MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF LABOR AND ECONOMIC GROWTH

October 1, 2003 through September 30, 2004

AND THE

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

October 1, 2002 through September 30, 2003

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

64-100-05

"...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof."

– Article IV, Section 53 of the Michigan Constitution

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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Department of Labor and Economic Growth and

October 1, 2003 through September 30, 2004

Michigan Department of Career Development

October 1, 2002 through September 30, 2003

Report Number:
64-100-05

Released:
June 2005

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 schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the Department of Labor and Economic Growth's (DLEG's) and the Michigan Department of Career Development's (MDCD's) financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 3).

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Noncompliance or Other Matters Material to the Financial Schedules

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify a reportable condition (Finding 4).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 15 programs as major programs and issued 15 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any material weaknesses in internal control over major programs. However, we did identify reportable conditions (Findings 5 through 11).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 5 through 11).

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Systems of Accounting and Internal Control:
We determined that DLEG and MDCD were in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Background:
On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed the Department of Consumer and Industry Services as the Department of Labor and Economic Growth (DLEG). The Executive Order also transferred programs and administrative functions from MDCD to DLEG, transferred various federal programs from DLEG to the Department of Community Health and the Department of Human Services (formerly known as the Family Independence Agency), and transferred programs from the Department of Human Services to DLEG. Executive Order No. 2003-18 became effective December 7, 2003.

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We audited the following programs as major programs:

CFDA Number	***Program or Cluster Title***	***Compliance Opinion***
10.561	State Administrative Matching Grants for Food Stamp Program	Unqualified
17.207, 17.801, 17.804	Employment Service Cluster	Unqualified
17.258, 17.259, 17.260	Workforce Investment Act (WIA) Cluster	Unqualified
17.225	Unemployment Insurance (Reed Act Distribution)	Unqualified
17.245	Trade Adjustment Assistance - Workers	Unqualified
17.253	Welfare-to-Work Grants to States and Localities	Unqualified
17.503	Occupational Safety and Health - State Program	Unqualified
84.007 and 84.063	Student Financial Assistance Cluster	Unqualified
84.002	Adult Education - State Grant Program	Unqualified
84.048	Vocational Education - Basic Grants to States	Unqualified
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Unqualified
84.243	Tech-Prep Education	Unqualified
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Unqualified
93.558	Temporary Assistance for Needy Families	Unqualified
94.006	AmeriCorps	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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

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

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

June 30, 2005

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Labor and Economic Growth (DLEG) for the period October 1, 2003 though September 30, 2004 and the Michigan Department of Career Development (MDCD) for the period October 1, 2002 through September 30, 2003.

This report contains our report summary; our independent auditor's report on the financial schedules; and DLEG's and MDCD's financial schedules, notes to the financial schedules, and supplemental financial schedule. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains DLEG's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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AND
MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES

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

Independent Auditor's Report on the Financial Schedules

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial schedules of the Department of Labor and Economic Growth for the fiscal year ended September 30, 2004 and the Michigan Department of Career Development for the fiscal year ended September 30, 2003, as identified in the table of contents. These financial schedules are the responsibility of the Departments' management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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 schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and transfers and the sources and disposition of authorizations for the Department of Labor and Economic Growth's and the Michigan Department of Career Development's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of the Department of Labor and Economic Growth, the Michigan Department of Career Development, or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Labor and Economic Growth for the fiscal year ended September 30, 2004 and the Michigan Department of Career Development for the fiscal year ended September 30, 2003 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2005 on our consideration of the Departments' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Departments' financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

March 28, 2005

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of General Fund Revenues and Transfers
Fiscal Year Ended September 30, 2004

REVENUES		
Taxes:		
Beer and wine	$	51,510,558
Insurance company premium tax		14,319,696
Liquor tax		32,992,574
Total Taxes	$	98,822,828
From federal agencies		393,094,275
From local agencies		8,827,550
From services		3,211,826
From licenses and permits		142,746,732
Miscellaneous		56,798,035
Total Revenues	$	703,501,246
TRANSFERS (Note 2)		
Transfers From Liquor Purchase Revolving Fund	$	143,155,845
Other transfers		78,716,012
Total Transfers	$	221,871,857
Total Revenues and Transfers	$	925,373,103

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

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30, 2004

SOURCES OF AUTHORIZATIONS (Note 3)	
General purpose appropriations	$ 42,991,892
Budgetary transfers in (out)	(3,083,892)
Budgetary adjustments	3,032,542
Balances carried forward	104,998,711
Restricted financing sources	662,681,643
Less: Intrafund expenditure reimbursements	(1,086,965)
Total	$ 809,533,931

DISPOSITION OF AUTHORIZATIONS (Note 3)	
Gross expenditures and transfers out	$ 678,009,192
Less: Intrafund expenditure reimbursements	(1,086,965)
Net expenditures and transfers out	$ 676,922,227
Balances carried forward:	
Encumbrances	$ 200,228
Restricted revenues - authorized	154,901
Restricted revenues - not authorized/used	131,634,132
Total balances carried forward	$ 131,989,261
Balances lapsed	$ 622,443
Total	$ 809,533,931

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

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT
Schedule of General Fund Revenues and Transfers
Fiscal Year Ended September 30, 2003

REVENUES	
From federal agencies	$ 352,729,477
From local agencies	8,380,707
From services	753,148
From licenses and permits	335,340
Miscellaneous	3,888,783
Total Revenues	$ 366,087,455
TRANSFERS (Note 2)	
From other funds	79,164,124
Total Revenues and Transfers	$ 445,251,579

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

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30, 2003

SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	$	29,443,731
Budgetary adjustments		2,290,670
Balances carried forward		1,160,427
Restricted financing sources		440,634,524
Less: Intrafund expenditure reimbursements		(30,489)
Total	$	473,498,863

DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers out	$	472,898,244
Less: Intrafund expenditure reimbursements		(30,489)
Net expenditures and transfers out	$	472,867,755
Balances carried forward:		
Encumbrances	$	190,013
Restricted revenues - not authorized/used		290,742
Total balances carried forward	$	480,755
Balances lapsed	$	150,353
Total	$	473,498,863

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

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Labor and Economic Growth (DLEG) for the fiscal year ended September 30, 2004 and the Michigan Department of Career Development (MDCD) for the fiscal year ended September 30, 2003. The financial transactions of DLEG and MDCD are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

The notes accompanying these financial schedules relate directly to DLEG and MDCD. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

For purposes of presenting the financial transactions of DLEG and MDCD in the accompanying financial schedules, the following entities and/or funds have been excluded from the reporting entity:

(1) Liquor Purchase Revolving Fund. This Fund accounts for the proprietary operations of the Michigan Liquor Control Commission. The Commission issues annual financial statements and obtains a periodic financial audit.

(2) Michigan State Housing Development Authority (MSHDA), including federal financial assistance. MSHDA issues annual audited financial statements and also obtains a biennial Single Audit.

(3) Michigan Unemployment Compensation Fund, including federal financial assistance; the Michigan Employment Security Act - Administration Fund, including federal financial assistance; and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund and the Michigan Employment

Security Act Contingent Fund are presented in the *SOMCAFR* as a major proprietary fund entitled "Michigan Unemployment Compensation Funds." These funds receive separate annual financial audits and a biennial Single Audit.

(4) Michigan Economic Development Corporation (MEDC) and Michigan Strategic Fund (MSF), including federal financial assistance. MEDC and MSF receive separate annual financial audits and a biennial Single Audit.

(5) Michigan Broadband Development Authority (MBDA). MBDA receives no federal financial assistance, issues annual financial statements, and obtains an annual financial audit.

(6) Various funds, including the Tobacco Settlement Trust Fund; Gifts, Bequests, and Deposits Investment Fund; Safety Education and Training Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Logging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation Trust Funds; and Insurance Carrier Deposits Fund. These funds receive no federal assistance and receive periodic financial audits.

On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed the Department of Consumer and Industry Services as the Department of Labor and Economic Growth (DLEG). The Executive Order also transferred programs and administrative functions from MDCD to DLEG, transferred various federal programs from DLEG to the Department of Community Health and the Department of Human Services (formerly known as the Family Independence Agency), and transferred programs from the Department of Human Services to DLEG. Executive Order No. 2003-18 became effective December 7, 2003.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting

principles applicable to governments. Under 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. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and transfers and the sources and disposition of authorizations for DLEG's General Fund accounts for the fiscal year ended September 30, 2004 and for MDCD's General Fund accounts for the fiscal year ended September 30, 2003. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of DLEG, MDCD, or the State's General Fund in conformity with generally accepted accounting principles.

Note 2 Transfers

The transfers from the Liquor Purchase Revolving Fund for fiscal year 2003-04 were statutory transfers of fund profits totaling $139.4 million to finance general operations and $3.7 million for grants to cities, villages, and townships with State-owned facilities for fire protection services.

DLEG and MDCD also received transfers of $75.4 million and $75.8 million for fiscal years 2003-04 and 2002-03, respectively, from the Michigan Unemployment Compensation Fund to provide federal Reed Act funding for the Unemployment Insurance Program. Reed Act funds were distributed to Michigan Works! Agencies to support job search and job readiness activities.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.

b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget. As a result of Executive Order No. 2003-18, DLEG had budgetary transfers in of $1,495,474 from the Department of Human Services and $801,660 from the Michigan Department of State Police. DLEG had budgetary transfers out of $5,381,026 to the Department of Community Health.

c. Budgetary adjustments: Adjustments for write-off of accounts receivable, deferrals, and prior year obligations in excess of prior appropriations.

d. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized/used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized/used. Significant balances carried forward for DLEG in fiscal year 2003-04 included $21.3 million for insurance and consumer fees, $18.3 million for the Low Income/Energy Efficiency Fund, and $9.8 million for remonumentation fees. As a result of Executive Order No. 2003-18, authorizations for balances carried forwarded were transferred in and out of DLEG. This included authorizations of $9.4 million transferred to the Department of Community Health and $0.5 million transferred from the Department of Human Services.

e. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized/used.

Significant sources for DLEG in fiscal year 2003-04 included $468.4 million from federal agencies, $38.5 million from the Low Income/Energy Efficiency Fund, and $15.2 million from public utility assessments.

f. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.

g. Restricted revenues - not authorized/used: Revenues that, by statute, are restricted for use to a particular program or activity. DLEG may not expend the revenue without additional legislative authorization. Significant restricted revenues - not authorized/used for DLEG in fiscal year 2003-04 included $35.7 million from the Low Income/Energy Efficiency Fund, $22.0 million from remonumentation fees, and $14.5 million from insurance licensing fees.

   This line item also includes the carry-forward of restricted revenues to finance encumbrances for the programs that collect the revenues. Significant carry-forwards for DLEG in fiscal year 2003-04 included $7.4 million for remonumentation fees and $2.7 million for the Low Income/Energy Efficiency Fund.

h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 4 <u>Payroll and Fringe Benefit Accrual</u>

In fiscal year 2003-04, the Office of Financial Management changed its method of computing and recording the accrued payroll and fringe benefit expenditures. In the *SOMCAFR*, the expenditures are not reported at the agency level; instead, they are presented at the Statewide level. The Office of Financial Management has issued a waiver which allows departments to report these transactions in their financial schedules for the fiscal year ended September 30, 2004. The schedule of sources and disposition of General Fund authorizations includes DLEG's share of the accrued payroll expenditures in the amount of $866,890, reflected as an increase to expenditures and transfers out and a decrease to balances lapsed. The schedule of

expenditures of federal awards, however, does not include the accrued payroll amount because it was recorded at the Statewide summary level.

Note 5 Contingency

Two consolidated class actions, representing approximately 4,000 motor carriers subject to Michigan regulation, originated in the Court of Claims in *Westlake, et al*. v *State of Michigan* and *Troy Cab* v *State of Michigan, et al*. The motor carriers claim a full refund of annual motor carrier authority fees and per vehicle fees (plus interest) dating back to 1982. The amount of such fees collected approximates several million dollars per year.

On March 11, 2003, the Michigan Court of Appeals dismissed all claims against the State. Plaintiffs' applications for leave to appeal at the Michigan Supreme Court were denied on December 3, 2003. However, the plaintiffs have now filed petitions for writs of certiorari at the U.S. Supreme Court, which has requested briefs from the U.S. Department of Justice on the merits of the petitions. Based on the position taken in the U.S. Department of Justice briefs, it is reasonably possible that plaintiffs will prevail. The entire potential claim, including interest, could exceed $75 million.

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SUPPLEMENTAL
FINANCIAL SCHEDULE

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT AND DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2002 through September 30, 2004

Federal Agency/Program or Cluster	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
Pass-Through Program:					
Michigan Department of Human Services					
State Administrative Matching Grants for Food Stamp Program	10.561	4F8100	$ 107,912	$ 3,879,549	$ 3,987,461
Total U.S. Department of Agriculture			**$ 107,912**	**$ 3,879,549**	**$ 3,987,461**
U.S. Department of Housing and Urban Development					
Direct Program:					
Manufactured Home Construction and Safety Standards	14.171		$	$	$ 0
Total U.S. Department of Housing and Urban Development			**$ 0**	**$ 0**	**$ 0**
U.S. Department of Labor					
Employment Service Cluster:					
Direct Programs:					
Employment Service	17.207		$ 8,604,343	$ 18,276,320	$ 26,880,663
Disabled Veterans' Outreach Program (DVOP)	17.801		2,922,728		2,922,728
Local Veterans' Employment Representative Program	17.804		3,023,522		3,023,522
Total Employment Service Cluster			$ 14,550,593	$ 18,276,320	$ 32,826,913
Workforce Investment Act (WIA) Cluster:					
Direct Programs:					
WIA Adult Program	17.258		$ 1,220,603	$ 29,777,215	$ 30,997,818
WIA Youth Activities	17.259		1,542,302	37,680,772	39,223,074
WIA Dislocated Workers	17.260		2,059,267	28,131,882	30,191,149
Total Workforce Investment Act (WIA) Cluster			$ 4,822,172	$ 95,589,869	$ 100,412,041
Direct Programs:					
Labor Force Statistics	17.002		$ 2,719,254	$	$ 2,719,254
Compensation and Working Conditions	17.005				0
Trade Adjustment Assistance - Workers	17.245		336,443	7,687,205	8,023,648
Welfare-to-Work Grants to States and Localities	17.253		339,161	15,024,122	15,363,283
Work Incentives Grant	17.266				0
WIA Incentive Grants - Section 503 Grants to States	17.267		888	2,026,657	2,027,545
Occupational Safety and Health - State Program	17.503				0
Consultation Agreements	17.504				0
Total Direct Programs			$ 3,395,746	$ 24,737,984	$ 28,133,730
Pass-Through Program:					
Michigan Unemployment Insurance Agency					
Unemployment Insurance (Reed Act Distribution)	17.225	SOM-DLEG	$ 2,583,805	$ 73,856,514	$ 76,440,319
Total U.S. Department of Labor			**$ 25,352,316**	**$ 212,460,687**	**$ 237,813,003**
U.S. Department of Transportation					
Direct Program:					
Pipeline Safety	20.700		$	$	$ 0
Pass-Through Program:					
Michigan Department of State Police					
Interagency Hazardous Materials Public Sector Training and Planning Grants (Note 2)	20.703	HMEMI3018110			0
Total U.S. Department of Transportation			**$ 0**	**$ 0**	**$ 0**
U.S. Department of Veterans Affairs					
Direct Program:					
Veterans Information and Assistance	64.115		$ 256,760	$	$ 256,760
Total U.S. Department of Veterans Affairs			**$ 256,760**	**$ 0**	**$ 256,760**

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2004			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 71,534	$ 4,563,613	$ 4,635,147	$ 8,622,608
$ 71,534	**$ 4,563,613**	**$ 4,635,147**	**$ 8,622,608**
$ 71,010	$	$ 71,010	$ 71,010
$ 71,010	**$ 0**	**$ 71,010**	**$ 71,010**
$ 7,995,864	$ 17,825,557	$ 25,821,421	$ 52,702,084
2,885,662		2,885,662	5,808,390
3,495,704		3,495,704	6,519,226
$ 14,377,230	$ 17,825,557	$ 32,202,787	$ 65,029,700
$ 1,087,494	$ 34,540,437	$ 35,627,931	$ 66,625,749
1,386,445	37,961,845	39,348,290	78,571,364
1,889,550	42,978,766	44,868,316	75,059,465
$ 4,363,489	$ 115,481,048	$ 119,844,537	$ 220,256,578
$ 2,677,452	$	$ 2,677,452	$ 5,396,706
178,846		178,846	178,846
330,579	8,407,644	8,738,223	16,761,871
93,009	9,020,964	9,113,973	24,477,256
38,127	154,812	192,939	192,939
137,248	833,816	971,064	2,998,609
9,623,551		9,623,551	9,623,551
1,639,727		1,639,727	1,639,727
$ 14,718,539	$ 18,417,236	$ 33,135,775	$ 61,269,505
$ 3,235,879	$ 72,156,133	$ 75,392,012	$ 151,832,331
$ 36,695,137	**$ 223,879,974**	**$ 260,575,111**	**$ 498,388,114**
$ 251,066	$ 267,149	$ 518,215	$ 518,215
33,691		33,691	33,691
$ 284,757	**$ 267,149**	**$ 551,906**	**$ 551,906**
$ 310,319	$	$ 310,319	$ 567,079
$ 310,319	**$ 0**	**$ 310,319**	**$ 567,079**

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT AND DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2002 through September 30, 2004
continued

Federal Agency/Program or Cluster	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Energy					
Direct Programs:					
National Energy Information Center	81.039		$	$	$ 0
State Energy Program	81.041				0
Regional Biomass Energy Programs	81.079				0
Conservation Research and Development	81.086				0
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105				0
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117				0
State Energy Program Special Projects	81.119				0
Total U.S. Department of Energy			**$ 0**	**$ 0**	**$ 0**
U.S. Department of Education					
Student Financial Assistance Cluster:					
Direct Programs:					
Federal Supplemental Educational Opportunity Grants	84.007		$ 30,431	$	$ 30,431
Federal Pell Grant Program	84.063		388,116		388,116
Total Student Financial Assistance Cluster			$ 418,547	$ 0	$ 418,547
Direct Programs:					
Adult Education - State Grant Program	84.002		$ 1,423,928	$ 16,093,285	$ 17,517,213
Vocational Education - Basic Grants to States	84.048		2,465,161	39,512,041	41,977,202
Rehabilitation Services - Vocational Rehabilitation Grants to States (Note 2)	84.126		64,524,821	7,551,005	72,075,826
Rehabilitation Long-Term Training	84.129		82,881		82,881
Rehabilitation Services - Client Assistance Program	84.161			385,751	385,751
Independent Living - State Grants (Note 2)	84.169			373,548	373,548
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind (Note 2)	84.177				
Supported Employment Services for Individuals with Severe Disabilities	84.187		1,194,512	8,699	1,203,211
Assistive Technology	84.224		13,999	267,455	281,454
Rehabilitation Services Demonstration and Training Programs	84.235				
Tech-Prep Education	84.243		144,241	4,132,900	4,277,141
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training (Note 2)	84.265		165,724		165,724
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		171,456	2,158,482	2,329,938
Vocational Education - Occupational and Employment Information State Grants	84.346		50,365	28,938	79,303
Total Direct Programs			$ 70,237,088	$ 70,512,104	$ 140,749,192
Total U.S. Department of Education			**$ 70,655,635**	**$ 70,512,104**	**$ 141,167,739**
U.S. Department of Health and Human Services					
Medicaid Cluster					
Direct Program:					
State Survey and Certification of Health Care Providers and Suppliers	93.777		$	$	$ 0
Pass-Through Program:					
Michigan Department of Community Health Medical Assistance Program	93.778	05-0405-MI5001			0
Total Medicaid Cluster			$ 0	$ 0	$ 0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2004			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 8,730	$	$ 8,730	$ 8,730
647,590	587,953	1,235,543	1,235,543
1,981	20,773	22,754	22,754
	147,049	147,049	147,049
	11,216	11,216	11,216
	63,438	63,438	63,438
	654,957	654,957	654,957
$ 658,301	**$ 1,485,386**	**$ 2,143,687**	**$ 2,143,687**
$ 31,935	$	$ 31,935	$ 62,366
338,248	69,182	407,430	795,546
$ 370,183	$ 69,182	$ 439,365	$ 857,912
$ 1,795,633	$ 16,861,718	$ 18,657,351	$ 36,174,564
2,665,680	38,104,324	40,770,004	82,747,206
78,333,833	6,799,356	85,133,189	157,209,015
90,279		90,279	173,160
189,686		189,686	575,437
253,796	444,690	698,486	1,072,034
1,134,036		1,134,036	1,134,036
819,068	4,354	823,422	2,026,633
1,128	640,148	641,276	922,730
	450,873	450,873	450,873
158,295	3,925,245	4,083,540	8,360,681
87,243	97,298	184,541	350,265
129,563	2,189,481	2,319,044	4,648,982
116,550	82,071	198,621	277,924
$ 85,774,790	$ 69,599,558	$ 155,374,348	$ 296,123,540
$ 86,144,973	**$ 69,668,740**	**$ 155,813,713**	**$ 296,981,452**
$ 384,722	$	$ 384,722	$ 384,722
247,152		247,152	247,152
$ 631,874	$ 0	$ 631,874	$ 631,874

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT AND DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2002 through September 30, 2004
continued

Federal Agency/Program or Cluster	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Direct Programs:					
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		$	$	$ 0
Occupational Safety and Health Research Projects	93.262				0
Total Direct Programs			$ 0	$ 0	$ 0
Pass-Through Program:					
Michigan Department of Human Services					
Temporary Assistance for Needy Families	93.558	G970MITANF	$ 940,494	$ 34,728,673	$ 35,669,167
Total U.S. Department of Health and Human Services			**$ 940,494**	**$ 34,728,673**	**$ 35,669,167**
Corporation for National and Community Service					
Direct Programs:					
State Commissions	94.003		$ 344,730	$	$ 344,730
Learn and Serve America - School and Community Based Programs	94.004		111,627	396,248	507,875
AmeriCorps	94.006			5,188,699	5,188,699
Planning and Program Development Grants	94.007		14,021	166,813	180,834
Training and Technical Assistance	94.009		67,085		67,085
Total Corporation for National and Community Service			**$ 537,463**	**$ 5,751,760**	**$ 6,289,223**
U.S. Department of Homeland Security					
Direct Program:					
State Fire Training Systems Grants (Note 2)	97.043		$	$	$ 0
Total U.S. Department of Homeland Security			**$ 0**	**$ 0**	**$ 0**
Total Expenditures of Federal Awards			$ 97,850,580	$ 327,332,773	$ 425,183,353

* *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

See accompanying notes to the schedule of expenditures of federal awards.

For the Fiscal Year Ended September 30, 2004			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 1,564	$ 24,520	$ 26,084	$ 26,084
74,992	273,339	348,331	348,331
$ 76,556	$ 297,859	$ 374,415	$ 374,415
$ 511,918	$ 30,810,568	$ 31,322,486	$ 66,991,653
$ 1,220,348	**$ 31,108,427**	**$ 32,328,775**	**$ 67,997,942**
$ 419,948	$	$ 419,948	$ 764,678
121,120	330,219	451,339	959,214
	2,414,983	2,414,983	7,603,682
3,426	90,391	93,817	274,651
75,536	718	76,254	143,339
$ 620,030	**$ 2,836,311**	**$ 3,456,341**	**$ 9,745,564**
$ 20,430	$	$ 20,430	$ 20,430
$ 20,430	**$ 0**	**$ 20,430**	**$ 20,430**
$ 126,096,839	$ 333,809,600	$ 459,906,439	$ 885,089,792

Note 1 Basis of Presentation

This schedule includes the federal grant activity of the Michigan Department of Career Development for fiscal year 2002-03 and the Department of Labor and Economic Growth (DLEG) for fiscal year 2003-04 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

Note 2 Program Transfers

This schedule includes programs that were transferred to DLEG per Executive Order No. 2003-18. Executive Order No. 2003-18 became effective December 7, 2003. The Executive Order included a provision that allowed the Department of Management and Budget (DMB) to decide the timing of transferring the accounting functions. DMB decided to move the accounting functions at various times throughout the year, to keep the expenditures and revenues in the financial records of the entities where they originated, and to transfer the remaining spending authorization to DLEG to enable it to record expenditures and revenues for the remainder of the year. For each of the programs transferred to DLEG, this schedule includes the expenditures from both the sending department and DLEG for the fiscal year ended September 30, 2004. These programs include:

a. Interagency Hazardous Materials Public Sector Training and Planning Grants (*CFDA* 20.703). This program was included in the Michigan Department of State Police Single Audit for fiscal year 2002-03. A portion of the fiscal year 2003-04 program expenditures were recorded by the Michigan Department of State Police. All fiscal year 2003-04 expenditures are reported in this schedule.

b. Rehabilitation Services - Vocational Rehabilitation Grants to States (*CFDA* 84.126). The fiscal year 2002-03 program expenditures for Rehabilitation Services for the Blind were included in the Department of Human Services

Single Audit. A portion of the fiscal year 2003-04 program expenditures were recorded by the Department of Human Services. All fiscal year 2003-04 expenditures are reported in this schedule.

c. Independent Living - State Grants (*CFDA* 84.169). This program was included in the Department of Human Services Single Audit for fiscal year 2002-03. A portion of the fiscal year 2003-04 program expenditures were recorded by the Department of Human Services. All fiscal year 2003-04 expenditures are reported in this schedule.

d. Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind (*CFDA* 84.177). This program was included in the Department of Human Services Single Audit for fiscal year 2002-03. A portion of the fiscal year 2003-04 program expenditures were recorded by the Department of Human Services. All fiscal year 2003-04 expenditures are reported in this schedule.

e. Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training (*CFDA* 84.265). This program was included in the Department of Human Services Single Audit for fiscal year 2002-03. A portion of the fiscal year 2003-04 program expenditures were recorded by the Department of Human Services. All fiscal year 2003-04 expenditures are reported in this schedule.

f. State Fire Training Systems Grants (*CFDA* 97.043). A portion of the fiscal year 2003-04 program expenditures were recorded by the Michigan Department of State Police. All fiscal year 2003-04 expenditures are reported in this schedule.

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial schedules of the Department of Labor and Economic Growth for the fiscal year ended September 30, 2004 and the Michigan Department of Career Development for the fiscal year ended September 30, 2003, as identified in the table of contents, and have issued our report thereon dated March 28, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Departments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Departments' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Departments' financial schedules are free of material misstatement, we performed tests of 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 schedule 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.* However, we noted a reportable condition, which is described in Finding 4.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

March 28, 2005

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

Compliance

We have audited the compliance of the Department of Labor and Economic Growth and Michigan Department of Career Development with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2004. The Departments' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Departments' management. Our responsibility is to express an opinion on the Departments' compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph 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 Departments' 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. Our audit does not provide a legal determination of the Departments' compliance with those requirements.

In our opinion, the Department of Labor and Economic Growth and the Michigan Department of Career Development complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal

program for the two-year period ended September 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 5 through 11.

Internal Control Over Compliance

The management of the Departments is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Departments' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Departments' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 5 through 11.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

March 28, 2005

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance or other matters material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.561	State Administrative Matching Grants for Food Stamp Program
17.207, 17.801, and 17.804	Employment Service Cluster
17.258, 17.259, and 17.260	Workforce Investment Act (WIA) Cluster
17.225	Unemployment Insurance (Reed Act Distribution)

** See glossary at end of report for definition.*

17.245	Trade Adjustment Assistance - Workers
17.253	Welfare-to-Work Grants to States and Localities
17.503	Occupational Safety and Health - State Program
84.007 and 84.063	Student Financial Assistance Cluster
84.002	Adult Education - State Grant Program
84.048	Vocational Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.243	Tech-Prep Education
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
93.558	Temporary Assistance for Needy Families
94.006	AmeriCorps

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (640501)

1. Separation of Duties in the Procurement Card* Function

   The Department of Labor and Economic Growth (DLEG) assigned incompatible duties to the procurement card administrator without implementing compensating controls.

   Assigning incompatible duties to an employee without compensating controls impairs DLEG's ability to prevent and/or detect unauthorized use of procurement cards.

** See glossary at end of report for definition.*

Section 18.1485(2)(a) of the *Michigan Compiled Laws* (a section of the Management and Budget Act) states that each internal accounting and administrative control system shall include a plan of organization that provides for a separation of duties and responsibilities among employees.

DLEG's procurement card administrator's responsibilities include obtaining the completed applications from the employees, reviewing the applications, completing and signing the "Department Administrator" section of the application, and entering the information on-line to request the procurement card from the credit card company. DLEG's procurement card administrator also receives new procurement cards from the credit card company, distributes new and replacement cards to employees, collects unneeded cards from employees, and reviews billing information to determine whether purchases were appropriate. As a result of performing these incompatible functions, the administrator is in a position to obtain and use a procurement card without anyone else's knowledge. This control weakness could result in inappropriate spending of State funds.

RECOMMENDATION

We recommend that DLEG reassign the incompatible duties of the procurement card administrator or implement compensating controls.

FINDING (640502)

2. Controls Over Procurement Cards

DLEG's controls did not ensure that procurement card users complied with State and department procurement card policies and procedures.

Noncompliance with established State and department procurement card requirements may result in ineffective or inappropriate use of resources.

DLEG used procurement cards to make purchases totaling approximately $1.2 million in fiscal year 2003-04. The Michigan Department of Career Development (MDCD) used procurement cards to make purchases totaling approximately $558,000 in fiscal year 2002-03. We reviewed a sample of 137 transactions selected based on high-risk criteria.

Our review of these 137 transactions disclosed the following instances of noncompliance with policies and procedures:

a. Thirteen (9.5%) transactions, totaling $20,659, were split to avoid exceeding the $2,500 individual transaction limit. Department of Management and Budget (DMB) policy and department procedures prohibit splitting charges in order to avoid exceeding the $2,500 individual transaction limit.

b. Merchandise receipts were not retained for 17 (12.4%) transactions totaling $1,328. DMB policy and department procedures require that purchasers obtain and retain merchandise receipts.

c. Ten (7.3%) transactions, totaling $8,311, were not recorded on a procurement card transaction log. Department procedures require the cardholder to complete and submit a transaction log for supervisory review and approval.

d. Eleven (8.0%) transactions, totaling $8,033, had no documentation of supervisory approval. DMB policy and department procedures require supervisory approval on the cardholder's transaction report.

RECOMMENDATION

We recommend that DLEG improve its controls to ensure that procurement card users comply with State and department procurement card policies and procedures.

FINDING (640503)

3. Encumbrances

DLEG recorded encumbrances that did not meet the definition of an encumbrance as established by the State of Michigan's Financial Management Guide. As a result, DLEG's expenditures and accounts payable were understated by $2.1 million and encumbrances were overstated by $2.5 million for fiscal year 2003-04.

An encumbrance is a commitment related to unperformed contracts for goods or services which is recognized as a reservation of fund balance for financial reporting

purposes. DLEG had established restrictively financed encumbrances totaling approximately $12.8 million as of September 30, 2004.

We reviewed 10 restrictively financed encumbrances totaling $3.8 million as of September 30, 2004. Our review disclosed:

a. Four of the encumbrances, totaling $2.1 million, were for contracted services that were performed prior to the end of the fiscal year. Financial Management Guide Chapter 15, Section 2, states that a qualifying encumbrance must relate to goods or services required under a contract that are expected to be provided after the end of the fiscal year. Amounts due for goods or services provided prior to the end of the fiscal year should be recorded as an account payable with a related expenditure.

b. One contract that resulted in an encumbrance totaling $358,000 was not dated by DLEG. Financial Management Guide Chapter 15, Section 2, requires that all contracting parties sign and date the contract in order for the encumbrance to be considered valid.

RECOMMENDATION

We recommend that DLEG record encumbrances that meet the definition of an encumbrance as established by the State of Michigan's Financial Management Guide.

FINDING (640504)

4. Indirect Cost Recovery

DLEG's methodology for calculating federal indirect costs was not in compliance with State laws and regulations. As a result, DLEG did not recover indirect cost revenues totaling approximately $166,851 and $438,163 in fiscal years 2003-04 and 2002-03, respectively.

Section 18.1460(2) of the *Michigan Compiled Laws* specifies that a State agency which has received an award, contract, or grant shall charge the applicable indirect cost to that award, contract, or grant. Indirect cost recoveries shall be credited as revenue to the respective State funds to offset State expenditures for support services for which indirect costs were provided.

DLEG has two programs, Rehabilitation Services - Vocational Rehabilitation Grants to States (*CFDA* 84.126) and Gaining Early Awareness and Readiness for Undergraduate Programs (*CFDA* 84.334), which are both funded by a combination of federal, State, and local funds. These programs require DLEG to provide a specified amount of State and/or local funds to match the funding provided through the federal grant awards. DLEG calculates indirect costs by applying an approved indirect cost rate against its direct cost base, which for these programs was the total salaries and wages that were charged to the federal program.

However, instead of using only the salary and wage expenditures that were charged to these federal programs as its direct cost base, DLEG included salary and wage expenditures from State General Fund/general purpose funds that were used to provide a match for the federal funds. DLEG applied the applicable federal match rates to the total amount of salary and wage expenditures, and then applied its approved indirect cost rate to determine the amount of indirect cost revenues that would be charged to the federal programs. This resulted in a lower amount of indirect costs being recovered from the federal grant awards to offset State expenditures.

DLEG recovered $1,476,180 and $1,292,317 of indirect costs for these programs in fiscal years 2003-04 and 2002-03, respectively. We estimate that by using only federal expenditures in the direct cost base, DLEG could have recovered an additional $166,851 and $438,163 in indirect cost revenue in fiscal years 2003-04 and 2002-03, respectively. These amounts are no longer recoverable because the grant awards were fully expended and have been closed.

RECOMMENDATION

We recommend that DLEG modify its methodology for calculating federal indirect costs to ensure compliance with State laws and regulations.

The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (640505)

5. Employment Service Cluster, *CFDA* 17.207, 17.801, and 17.804

U.S. Department of Labor	*CFDA* 17.207, 17.801, and 17.804: Employment Service Cluster
Award Numbers: ES-14003-04-55 ES-12138-02-55	Award Periods: 07/01/2004 - 06/30/2007 07/01/2002 - 06/30/2005
	Questioned Costs: $0

DLEG's controls over the Employment Service Cluster did not ensure compliance with federal laws and regulations regarding subrecipient* monitoring.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Employment Service Cluster.

DLEG's Employment Service Cluster passed through approximately $17.8 million and $18.3 million to 25 subrecipients in fiscal years 2003-04 and 2002-03, respectively.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* establishes the responsibilities for pass-through entities that provide federal funds to subrecipients that carry out federal programs. Section 400(d) of OMB Circular A-133 requires that pass-through entities identify federal awards by informing each subrecipient of the *CFDA* title, *CFDA* number, and name of the federal awarding agency.

DLEG issued grant action notices to subrecipients to notify them of various grant award information. However, our review of 30 notices for 15 subrecipients from fiscal years 2003-04 and 2002-03 disclosed that DLEG did not notify any of the subrecipients of the correct *CFDA* title, *CFDA* number, or name of the federal awarding agency.

** See glossary at end of report for definition.*

RECOMMENDATION

We recommend that DLEG improve its controls over the Employment Service Cluster to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (640506)

6. Trade Adjustment Assistance - Workers (TAA Program), *CFDA* 17.245

U.S. Department of Labor	*CFDA* 17.245: Trade Adjustment Assistance - Workers
Award Numbers: TA-12698-03-05 TA-13501-04-55	Award Periods: 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006
	Questioned Costs: $0

DLEG's controls over the TAA Program did not ensure compliance with federal laws and regulations regarding reporting.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the TAA Program.

Title 29, Part 97, section 40 of the *Code of Federal Regulations* (*CFR*) requires actual performance information to be reported in the performance reports.

Our review of the 16 federal performance reports for fiscal years 2003-04 and 2002-03 disclosed that some of the manually entered information was incorrect for 4 reports and the information entered could not be verified for 4 other reports.

During both fiscal years 2003-04 and 2002-03, DLEG required the Michigan Works! Agencies to submit manually prepared, hard copy performance reports. DLEG made errors when compiling and entering the information from these reports into 4 federal performance reports. Additionally, DLEG could not provide us with the supporting information for 4 of the federal performance reports.

RECOMMENDATION

We recommend that DLEG improve its controls over the TAA Program to help ensure compliance with federal laws and regulations regarding reporting.

FINDING (640507)

7. Adult Education - State Grant Program (Adult Education Program), *CFDA* 84.002

U.S. Department of Education	*CFDA* 84.002: Adult Education - State Grant Program
Award Numbers: V002A010022 V002A020022 V002A030022 V002A040022	Award Periods: 07/30/2001 - 09/30/2002 07/01/2002 - 09/30/2003 07/01/2003 - 09/30/2004 07/01/2004 - 09/30/2005
	Questioned Costs: $0

DLEG's controls over the Adult Education Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Adult Education Program.

Federal regulation 34 *CFR* 80.40 states that grantees are responsible for monitoring grant and subgrant supported activities to ensure compliance with applicable federal requirements. Also, Section 400(d) of OMB Circular A-133 requires that pass-through entities: monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; ensure that subrecipients expending $500,000 or more in federal awards have met the audit requirements; and issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Our review of 41 grant award files, with expenditures in fiscal years 2003-04 and 2002-03, disclosed:

a. DLEG did not conduct on-site monitoring visits for any of the 41 grant award files reviewed. DLEG did not have an on-site monitoring review process in fiscal year 2002-03; however, DLEG informed us that it initiated a monitoring process in fiscal year 2003-04. Although the monitoring process included an on-site review of 5 (4.9%) of 103 subrecipients, it was not fully implemented; as a result, we could not determine the effectiveness of the process.

DLEG has an interagency agreement with the Michigan Department of Education (MDE) in which MDE performs desk reviews of local and intermediate school districts' Single Audit* reports. The agreement specifies that MDE will identify and notify DLEG of any audit findings or questioned costs related to the Adult Education Program. However, the Adult Education Program may not always be a major federal program for a school district and, therefore, may not be subject to compliance testing procedures. As a result, DLEG would need to perform other monitoring functions to ensure that these subrecipients were in compliance with financial and program requirements.

b. DLEG did not obtain or review 13 of 13 and 14 of 15 nonprofit subrecipients' A-133 Single Audit reports for fiscal years 2003-04 and 2002-03, respectively. These subrecipients accounted for $1,436,905 (8.3%) of the $17,345,846 and $1,681,263 (12.2%) of the $13,814,343 awarded to subrecipients in fiscal years 2003-04 and 2002-03, respectively. These subrecipients are not included within the scope of the interagency agreement with MDE described in item a.

RECOMMENDATION

We recommend that DLEG improve its controls over the Adult Education Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (640508)

8. Vocational Education - Basic Grants to States (Vocational Education Program), *CFDA* 84.048

U.S. Department of Education	*CFDA*: 84.048: Vocational Education - Basic Grants to States
Award Numbers: V048A000022 V048A010022 V048A020022 V048A030022	Award Periods: 10/13/2000 - 09/30/2001 07/01/2001 - 09/30/2003 07/01/2002 - 09/30/2004 07/01/2003 - 09/30/2004
	Questioned Costs: $170,076

** See glossary at end of report for definition.*

DLEG's controls over the Vocational Education Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; period of availability of federal funds; procurement and suspension and debarment; and reporting.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Vocational Education Program.

Our review of expenditures and program files disclosed:

a. Matching, Level of Effort, and Earmarking

DLEG's controls did not ensure that the Vocational Education Program complied with federal matching requirements.

Section 112(b) of the Carl D. Perkins Vocational and Applied Technology Education Act of 1998 states that each eligible agency receiving funds for administration shall match, from nonfederal sources and on a dollar-for-dollar basis, the funds received for administration.

DLEG had not obtained documentation to support assertions that the State matched $713,920 and $470,066 of administration expenditures in fiscal years 2003-04 and 2002-03, respectively. At the beginning of each fiscal year, DLEG obtained memorandums of understanding from various State agencies documenting the amount that each agency was providing as in-kind state match. However, DLEG had not obtained supporting documentation to show that these funds were actually expended and that the expenditures were not used as a match for other federal programs.

After the completion of our audit fieldwork, DLEG contacted the other State agencies and obtained documentation that the match amounts had been expended. As a result, we have not reported questioned costs.

b. Period of Availability of Federal Funds

DLEG's controls did not ensure that expenditures were recorded only within the grants' period of availability.

Federal regulation 34 *CFR* 80.23 states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual financial status report.

Our review of the fiscal year 2002-03 Vocational Education Program expenditure transactions disclosed 7 transactions, totaling $170,076, that were moved to a grant award for which the period of availability had expired. As a result, we questioned costs of $170,076.

c. Procurement and Suspension and Debarment

DLEG's controls did not ensure compliance with OMB Circular A-102 requirements regarding suspension and debarment.

OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, prohibits federal grantees from awarding assistance to applicants that are suspended or debarred, or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549. It requires that grantees establish procedures to ensure that they do not award assistance to listed parties in violation of the Executive Order.

DLEG established a process whereby the subrecipients sign and submit a certificate of suspension and debarment attesting that their organization is not suspended or debarred from participating in federal assistance programs during the grant application process. These certificates are maintained in the grant award files.

DLEG did not obtain suspension and debarment certificates from 3 of the 30 grant recipients whose grant award files we reviewed.

We reviewed the federal List of Parties Excluded From Federal Procurement or Non-Procurement Programs and verified that none of these grant recipients were suspended or debarred during the respective fiscal years. As a result, we have not reported questioned costs for this item.

d. Reporting

DLEG did not have controls to identify expenditures associated with nontraditional training and employment activities.

Section 112(a)(2)(B) of the Carl D. Perkins Vocational and Applied Technology Education Act of 1998 states that not less than $60,000 and not more than $150,000 shall be available for services that prepare individuals for nontraditional training and employment.

DLEG did not assign specific account coding to which DLEG staff could charge their payroll expenditures when performing nontraditional training and employment activities. As a result, DLEG could not determine the actual value of expenditures associated with those activities. DLEG reported $150,000 of expenditures on the nontraditional training and employment line of the financial status reports in both fiscal years 2003-04 and 2002-03. The expenditures used for the nontraditional training and employment line were originally recorded as other statewide activities.

RECOMMENDATION

We recommend that DLEG improve its controls over the Vocational Education Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; period of availability of federal funds; procurement and suspension and debarment; and reporting.

FINDING (640509)

9. Rehabilitation Services - Vocational Rehabilitation Grants to States (Rehabilitation Services Program), *CFDA* 84.126

U.S. Department of Education	*CFDA* 84.126: Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Numbers: H126A040030 H126A030030	Award Periods: 10/01/2002 - 09/30/2004 10/01/2001 - 09/30/2003
	Questioned Costs: $2,030

DLEG's controls over the Rehabilitation Services Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the Rehabilitation Services Program.

Rehabilitation Services Program federal expenditures totaled approximately $146.2 million for the two-year period ended September 30, 2004. The remaining $11.0 million of expenditures reported under *CFDA* 84.126 on the schedule of expenditures of federal awards was expended by the Michigan Commission for the Blind.

Our review of expenditures and program files disclosed that DLEG did not document services in the individualized plan for employment to support the propriety of services provided for 3 (6.8%) of 44 client services reviewed. These client services included a car, dental work, and money for a Michigan Career and Technical Institute student's personal and incidental expenses. Federal regulation 34 *CFR* 361.46(a)(2) states that Rehabilitation Services Program expenditures must be documented in the individualized plan for employment. We identified known questioned costs of $2,030. Based on our sample analysis, we projected that total questioned costs exceeded $10,000. OMB Circular A-133 requires the reporting of known questioned costs whenever projected questioned costs exceed $10,000.

RECOMMENDATION

We recommend that DLEG improve its controls over the Rehabilitation Services Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed.

FINDING (6405010)

10. Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *CFDA* 84.334

U.S. Department of Education	*CFDA* 84.334: Gaining Early Awareness and Readiness for Undergraduate Programs
Award Number: P334S010013	Award Period: 08/15/2001 - 08/14/2006
	Questioned Costs: $92,362

DLEG's controls over GEAR-UP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for GEAR-UP.

Our review of expenditures and grant award files disclosed:

a. Allowable Costs/Cost Principles

DLEG's controls did not ensure that personnel-payroll cost distributions to GEAR-UP were properly supported by personnel activity reports in accordance with federal requirements.

Attachment B, Section 8 of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* requires employees who work on multiple activities to support the distribution of their salaries or wages by personnel activity reports.

Our review of the 2 employees who work on multiple activities, including GEAR-UP, disclosed that 1 employee did not maintain personnel activity reports during the audit period. The other employee maintained personnel activity reports for a portion of the audit period; however, some of the activity reports did not support how the employee's salary was distributed. The lack of supporting documentation resulted in questioned costs of $92,362 for fiscal years 2003-04 and 2002-03.

b. Subrecipient Monitoring

DLEG's controls did not ensure that it met its pass-through entity responsibilities as established by OMB Circular A-133.

OMB Circular A-133 establishes the responsibilities for pass-through entities that provide federal funds to subrecipients that carry out federal programs. DLEG distributed approximately $2.2 million to GEAR-UP subrecipients in each of fiscal years 2003-04 and 2002-03.

Our review of grant award notifications and desk reviews disclosed:

(1) The grant award notifications issued to the subrecipients during our audit period did not include the *CFDA* number or the name of the federal awarding agency. Section 400(d) of OMB Circular A-133 requires that pass-through entities identify federal awards by informing each subrecipient of the *CFDA* number and the name of the federal awarding agency. Subrecipients were provided the federal award information at the beginning of the five-year grant period. However, the information should be provided on the annual grant award notification signed by each of the subrecipients.

(2) DLEG has an interagency agreement with MDE in which MDE performs desk reviews of local and intermediate school districts' Single Audit reports. The agreement specifies that MDE will identify and notify DLEG of any audit findings or questioned costs related to GEAR-UP.

Our review of the 3 subrecipients for both fiscal years 2002-03 and 2003-04 disclosed that 1 subrecipient did not report receiving federal pass-through funds for GEAR-UP in either fiscal year. MDE's review did not detect the subrecipient's omission from the Single Audit report and MDE did not bring the omission to DLEG's attention for follow-up.

RECOMMENDATION

We recommend that DLEG strengthen controls over GEAR-UP to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

FINDING (640511)

11. AmeriCorps, *CFDA* 94.006

Corporation for National and Community Service	*CFDA* 94.006: AmeriCorps
Award Numbers: 03ACHMI001 03AFHMI002 00ASCMI023 00ASFMI023	Award Periods: 08/22/2003 - 08/21/2006 09/01/2003 - 08/31/2006 08/01/2000 - 03/31/2005 09/01/2000 - 08/31/2003
	Questioned Costs: $77,877

DLEG's controls over the AmeriCorps Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions and/or disallowances for the AmeriCorps Program.

The AmeriCorps Program is administered by the Michigan Community Service Commission (MCSC). Executive Order No. 2003-18 transferred all of the authority, powers, duties, functions, and responsibilities of MCSC from MDCD to DLEG effective December 7, 2003.

Our review of 32 grant awards disclosed:

a. Matching, Level of Effort, and Earmarking

MCSC did not ensure that the federal matching requirements were met. Eight subrecipients did not adhere to the matching requirement as agreed upon in the approved application and budget. This resulted in questioned costs totaling $77,877, which represent the federal expenditures without matching funds.

The AmeriCorps grant provisions state that the grantee must provide and account for the matching funds as agreed upon in the approved application and budget. The grant provisions also state that all applicable grant provisions, including regulations and OMB circulars that are incorporated by

reference, shall apply to any grantee, subgrantee or other organization carrying out activities under the award.

In addition, the AmeriCorps grant provisions state that programs must meet the grantee share of member costs, as indicated in the approved budget, during each reporting period using nonfederal money. Three of the 8 subrecipients did not comply with this requirement.

MCSC's controls were designed to ensure compliance with the matching requirement. For each cash request submitted by a subrecipient, MCSC personnel reviewed the subrecipient's current year-to-date expenditures to determine if the subrecipient was in compliance with the matching requirements. If this review indicated that the subrecipient was not in compliance, follow-up procedures were to be completed. MCSC personnel did not complete the follow-up procedures for the 8 subrecipients.

b. Subrecipient Monitoring

MCSC could not provide documentation for the programmatic site visits for 6 AmeriCorps subrecipients. Additionally, MCSC did not ensure that eligibility noncompliance issues identified during the fiscal year 2002-03 financial site visits were resolved in a timely manner for 5 subrecipients. As a result, MCSC's subrecipients were unable to substantiate the eligibility for 6 AmeriCorps members.

Federal regulations state that grantees must monitor grant and subgrant supported activities to ensure that applicable federal requirements are being complied with and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

MCSC's controls require that both a programmatic and a financial site visit be performed at certain times for each AmeriCorps Program. The purpose of these visits is to observe firsthand the program and financial operations of the subgrantee to ensure that the program is in compliance with rules and regulations.

MCSC informed us that a transition in program officers resulted in the programmatic site visits being overlooked. Subsequent to our review, MCSC

contacted the subrecipients in an attempt to resolve the eligibility noncompliance issues identified during the fiscal year 2002-03 financial on-site visits.

RECOMMENDATION

We recommend that DLEG improve controls over the AmeriCorps Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF LABOR AND ECONOMIC GROWTH*

Summary Schedule of Prior Audit Findings

As of September 30, 2004

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450301
Finding Title: Timely Deposit of Cash Receipts

Finding: The Michigan Department of Career Development (MDCD) did not deposit cash receipts on a timely basis.

Comments: MDCD took corrective action related to this finding during fiscal year 2002-03.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450302
Finding Title: Controls Over Cash Receipts

Finding: MDCD staff did not comply with prescribed internal control to help ensure that cash receipts were properly processed. Also, MDCD's cash receipts reconciliation process did not provide for appropriate separation of duties.

Comments: MDCD took corrective action related to this finding during fiscal year 2002-03.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450303
Finding Title: Separation of Duties in the Payroll Function

Finding: MDCD's internal control did not ensure that proper separation of payroll processing duties was maintained.

Comments: MDCD took corrective action related to this finding during fiscal year 2002-03.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450305
Finding Title: Procurement Card Purchases

Finding: MDCD's internal control did not ensure that procurement cards were used for only allowable purchases.

Comments: The Department of Labor and Economic Growth (DLEG) disagreed with this finding and did not implement corrective actions. However, this is no longer considered to be an audit finding because, since the prior audit, DLEG requested and received a ruling from the U.S. Department of Labor (USDOL) stating that costs from the purchases in question were allowable. Furthermore, DLEG received a statement from the Department of Management and Budget (DMB) indicating that these purchases were proper (as a procurement card purchase) as well.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450306
Finding Title: Cash Management

Finding: MDCD's internal control did not ensure that federal funds were drawn on a timely basis.

Comments: MDCD took corrective action related to this finding during fiscal year 2002-03.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450304
Finding Title: Separation of Duties in the Procurement Card Function

Finding: MDCD did not have controls to compensate for the assignment of incompatible duties to the procurement card administrator.

Comments: MDCD took corrective action related to this finding during fiscal year 2002-03; however, since the merging of MDCD into DLEG, the same situation has reoccurred.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430314
Finding Title: Rehabilitation Services: Vocational Rehabilitation Grants to States (Rehabilitation Services Program), *CFDA* 84.126

Finding: The Family Independence Agency's internal control over the Rehabilitation Services Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, reporting, and special tests and provisions.

Comments: DLEG has addressed these deficiencies. They include: meeting with DLEG Financial Services Division and DMB to annually identify rent costs that can be charged to the federal programs; enhancing the computerized tracking system to ensure that

rehabilitation services are processed in accordance with federal regulations; and implementing an on-line payroll system to correct payroll related deficiencies.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430325
Finding Title: Suspension and Debarment

Finding: FIA had not established internal control to ensure that it did not contract with or make grant awards to parties that had been suspended or debarred. (Rehabilitation Services Program, *CFDA* 84.126)

Comments: Contract language has been changed and policies and procedures were developed to check the status of each contractor. Completed April 2004.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450308
Finding Title: Verification of Student Financial Assistance Application Information

Finding: MDCD's controls did not ensure that information reported on students' federal financial assistance applications was accurately verified.

Comments: Work practices and procedures have been modified to prevent this situation from occurring in the future. Completed April 2003.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450309

Finding Title: Refunds and Postwithdrawal Disbursement of Federal Pell Grant Program Funds

Finding: MDCD's controls did not ensure that Federal Pell Grant Program (Title IV) funds were properly received from or refunded to the U.S. Department of Education when a student withdraws from his/her educational program or fails to maintain satisfactory academic progress.

Comments: Work practices and procedures have been modified to prevent this situation from occurring in the future. Completed December 2002.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450310
Finding Title: Supported Employment Services Eligibility Determination

Finding: MDCD should improve its internal control to help ensure that all information required to determine client eligibility for Supported Employment Services for Individuals with Severe Disabilities is obtained.

Comments: Michigan Rehabilitation Services (MRS) revised its internal procedures to make them compatible with the most recent federal regulations. Completed October 1, 2002.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450311
Finding Title: Maintenance of Effort

Finding: MDCD's controls did not ensure that its Adult Education - State Grant Program (Adult Education Program) maintenance of effort (MOE) calculation included only eligible expenditures.

Comments: Annually, DLEG program staff meet with Department of Corrections staff to ensure that MOE expenditures are properly assigned to the Adult Education and Career Tech-Prep Programs.

Department of Corrections then provides a letter confirming these expenditures and an itemized list of expenditures showing program totals for the following categories: career and technical education programming, academic education programming, and administrative.

DLEG Financial Services Division then verifies that this itemization of expenditures complies with a distribution format consistent with federal requirements. Any adjustments needed, based on this format, are made prior to calculating total MOE.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450312
Finding Title: Personnel-Payroll Cost Distributions

Finding: MDCD's internal control did not ensure that personnel-payroll cost distributions to federal programs were properly documented in accordance with federal requirements.

Comments: All program areas were educated on the need for proper documentation of personnel-payroll cost distributions for employees charged 100% to federal programs. DLEG will annually ensure that certifications are obtained semi-annually. Completed July 30, 2003.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450313
Finding Title: Federal Financial Reporting

Finding: MDCD's internal control did not ensure that required quarterly and monthly financial status reports were submitted to the USDOL on a timely basis.

Comments: Procedures were changed to ensure that DLEG obtains an annual variance for filing specific USDOL financial reports at intervals different from those prescribed by the federal regulations. Trade Adjustment Assistance - Workers (TAA) financial report procedures have been modified to ensure that data is available on a more timely basis in order to meet filing deadlines. Completed December 31, 2003.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450314
Finding Title: Federal Performance Reporting

Finding: MDCD's internal control did not ensure that required Labor Force Statistics (LFS) Program deliverables (various reports and data) and TAA performance reports were submitted on a timely basis and properly documented.

Comments: DLEG has changed its procedures to ensure that, in the future, LFS Program deliverables are submitted timely and are properly documented. TAA performance report procedures have already been modified to ensure that data is available on a more timely basis in order to meet filing deadlines. Completed December 31, 2003.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450315
Finding Title: Data and Program Change Controls

Finding: MDCD should ensure that the Department of Information Technology (DIT) properly institutes sufficient data and program

change controls for systems that MDCD uses to maintain and process information for its federal programs.

Comments: Originally, MDCD indicated that it would work with its on-site DIT liaison and the DMB internal auditors to address these concerns. However, since then, the Accessible Web-Based Activity and Reporting Environment System (AWARE) administrators within MRS agreed to leave the balancing process to the DIT staff responsible for AWARE. MRS staff have no technical training and no idea of what is required to be changed in the AWARE data tables. MRS requested that DLEG analysts be the responsible party for making these changes. DLEG analysts continue to have access to the AWARE program code and to the production data in the database, and DLEG's database administrator has access to the database and program code. Again, with DLEG's limited staff, its options are very limited. MRS administrators have agreed to continue this process. After further review, MRS has identified compensating controls that are in place to minimize the risk of errors or unauthorized changes to the data.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450316
Finding Title: Separation of Duties in the Payroll Function

Comments: See Finding 450303 with the findings related to the financial schedules.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450317
Finding Title: Procurement Card Purchases

Comments: See Finding 450305 with the findings related to the financial schedules.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450318
Finding Title: Cash Management

Comments: See Finding 450306 with the findings related to the financial schedules.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450319
Finding Title: Expenditures for Participant Services

Finding: This finding was associated with Finding 6 of our performance audit of Michigan Rehabilitation Services (#4524001), issued in July 2002. MDCD did not ensure that expenditures for participant services were proper and that such expenditures were made in accordance with established policy.

Comments: MRS has implemented corrective action. Statewide vocational counselor training for all staff began in April 2002 and was completed in July 2002. The issues cited in the audit finding were discussed at length to ensure compliance. Also, the ongoing training for new counselors will include emphasis of these matters.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 630401
Finding Title: State Energy Program, *CFDA* 81.041

Finding: The Department of Consumer and Industry Services' controls over the State Energy Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Comments: DLEG's Internal Audit and Monitoring Division has addressed this finding. This process includes sending letters out to subrecipients

to inquire as to whether they are required to have a Single Audit and instructing those who are required to have Single Audits to submit their reports on a timely basis. Also, a tracking system and audit review procedures are being established, and program staff will be trained to take over this function.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 450307
Finding Title: Subrecipient Monitoring

Finding: MDCD's internal control did not ensure that subrecipients were sufficiently monitored for compliance with federal laws and regulations and grant agreement provisions. We consider this condition to be a material control weakness for the Workforce Investment Act (*CFDA* 17.255), WIA Adult Program (*CFDA* 17.258), WIA Youth Activities (*CFDA* 17.259), WIA Dislocated Workers (*CFDA* 17.260), Adult Education - State Grant Program (*CFDA* 84.002), Rehabilitation Services - Vocational Rehabilitation Grants to States (*CFDA* 84.126), and Tech-Prep Education (*CFDA* 84.243).

Comments: DLEG's Internal Audit and Monitoring Division was given oversight of this function in August 2004. It is currently working with program staff to establish improvements for tracking Single Audit reports and reporting requirements, conducting monitoring reviews, and performing audit resolutions. Expected completion date is October 1, 2005.

* On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed the Department of Consumer and Industry Services as the Department of Labor and Economic Growth (DLEG). The Executive Order also transferred the Michigan Department of Career Development to DLEG and the Michigan Commission for the Blind from the Department of Human Services (formerly the Family Independence Agency) to DLEG. The Michigan Commission for the Blind is responsible for the federal Rehabilitation Services Program (*CFDA* 84.126) for the blind. The Executive Order became effective December 7, 2003. As a result, DLEG

is responsible for the prior audit findings related to the Department of Consumer and Industry Services (finding number beginning with "63"), the Michigan Department of Career Development (finding numbers beginning with "45"), and the Michigan Commission for the Blind (finding numbers beginning with "43").

DEPARTMENT OF LABOR AND ECONOMIC GROWTH (DLEG)

Corrective Action Plan

As of June 1, 2005

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 640501

Finding Title: Separation of Duties in the Procurement Card Function

Management Views: We agree with the finding and have complied with the recommendation.

Corrective Action: We have established separation of duties by assigning responsibility to the backup procurement card administrator for receiving the issued cards from the credit card company, notifying the cardholder of receipt of the card, and delivering the card to the cardholder.

Anticipated Completion Date: January 1, 2005

Responsible Individual: LeAnn Droste, DLEG Procurement Director

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Finding Number: 640502

Finding Title: Controls Over Procurement Cards

Management Views: We agree with the finding and have complied with the recommendation.

Corrective Action: We redistributed the procurement card policy to all users to ensure compliance and closer monitoring of transactions.

Anticipated Completion Date: May 1, 2005

Responsible Individual: LeAnn Droste, DLEG Procurement Director

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Finding Number: 640503
Finding Title: Encumbrances

Management Views: We agree with the finding and will comply with the recommendation.

Corrective Action: We have implemented steps to ensure that the proper accrual methodology is used in future years for these grants. These steps include verifying the accuracy of transactions and ensuring that all contracts are properly dated.

Anticipated Completion Date: October 1, 2005

Responsible Individual: LeAnn Droste, DLEG Procurement Director

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Finding Number: 640504
Finding Title: Indirect Cost Recovery

Management Views: We agree with the finding and will comply with the recommendation.

Corrective Action: We agree that our process needs improvement. We will recalculate the indirect costs by applying the rate to the actual salaries and drawing the funds.

Anticipated Completion Date: October 1, 2005

Responsible Individual: Shirley Callahan, DLEG Chief Accountant

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FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 640505
Finding Title: Employment Service Cluster, *CFDA* 17.207, 17.801, and 17.804

Management Views: We agree with the finding and will comply with the recommendation.

Corrective Action: All grant action notices will now include the required information including the *CFDA* title, *CFDA* number, and name of the federal awarding agency.

Anticipated Completion Date: July 1, 2005

Responsible Individual: Dell Alston, Director
Bureau of Workforce Programs, Workforce Training and Development Division

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Finding Number: 640506
Finding Title: Trade Adjustment Assistance - Workers (TAA Program), *CFDA* 17.245

Management Views: We agree with the finding and have complied with the recommendation.

Corrective Action: During the audit period, there were 56 data elements that were reported manually from the Michigan Works! Agencies and then compiled manually into the federal report. Currently, 50 of those 56 data elements are now reported electronically through the Management Information System, reducing the opportunity for human error in the compilation of the reported data. The final six data elements cannot be reported through the Management Information System because the data originates with TAA Program petition documents,

which are manually received from the companies involved and not reported by the Michigan Works! Agencies.

Anticipated Completion Date: July 1, 2005

Responsible Individual: Dell Alston, Director
Bureau of Workforce Programs, Workforce Training and Development Division

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Finding Number: 640507

Finding Title: Adult Education - State Grant Program (Adult Education Program), *CFDA* 84.002

Management Views: We agree with the finding and will comply with the recommendation.

Corrective Action: We have developed an evaluation tool, the desk audit review form that will be used to evaluate all adult education programs annually. The review form will document all program information and must be kept in the program file. In addition, the Office of Adult Education will conduct on-site monitoring visits to at least 24% of local programs on an annual basis, which will include nonprofit subrecipients. Desk audit reviews will be completed, documented, and maintained in each local adult education provider's file.

Anticipated Completion Date: June 30, 2006

Responsible Individual: Diane Duthie, Adult Education and Commission for Spanish Speaking Affairs

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Finding Number: 640508

Finding Title: Vocational Education - Basic Grants to States (Vocational Education Program), *CFDA* 84.048

Management Views: We agree with the finding and will comply with the recommendation.

Corrective Action: For item a., we will request verification at the end of the fiscal year from the State departments that contribute to the match that the funds were expended and that they were not used to match any other federal program. For item b., we have adjusted the process for completing the financial status report to ensure that period of availability errors will not occur in the future. For item c., we will review the language in the contracts and grants to ensure that all grantees meet this requirement. For item d., we will begin to code the funds separately in future fiscal years.

Anticipated Completion Date: December 31, 2005

Responsible Individual: Patty Cantu, Director
Office of Career and Technology Preparation

Finding Number: 640509

Finding Title: Rehabilitation Services - Vocational Rehabilitation Grants to States (Rehabilitation Services Program), *CFDA* 84.126

Management Views: We partially agree with the finding and will comply with the recommendation. We agree that maintenance and support for a Michigan Career and Technical Institute student was not specifically documented in the individualized plan for employment or notes; however, the individualized plan for employment identified Michigan Career and Technical Institute

attendance as a provided service. Providing $25 per week for maintenance and support is in keeping with the Michigan Rehabilitation Services Manual guidelines for a Michigan Career and Technical Institute student.

Corrective Action: We will send out clarification to all staff reminding them that substantive changes in service provided requires individualized plan for employment amendments. We will also confirm that this information is discussed during new counselor training.

Anticipated Completion Date: October 31, 2005

Responsible Individual: Lori Shader-Patterson, Director, Division IV
Michigan Rehabilitation Services

Finding Number: 6405010

Finding Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *CFDA* 84.334

Management Views: We agree with the finding and will comply with the recommendation.

Corrective Action: For item a., we took quick and decisive action to remedy the situation and instituted immediate corrective action. Program staff received immediate instruction in the proper use of the timekeeping system, which allows the recording of time based on activity performed. For item b., we will include the *CFDA* number and the name of the federal awarding agency in all future grant award notifications. Also, we have informed the school district cited in item b(2) and the Michigan Department of Education of the omission of GEAR-UP from the school district's audits in fiscal years 2003-04 and 2002-03. Both entities have been

informed of the need to include the program in future audit reports.

Anticipated Completion Date: August 15, 2005

Responsible Individual: Michael Beamish, Department Specialist
Office of Postsecondary Services

Finding Number: 640511
Finding Title: AmeriCorps, *CFDA* 94.006

Management Views: We partially agree with the finding and have complied with the recommendation. We contend that the program met the minimum federal match percentages.

Corrective Action: For item a., we have adjusted our procedures to address match concerns earlier in the grant year to help avoid any future match issues. We will continue to work with our federal granting agency to clarify the match issue variance process. Both the Michigan Community Service Commission (MCSC) deputy director and the director of Finance and Administration are now required to approve any match variances between the State and federal requirements and the final closeout packet. For item b., MCSC has hired a second AmeriCorps program officer, which has enabled MCSC to monitor all programs and verify member eligibility prior to enrollment. Also, the program officers now verify the certification sheets in their review of the programs.

Anticipated Completion Date: March 31, 2005

Responsible Individual: Garry Gross, Director of Finance and Administration
Michigan Community Service Commission

GLOSSARY

Glossary of Acronyms and Terms

Adult Education Program	Adult Education - State Grant Program.
AWARE	Accessible Web-Based Activity and Reporting Environment System.
CFDA	*Catalog of Federal Domestic Assistance.*
CFR	*Code of Federal Regulations.*
DIT	Department of Information Technology.
DLEG	Department of Labor and Economic Growth.
DMB	Department of Management and Budget.
executive order	An official pronouncement of the Governor provided for in Article V, Section 2 of the State Constitution.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
GEAR-UP	Gaining Early Awareness and Readiness for Undergraduate Programs.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LFS	Labor Force Statistics.

low-risk auditee	As provided for in OMB Circular A-133, 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. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MBDA	Michigan Broadband Development Authority.
MCSC	Michigan Community Service Commission.
MDCD	Michigan Department of Career Development.
MDE	Michigan Department of Education.
MEDC	Michigan Economic Development Corporation.

MOE	maintenance of effort.
MRS	Michigan Rehabilitation Services.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
OMB	U.S. Office of Management and Budget.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
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 provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including 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.
Rehabilitation Services Program	Rehabilitation Services - Vocational Rehabilitation Grants to States.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and

grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.

Single Audit — A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that 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 *Government Auditing Standards* 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 OMB Circular A-133.

SOMCAFR — *State of Michigan Comprehensive Annual Financial Report.*

subrecipient — A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

TAA Program — Trade Adjustment Assistance - Workers.

unqualified opinion — An auditor's opinion in which the auditor states that:

a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to"

opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

USDOL	U.S. Department of Labor.
Vocational Education Program	Vocational Education - Basic Grants to States.
WIA	Workforce Investment Act.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL