

## SYSTEM REVIEW REPORT

Robert J. Kleine, State Treasurer  
State of Michigan

We have reviewed the system of quality control for the Audit Section of the Department of Treasury, Local Audit and Finance Division (the “Division”) in effect for the year ended May 31, 2010. The Division is responsible for designing a system of quality control and complying with it to provide the Division with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Division’s compliance therewith based on our review.

During our review, we read representations from the Division, interviewed Division personnel and obtained an understanding of the nature of the Division’s auditing practice and the design of the Division’s system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with *Government Auditing Standards*. The engagements selected represented a reasonable cross-section of the Division’s audits performed under *Government Auditing Standards*, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with Division management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for audits conducted in accordance with *Government Auditing Standards*. In addition, we tested compliance with the Division’s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Division’s policies and procedures on selected engagements. Our review was based on selected tests and, therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and, therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the Audit Section of the Department of Treasury, Local Audit and Finance Division in effect for the year ended May 31, 2010, has been suitably designed and complied with to provide the Division with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Divisions can receive a rating of *pass*, *pass with deficiencies* or *fail*. The Audit Section of the Department of Treasury, Local Audit and Finance Division has received a peer review rating of *pass*.

*Dennis, Gartland & Niergarth*

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Member of



415 Munson Avenue, Post Office Box 947  
Traverse City, Michigan 49685-0947  
231.946.1722, FAX: 231.946.2762  
[www.dgncpa.com](http://www.dgncpa.com)