergency Solutions Grants Program			4,331,117	4,331,117
Program of Section 811 Supportive Housing for Persons with Disabilities	14.326	MI28DRD1301	145,239	309,311
Family Self-Sufficiency Program	14.896	FSS17MI0418	-	484,738
	14.896	FSS18MI2619	-	518,540
Total Family Self-Sufficiency Program			-	1,003,278
Total U.S. Department of Housing and Urban Development			7,828,062	591,190,085
U.S. Department of Transportation - Passed through Michigan Department of Transportation - Highway Planning and Construction Cluster - Highway Planning and Construction	20.205	ENH200500043 / STP 0884 (048) / ENH200700037	27,539	27,539
U.S. Department of the Interior -				
Historic Preservation Fund Grants-in-Aid	15.904	P16F00097	30,437	30,437
	15.904	P17AF00072-0002	85,404	107,090
	15.904	P17AP00066	-	49,500
	15.904	P18AF00043-0001	-	1,129,494
	15.904	P18AF00043-0002	58,500	192,000
	15.904	P19AF00019-0001	-	1,191,857
Total U.S. Department of the Interior			174,341	2,700,378
Total federal awards			<u>\$ 8,029,942</u>	<u>\$ 593,918,002</u>

See notes to schedule of expenditures
of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Michigan State Housing Development Authority (the "Authority") under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Authority has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Michigan State Housing Development Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

☐ Yes ☒ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.871 and 14.879	Housing Voucher Cluster
14.239	Home Investment Partnerships Program
14.231	Emergency Solutions Grant Program

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Michigan State Housing Development Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

Section II - Financial Statement Audit Findings

Reference Number	Finding
2019-001	<p>Finding Type - Significant deficiency</p> <p>Criteria - Good business practices require the general ledger to be complete and free of misstatements before financial statement audits begin. The general ledger should be complete, reconciled, and reviewed during the year-end close process.</p> <p>Condition - Certain general ledger account balances were not appropriately stated on the trial balance received, and some reconciliation and review processes had not occurred prior to the beginning of the audit.</p> <p>Context - The Authority has a significant amount of activity related to operations, especially near year end. Consequently, the audit and portions of the year-end close process were performed simultaneously.</p> <p>We identified immaterial adjustments as a result of audit procedures, and the Authority provided us with several journal entries during the audit that impacted the following balances in the financial statements:</p> <ul style="list-style-type: none">(1) Cash(2) Escrow funds(3) Other miscellaneous receivables(4) Other liabilities(5) Loan origination fees(6) Loan interest income(7) Federal program revenue(8) Federal program expense <p>Cause - There is a high level of operational activity performed at year end with limited staff preparing journal entries. There was not time for sufficient reviews and reconciliations to occur and to identify errors before the general ledger was provided for audit purposes.</p> <p>Effect - Multiple immaterial account adjustments were identified as a result of audit procedures.</p> <p>Recommendation - The Authority should put appropriate controls in place to ensure timely and accurate close of its year-end balances.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Authority agrees with Plante & Moran, PLLC's finding that staff was not prepared when Plante & Moran, PLLC's staff were expected to begin their audit procedures. We are also in agreement that additional adjustments and reconciliations were being performed during the audit.</p>

Section III - Federal Program Audit Findings

None



GRETCHEN WHITMER
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

GARY HEIDEL
ACTING EXECUTIVE DIRECTOR

Michigan State Housing Development Authority
March 13, 2020
Corrective Action Plan

Finding Number: 2019-001

Condition: Certain general ledger account balances were not appropriately stated on the trial balance received, and some reconciliation and review processes had not occurred prior to the beginning of the audit.

Planned Corrective Action: During fiscal year 2019, the Finance Division lost a number of key accounting staff. A few of these positions have been filled and the new staff will be trained and prepared to produce reporting in a timely manner. Finance has recently gone through a Lean Process Improvement ("LPI") related to the production of financial reports. Being fully staffed and completed the LPI, the Authority believes it will produce monthly Financials on a timely basis as well as be fully prepared when Plante & Moran begins its audit procedures for the fiscal year 2020.

Contact person responsible for corrective action: Jeff Sykes, Chief Financial Officer

Anticipated Completion Date: 6/01/2020

Report on Expenditures of Federal Awards

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Year Ended September 30, 2019

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Year Ended September 30, 2019

Contents

Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors’ Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs.....	8
Corrective Action Plan.....	13
Summary Schedule of Prior Audit Findings.....	15

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

State of Michigan

Department of Labor and Economic Opportunity,
Unemployment Insurance Agency,
Office of the Auditor General and
Office of Financial Management

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 State of Michigan, Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Unemployment Compensation Fund (Fund), as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

Fund's Response to Findings

The Fund's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
February 20, 2020

Independent Auditors' Report on Compliance for Each Major Federal Program; Report
on Internal Control Over Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance

State of Michigan

Department of Labor and Economic Opportunity,
Unemployment Insurance Agency,
Office of the Auditor General and
Office of Financial Management

Report on Compliance for Each Major Federal Program

We have audited the Unemployment Compensation Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended September 30, 2019. The Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Basis for Qualified Opinion on the Unemployment Insurance Program

As described in the accompanying schedule of findings and questioned costs, the Fund did not comply with requirements regarding CFDA 17.225 Unemployment Insurance as described in finding number 2019-003 for Allowable Costs/Cost Principles and Eligibility. Compliance with such requirements is necessary, in our opinion, for the Fund to comply with the requirements applicable to that program.

Qualified Opinion on the Unemployment Insurance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Fund for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on the major federal program is not modified with respect to these matters.

The Fund's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal*

control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-003, that we consider to be a material weakness.

The Fund's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the Fund as of and for the year ended September 30, 2019, and the related notes to the financial statements. We issued our report thereon dated February 20, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Andrews Gloopu Pavlik PLC

Auburn Hills, Michigan
June 9, 2020

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

Federal Agency / Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Total Federal Expenditures
Department of Labor – Employment and Training Administration: Unemployment Insurance – State of Michigan / Employer Funded	17.225	NONE	\$ 775,108,625
Alternative Trade Adjustment Assistance / Trade Benefits	17.225	UI-32709-19-55-A-26	4,247,220
Unemployment Insurance – Other Federal Funds	17.225	NONE	3,368,157
Unemployment Insurance – American Recovery and Reinvestment Act	17.225	NONE	(1,813,182)
Total Federal Financial Assistance			<u>\$ 780,910,820</u>

See accompanying notes to schedule of expenditures of federal awards.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

(1) General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of federal financial assistance programs of the Unemployment Compensation Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. The operations of the Fund are recorded as described in Note 1 of the Fund's financial statements.

(2) Basis of Accounting

The accompanying SEFA is presented using the accrual basis of accounting.

(3) Indirect Cost Rate

The Fund has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Section I – Summary of Auditors’ Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unmodified Opinion**
- (b) Internal control over financial reporting:
 - i. Material weaknesses identified? **No**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (c) Noncompliance material to financial statements noted? **No**

Federal Awards

- (a) Internal control over major programs:
 - i. Material weaknesses identified? **Yes**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (b) The type of report issued on compliance for major programs: **Qualified Opinion**
- (c) Any audit findings which are required to be reported under 2 CFR 200.516(a)? **Yes**
- (d) Major program: **Unemployment Insurance/17.225**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (f) Auditee qualified as a low-risk auditee under 2 CFR 200.520? **Yes**

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Section II – Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

Finding 2019-001 is also considered a financial statement finding.

Section III – Findings and Questioned Costs Relating to Federal Awards

Finding 2019-001

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year: Affects all grant awards included under CFDA 17.225 on the Schedule of Expenditures of Federal Awards

Type of Finding: Material Noncompliance

Compliance Requirement: Special Tests and Provisions, UI Program Integrity – Overpayments

Known Questioned Costs: None

Repeat Finding: 2018-001

Systemic or Isolated: Systemic

Criteria: Offsets of future unemployment compensation payments to recover prior overpayments are limited to the recovery of the prior overpayment amount in accordance with Federal guidance.

Condition: Unapplied offset recoveries attributable to subsequent period adjustments to the original benefit overpayment were used to recover penalties and interest.

Cause: A parameter was not established in the benefit system to prevent the allocation of unapplied recoveries to penalties and interest after overpayment amounts due were satisfied.

Effect: Interest and penalties due under Federal and State law were recovered from offsets of unemployment compensation payments.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Recommendation: We recommend that the Agency add a parameter to the automated system to ensure adjustments to benefit offsets are only applied to the recovery of prior overpayment amounts.

Views of Responsible Officials: The Agency agrees with the finding noted above. The details of the unapplied recoveries issue were reviewed by Agency Services and SQR 29541 was submitted. The estimated completion date of the resulting SQR is September 30, 2020.

Finding 2019-002

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year: Affects grant awards under the Unemployment Insurance – State of Michigan / Employer Funded line of CFDA 17.225 on the Schedule of Expenditures of Federal Awards

Type of Finding: Material Noncompliance

Compliance Requirement: Reporting

Known Questioned Costs: None

Repeat Finding: 2018-003

Systemic or Isolated: Systemic

Criteria: The Agency is required to report quarterly using ETA 581, *Contributions Operations* the volume of State Workforce Agency work, performance in determining the taxable status of employers, and other information pertinent to the overall effectiveness of the tax program.

Condition: Certain information reported in ETA 581 did not agree to the Agency's automated system.

Cause: The Agency is unable to accurately collect certain employer information required for reporting in the ETA 581 as a result of errors in the programming logic of the Agency's automated system.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Effect: The Agency is unable to validate the accuracy of certain information reported in ETA 581.

Recommendation: We recommend that the Agency correct programming errors in the automated system to accurately collect certain employer information required for reporting in ETA 581. Once corrected, we recommend the Agency validate the information previously reported and, if necessary, resubmit reports requiring correction.

Views of Responsible Officials: The Agency agrees with the finding noted above. Service requests have been submitted and work has begun to ensure information reported in ETA 581 is available and accurately reported in the Agency's automated system. Service requests are expected to be completed by September 30, 2020.

Finding 2019-003

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year: Affects all grant awards included under CFDA 17.225 on the Schedule of Expenditures of Federal Awards

Type of Finding: Material Noncompliance and Material Weakness

Compliance Requirement: Allowable Costs/Cost Principles and Eligibility

Known Questioned Costs: Undeterminable

Repeat Finding: No

Systemic or Isolated: Systemic

Criteria: Federal law requires individuals be actively seeking work to be eligible for regular unemployment compensation benefits. As a condition of eligibility for state administrative grants, State law is required to specify the work search requirements for claimants. Because Federal law does not define actively seeking work, states have some discretion to establish the specific work search activities claimants are expected to conduct.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

In accordance with State law, the Agency requires claimants seek work with at least two employers each week, and submit a record of that work search, at least once a month, and provide detailed information about the weekly work search.

Condition: We tested a selection of 40 benefit payments reviewed under the State's Benefit Accuracy Measurement (BAM) system. For nine of the benefit payments totaling \$2,587, the Agency concluded the claimant failed to properly report a record of their work search in accordance with State law. The Agency previously reported the overpayments to the Department of Labor with the Benefit Accuracy Measurement testing.

Claimants may receive unemployment compensation benefits without proper submission of a record that a claimant sought work.

Cause: With the exception of benefits reviewed under the State's Benefit Accuracy Measurement (BAM) system, the Agency did not verify submission of claimant work search records.

Effect: Certain claimants received and were not required to repay benefits for weeks that the claimants failed to submit a record of their work search.

Recommendation: We recommend that the Agency implement additional controls to ensure claimants are submitting records of their work search in accordance with State law. The Agency should continue to monitor further guidance from the Department of Labor clarifying work search verification requirements.

Views of Responsible Officials: The Agency agrees with the finding noted above. In January 2020, the Agency entered into a collaboration with the NASWA Unemployment Insurance Integrity Center to develop a comprehensive plan to improve Michigan's work search compliance rate. The State of Michigan Legislature passed updated work search requirements in Section 421.28(7) of the MES Act with an effective date of April 2, 2020. These combined efforts should result in an improvement in work search compliance beginning in mid-2020.



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY
LANSING

JEFF DONOFRIO
DIRECTOR

Single Audit Report: Corrective Action Plan

Year Ended September 30, 2019

Finding 2019-001

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The Agency has submitted a service request to update the system logic for adjustments to benefit offsets to limit their application to only the recovery of benefit overpayments.

Position of Responsible Official: Deputy Director, Unemployment Insurance Agency

Anticipated Completion Date: The estimated completion date is September 30, 2020.

Finding 2019-002

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The Agency has submitted service requests to ensure information reported on ETA 581 is available and accurately reported in the Agency's automated system. Once corrected, the Agency will validate the information previously reported and, if necessary, resubmit reports requiring correction.

Position of Responsible Official: Deputy Director, Unemployment Insurance Agency

Anticipated Completion Date: The estimated completion date is September 30, 2020.

Finding 2019-003

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The State of Michigan Legislature passed updated work search requirements with an effective date of April 2, 2020. In addition, the Agency entered into a collaboration with the NASWA Unemployment Insurance Integrity Center to develop a comprehensive plan to improve Michigan's work search compliance rate.

Position of Responsible Official: Deputy Director, Unemployment Insurance Agency

Anticipated Completion Date: The estimated completion date is September 30, 2020.



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY
LANSING

JEFF DONOFRIO
DIRECTOR

Summary Schedule of Prior Audit Findings

Finding 2018-001

Grant Program/CFDA #: Unemployment Insurance/17.225

Initial Year Written: Fiscal Year 2017

Condition: Unapplied offset recoveries attributable to subsequent period adjustments to the original benefit overpayment were used to recover penalties and interest.

Recommendation: The auditor recommended that the Agency add a parameter to the automated system to ensure adjustments to benefit offsets are only applied to the recovery of prior overpayment amounts.

Current Status: The Agency did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: The Agency had very limited resources in fiscal year 2019 due to statute priorities.

Corrective Action: During fiscal year 2020, the Agency plans on completing the SQR by September 30, 2020.

Finding 2018-002

Grant Program/CFDA #: Unemployment Insurance/17.225

Initial Year Written: Fiscal Year 2017

Condition: The unemployment accounts of employers were not correctly charged for benefit overpayments.

Recommendation: The auditor recommended that the Agency implement additional controls to ensure all timely employer responses are considered when determining if an employer has failed to respond timely or adequately. The auditor also recommended that the Agency add system parameters to ensure charges to employer accounts are updated for redeterminations of benefit overpayments.

Current Status: The Agency corrected the deficiencies noted in the finding.

Finding 2018-003

Grant Program/CFDA #: Unemployment Insurance/17.225

Initial Year Written: Fiscal Year 2017

Condition: Certain information reported in ETA 581 did not agree to the Agency's automated system.

Recommendation: The auditor recommended that the Agency correct programming errors in the automated system to accurately collect certain employer information required for reporting in ETA 581. Once corrected, the auditor recommended that the Agency validate the information previously reported and, if necessary, resubmit reports requiring correction.

Current Status: The Agency did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: The Agency had very limited resources in fiscal year 2019 due to statute priorities.

Corrective Action: During fiscal year 2020, the Agency plans on completing the SQRs by September 30, 2020

Report on Expenditures of Federal Awards

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Year Ended September 30, 2019

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Year Ended September 30, 2019

Contents

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs.....	8
Corrective Action Plan.....	11
Summary Schedule of Prior Audit Findings.....	12

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

State of Michigan

Department of Labor and Economic Opportunity,
Unemployment Insurance Agency,
Office of the Auditor General and
Office of Financial Management

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 State of Michigan, Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Administration Fund (Fund), as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. 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*.

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.

Andrews Hopper Pavlik PLC

Auburn Hills, Michigan
February 20, 2020

Independent Auditors' Report on Compliance for Each Major Federal Program; Report
on Internal Control Over Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance

State of Michigan

Department of Labor and Economic Opportunity,
Unemployment Insurance Agency,
Office of the Auditor General and
Office of Financial Management

Report on Compliance for Each Major Federal Program

We have audited the Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended September 30, 2019. The Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

The Fund's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiencies.

The Fund's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Fund as of and for the year ended September 30, 2019, and the related notes to the financial statements. We issued our report thereon dated February 20, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
June 16, 2020

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

Federal Agency / Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Provided to Subrecipients	Total Federal Expenditures
Department of Labor – Employment and Training Administration:				
Work Opportunity Tax Credit Program	17.271	WT-32773-19-55-A-26	\$ -	\$ 645,927
Unemployment Insurance	17.225	UI-30224-17-60-A-26	-	31,182
Unemployment Insurance	17.225	UI-31300-18-55-A-26	294,779	27,508,487
Unemployment Insurance	17.225	UI-31736-18-60-A-26	1,652,228	1,730,813
Unemployment Insurance	17.225	UI-31300-18-55-A-26	-	1,744,051
Unemployment Insurance	17.225	UI-32606-19-55-A-26	1,167,580	91,151,864
Unemployment Insurance	17.225	UI-32846-19-60-A-26	758,118	796,844
Unemployment Insurance	17.225	UI-31300-18-55-A-26	-	50,035
Unemployment Insurance	17.225	UI-31300-18-55-A-26	-	25,327
Unemployment Insurance	17.225	UI-32606-19-55-A-26	-	31,279
Short Time Compensation Implement – Unemployment Insurance	17.225	NONE	-	74,177
Short Time Compensation Enrollment – Unemployment Insurance	17.225	NONE	-	117,179
Total Federal Financial Assistance			<u>\$ 3,872,705</u>	<u>\$ 123,907,165</u>

See accompanying notes to schedule of expenditures of federal awards.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

(1) General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of federal financial assistance programs of the Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. The operations of the Fund are recorded as described in Note 1 of the Fund's financial statements.

(2) Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting.

(3) Indirect Cost Rate

The Fund has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Section I – Summary of Auditors’ Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unmodified Opinion**
- (b) Internal control over financial reporting:
 - i. Material weaknesses identified? **No**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (c) Noncompliance material to financial statements noted? **No**

Federal Awards

- (a) Internal control over major programs:
 - i. Material weaknesses identified? **No**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **Yes**
- (b) The type of report issued on compliance for major programs: **Unmodified Opinion**
- (c) Any audit findings which are required to be reported under 2 CFR 200.516(a)? **Yes**
- (d) Major program: **Unemployment Insurance/17.225**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (f) Auditee qualified as a low-risk auditee under 2 CFR 200.520? **Yes**

**Section II – Findings Relating to the Financial Statements Reported in Accordance with
Government Auditing Standards**

No findings to report.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Section III – Findings and Questioned Costs Relating to Federal Awards

Finding 2019-001

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year:

UI-31300-18-55-A-26	10/01/2017 – 12/31/2020
UI-32606-19-55-A-26	10/01/2018 – 12/31/2021
UI-30224-17-60-A-26	01/01/2017 – 12/31/2018
UI-31736-18-60-A-26	01/01/2018 – 09/30/2019
UI-32846-19-60-A-26	01/01/2019 – 06/30/2021

Type of Finding: Significant Deficiency and Noncompliance

Compliance Requirement: Cash Management

Known Questioned Costs: None

Repeat Finding: 2018-001

Systemic or Isolated: Systemic

Criteria: The Cash Management Improvement Act (CMIA) Agreement requires the Fund to request funds on a payroll cycle and the amount of funds requested shall be based on the amount of liabilities recorded for direct administrative costs since the last request for funds.

Condition: Our review of fiscal year 2019 noted:

- As of December 26, 2018, the Fund had drawn \$38,136,666 in federal reimbursements since October 1, 2018 but had incurred federal expenditures totaling \$36,707,007. This represents an overdraw of federal funds of \$1,429,659. This overdraw was substantially corrected when a February 2019 draw was reduced by \$718,036 and a November 2019 draw was reduced by \$706,098.
- The Fund underdrew \$278,877 prior to March 20, 2019. This underdraw was corrected when the March 20, 2019 draw was increased by \$278,877.
- The Fund overdrew \$157,313 prior to May 15, 2019. This overdraw was corrected when the May 15, 2019 draw was reduced by \$157,313.

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

- The Fund overdrew \$6,336 prior to November 14, 2019. This overdraft was corrected when the November 14, 2019 draw was reduced by \$6,336.
- The Fund overdrew \$28,752 prior to November 27, 2019. This overdraft was corrected when the November 27, 2019 draw was reduced by \$28,752.

In addition, the Fund did not report one noncompliant draw to the Michigan Department of Treasury.

Cause: Controls were not properly designed and implemented, considering the functionality of the new State of Michigan Accounting System (SIGMA), to allow the Fund to determine accurate draw amounts based on liabilities recorded since the last request for funds in accordance with the CMIA Agreement.

Effect: The Fund was not in compliance with the CMIA Agreement. For underdraws, the State may have lost interest by drawing funds late. For overdrafts, the overdraft could result in interest due to the federal government. Also, the federal grantor agency could issue sanctions or disallowances related to noncompliance.

Recommendation: We recommend that the Fund ensure proper design and implementation of internal controls related to determination of draw amounts such that reimbursement requests are in accordance with the CMIA Agreement.

Views of Responsible Officials: The Fund agrees with the finding noted above. The Fund is reviewing the way SIGMA generates receivables to determine the appropriate amount to draw. More procedures are being implemented to accurately follow the CMIA Agreement.



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY
LANSING

JEFF DONOFRIO
DIRECTOR

Single Audit Report: Corrective Action Plan
Year Ended September 30, 2019

Finding 2019-001

Federal Agency/Program Title/CFDA #: U.S. Department of Labor, Unemployment Insurance – 17.225

Corrective Action Plan: The Agency will implement a revised cash management procedure that will ensure that incurred expenses are drawn on a timely basis and in compliance with the CMIA (Cash Management Improvement Act) agreement. And, any variations between the SIGMA proposed draw and the actual amounts drawn will be appropriately documented. In addition, the agency's Federal Finance Manager will verify the appropriateness of proposed draws. And, the agency will notify the Michigan Department of Treasury of any instances of CMIA Deviations.

Position of Responsible Official: Federal Finance Manager, Dept of Labor & Economic Opportunity

Anticipated Completion Date: The estimated completion date is September 30, 2020.



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY
LANSING

JEFF DONOFRIO
DIRECTOR

Summary Schedule of Prior Audit Findings

Finding 2018-001

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Condition:

- As of December 14, 2017, the Fund had drawn \$23,591,848 in federal reimbursements since October 1, 2017 but had incurred federal expenditures totaling \$24,067,731. This represents an underdraw of federal funds of \$475,883.
- The Fund overdrew \$463,444 in federal funds on April 4, 2018.
- On April 18, 2018, the Fund drew \$3,483,945 in federal reimbursements but had incurred federal expenditures since the last draw totaling \$4,189,542. This represents an underdraw of federal funds of \$705,597.
- The Fund incurred expenditures totaling approximately \$5 million during the fiscal year ended September 30, 2018 that had not yet been requested for reimbursement as of December 13, 2018.

In addition, the Fund did not report the noncompliant draws to the Michigan Department of Treasury.

Recommendation: The auditor recommended that the Fund ensure proper design and implementation of internal controls related to determination of draw amounts such that reimbursement requests are in accordance with the CMIA Agreement.

Current Status: The Fund did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: The agency is still adjusting to the new accounting system SIGMA and receivables. September 30, 2018 was the first year-end close under SIGMA. Proper draw adjustment related to year-end Accounts Receivable and prior year billings posted in the new fiscal year were still part of the learning curve and impacted several of these findings. New processes are being implemented as stated below.

Corrective Action: The Agency will implement a revised cash management procedure that will ensure that incurred expenses are drawn on a timely basis and in compliance with the CMIA (Cash Management Improvement Act) agreement. And, any variations between the SIGMA proposed draw and the actual amounts drawn will be appropriately documented. In addition, the agency's Federal Finance Manager will verify the appropriateness of proposed draws. And, the agency will notify the Michigan Department of Treasury of any instances of CMIA Deviations.

Michigan Early Childhood Investment Corporation

(a component unit of the State of Michigan)

Federal Awards Supplemental Information

September 30, 2019

Independent Auditor's Reports

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	4-5

Schedule of Expenditures of Federal Awards	6
---	---

Notes to Schedule of Expenditures of Federal Awards	7
--	---

Schedule of Findings and Questioned Costs	8
--	---

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Audit Committee of the Board
Michigan Early Childhood Investment Corporation

We have audited the financial statements of the governmental activities and major fund of Michigan Early Childhood Investment Corporation (the "Investment Corporation") as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the Investment Corporation's basic financial statements. We issued our report thereon dated November 25, 2019, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 25, 2019.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

January 29, 2020

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Audit Committee of the Board
Michigan Early Childhood Investment Corporation

We have audited, in accordance with 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 major fund of Michigan Early Childhood Investment Corporation (the "Investment Corporation") as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the Investment Corporation's basic financial statements, and have issued our report thereon dated November 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Investment Corporation's internal control over financial reporting (internal control) to determine the 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 Investment Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Investment Corporation'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 Investment Corporation'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Investment Corporation'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 determination of financial statement amounts. 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*.

To Management and the Audit Committee of the Board
Michigan Early Childhood Investment Corporation

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 Investment Corporation'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 Investment Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

November 25, 2019

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required
by the Uniform Guidance

Independent Auditor's Report

To the Audit Committee of the Board
Michigan Early Childhood Investment Corporation

Report on Compliance for Each Major Federal Program

We have audited Michigan Early Childhood Investment Corporation's (the "Investment Corporation") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Investment Corporation's major federal program for the year ended September 30, 2019. The Investment Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Investment Corporation's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Investment Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Investment Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Investment Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the Investment Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Investment Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Investment Corporation's internal control over compliance.

To the Audit Committee of the Board
Michigan Early Childhood Investment Corporation

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

January 29, 2020

Michigan Early Childhood Investment Corporation

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019					
Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures	
U.S. Department of Education - Passed through Michigan Department of Education (MDE) - Race to the Top - Early Learning Challenge	84.412	ECIC-15-99001	\$ 412,991	\$	1,324,403
U.S. Department of Health and Human Services: Passed through Michigan Department of Health and Human Services - Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	93.870	E20192359-00	-		160,000
Passed through Michigan Department of Education - CCDF Cluster - Child Care and Development Block Grant	93.575	ECICFY19	7,460,155		11,366,852
Total U.S. Department of Health and Human Services			7,460,155		11,526,852
Total federal expenditures			\$ 7,873,146	\$	12,851,255

Michigan Early Childhood Investment Corporation

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Michigan Early Childhood Investment Corporation (the "Investment Corporation") under programs of the federal government for the year ended September 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Investment Corporation, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Investment Corporation.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Investment Corporation has elected to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance, for certain grants.

Michigan Early Childhood Investment Corporation

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

☐ Yes ☒ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
93.575	Child Care and Development Fund Cluster	Unmodified
84.412	Race to the Top	Unmodified

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
Current Year	None

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
Current Year	None	

**Early Childhood Investment Corporation
September 30, 2019
Summary Schedule of Prior Audit Findings**

Prior Year Finding Number:
2018-001

Fiscal Year in Which the Finding Initially Occurred:
2018

Federal Program, CFDA Number and Name:
N/A

Original Finding Description:

During review of the Investment Corporation's compliance with the budgeting act, it was noted that expenditures had exceeded the amounts appropriated in the General Fund. The Investment Corporation did not sufficiently amend the budget when it became apparent expenditures were going to exceed the amounts appropriated.

Status/Partial Corrective Action (as applicable):
Fully corrected

Planned Corrective Action:
N/A