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, 2006 through September 30, 2008

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

641-0100-09

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
641-0100-09

Department of Labor and Economic Growth

October 1, 2006 through September 30, 2008

Released:
June 2009

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 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) financial schedules.

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Internal Control Over Financial Reporting

We identified a significant deficiency in internal control over financial reporting (Finding 1). We do not consider this significant deficiency to be a material weakness.

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Noncompliance and 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*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 15 programs as major programs and reported known questioned costs of $22.4 million and known and likely questioned costs totaling $22.4 million. DLEG expended $960.8 million in federal awards during the two-year period ended September 30, 2008. We issued 9 unqualified opinions, 5 qualified opinions, and 1 adverse opinion. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified significant deficiencies in internal control over federal program compliance (Findings 2, 4 through 11, and 13). We consider Findings 4, 6 through 8, and 11 to be material weaknesses.

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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 2 through 13).

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Systems of Accounting and Internal Control:

We determined that DLEG was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

CFDA Number	***Program or Cluster Title***	***Compliance Opinion***
10.561	Food Stamp Cluster	Unqualified
17.002	Labor Force Statistics	Qualified
17.207, 17.801, and 17.804	Employment Service Cluster	Qualified
17.245	Trade Adjustment Assistance	Unqualified
17.268	H-1B Job Training Grants	Adverse
17.503	Occupational Safety and Health - State Program	Qualified
17.504	Consultation Agreements	Qualified
81.041	State Energy Program	Unqualified
84.002	Adult Education - Basic Grants to States	Unqualified
84.048	Career and Technical Education - Basic Grants to States	Unqualified
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Qualified
84.187	Supported Employment Services for Individuals with Significant Disabilities	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

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

June 26, 2009

Mr. Stanley F. Pruss, Director
Department of Energy, Labor & Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Pruss:

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, 2006 through September 30, 2008.

This report contains our report summary, our independent auditor's report on the financial schedules, and the DLEG financial schedules and schedule of expenditures of federal awards. 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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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

Mr. Stanley F. Pruss, Director
Department of Energy, Labor & Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Pruss:

We have audited the accompanying financial schedules of the Department of Labor and Economic Growth for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents. These financial schedules are the responsibility of the Department's 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 other financing sources and the sources and disposition of authorizations for the Department of Labor and Economic Growth'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 either the Department 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 other financing sources and the sources and disposition of authorizations of the Department of Labor and Economic Growth for the fiscal years ended September 30, 2008 and September 30, 2007 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2009 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Department's 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

June 18, 2009

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	2008	2007
REVENUES		
Taxes:		
Beer and wine	$ 50,941,374	$ 51,478,349
Insurance company premium tax	11,126,733	13,062,062
Liquor tax	37,253,835	36,176,046
Total taxes	$ 99,321,942	$ 100,716,457
From federal agencies	$ 486,926,876	$ 484,465,757
From local agencies	$ 8,070,890	$ 8,687,625
From services	$ 3,199,281	$ 3,425,891
From licenses and permits	$ 142,374,823	$ 143,625,637
Miscellaneous (Note 2):		
Low-Income and Energy Efficiency Fund	$ 83,962,538	$ 83,108,093
Fire Protection Fund	8,500,000	8,500,000
Other	21,398,226	16,519,477
Total miscellaneous	$ 113,860,765	$ 108,127,569
Total revenues	$ 853,754,576	$ 849,048,936
OTHER FINANCING SOURCES (Note 3)		
Transfers from Liquor Purchase Revolving Fund	$ 161,649,975	$ 162,361,710
Other transfers	3,668,000	4,523,873
Total other financing sources	$ 165,317,975	$ 166,885,583
Total revenues and other financing sources	$ 1,019,072,552	$ 1,015,934,519

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 Years Ended September 30

	2008	2007
SOURCES OF AUTHORIZATIONS (Note 4)		
General purpose appropriations	$ 48,694,200	$ 48,667,000
Balances carried forward	69,046,311	61,806,114
Restricted financing sources	762,442,345	748,031,464
Less: Intrafund expenditure reimbursements	(22,569,352)	(15,241,289)
Total	$ 857,613,504	$ 843,263,289
DISPOSITION OF AUTHORIZATIONS (Note 4)		
Gross expenditures and transfers out	$ 795,818,146	$ 783,473,868
Less: Intrafund expenditure reimbursements	(22,569,352)	(15,241,289)
Net expenditures and transfers out	$ 773,248,794	$ 768,232,579
Balances carried forward:		
Encumbrances	$ 1,293,905	$ 21,008
Restricted revenues - authorized	567,466	492,695
Restricted revenues - not authorized or used	81,821,984	68,532,608
Total balances carried forward	$ 83,683,355	$ 69,046,311
Balances lapsed	$ 681,354	$ 5,984,399
Total	$ 857,613,504	$ 843,263,289

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

Note 1 Significant Accounting Policies

a. Reporting Entity

The Department of Labor and Economic Growth (DLEG) was created by an executive order* in October 2003. The executive order renamed the Department of Consumer and Industry Services as DLEG and transferred programs and administrative functions from the Department of Career Development to DLEG, transferred various federal programs from DLEG to the Department of Community Health and the Department of Human Services, and transferred programs from the Department of Human Services to DLEG. DLEG's mission is to promote and ensure Michigan's future through education, job training, innovation and collaborative partnerships in service and protection of customer needs.

The accompanying financial schedules report the results of the financial transactions of the Department of Labor and Economic Growth (DLEG) for the fiscal years ended September 30, 2008 and September 30, 2007. The financial transactions of DLEG 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. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits; and other postemployment benefits.

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

For purposes of presenting the financial transactions of DLEG 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 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 Broadband Development Authority (MBDA). MBDA issued annual financial statements and obtained an annual financial audit. Effective December 28, 2008, the Governor issued Executive Order No. 2008-20, which abolished MBDA.

(5) Various funds, including the 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; Land Bank Fast Track Authority, and Insurance Carrier Deposits Fund. These funds receive no federal assistance and receive periodic financial audits.

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

On May 1, 2007, the Governor issued Executive Order No. 2007-4, which transferred career and technical education programs, pursuant to the Carl D. Perkins Vocational and Technical Education Act of 1998, as amended, to the State Board of Education, Michigan Department of Education (MDE). The State Board of Education then delegated the responsibilities regarding postsecondary career and technical education back to DLEG, while responsibility for secondary students remained with MDE. Pursuant to an interagency agreement between DLEG and MDE, these transfers took effect for administrative purposes on October 1, 2007.

Also, effective December 28, 2008, the Governor issued Executive Order No. 2008-20, which renamed DLEG as the Department of Energy, Labor & Economic Growth (DELEG) and designated the director of DELEG as the chief energy officer for the State of Michigan. As a result, staff were transferred to DELEG from other departments to promote the use of renewable energy, the development of advanced energy technologies, and the implementation of energy efficiencies in the State.

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 accounting principles generally accepted in the United States of America. 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 other financing sources and the sources and disposition of authorizations for DLEG's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of DLEG or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Miscellaneous Revenue

DLEG received revenue for the Low-Income and Energy Efficiency Fund of $84.0 million and $83.1 million for fiscal years 2007-08 and 2006-07, respectively. The Michigan Public Service Commission administers the Fund, created by Act 141, P.A. 2000, to provide shut-off and other protection for low-income customers and to promote energy efficiency by all customers.

Also, DLEG received revenue for the Fire Protection Fund of $8.5 million annually in fiscal years 2007-08 and 2006-07. Act 52, P.A. 2004, created the Fund within the Michigan Department of Treasury and authorized DLEG to expend appropriated money from the Fund for fire protection grants to cities, villages, and townships with State-owned facilities for fire services. The Act specifies that if bad driver fees collected by the Secretary of State exceed $65 million, the next $3.5 million in fees collected are credited to the Fund. If bad driver fees collected exceed $100 million, the next $5.0 million in fees collected are also credited to the Fund. In fiscal years 2007-08 and 2006-07, bad driver fees collected by the Secretary of State exceeded $105 million annually.

Note 3 Other Financing Sources

The transfers from the Liquor Purchase Revolving Fund for fiscal years 2007-08 and 2006-07 were statutory transfers of fund profits to finance general operations ($159.2 million and $158.7 million, respectively) and grants to cities, villages, and townships with State-owned facilities for fire protection services ($2.4 million and $3.7 million, respectively).

Also, DLEG received transfers of $2.7 million each for fiscal years 2007-08 and 2006-07 from the Michigan Employment Security Act Contingent Fund to finance a portion of the Employment Services Program and $1.0 million each for fiscal years 2007-08 and 2006-07 from the Michigan Employment Security Act Contingent Fund to finance a portion of the Vocational Rehabilitation Client Services Program.

Note 4 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. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or 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 or used. Some of DLEG's more significant balances carried forward include:

Description	Carried Forward Into Fiscal Year 2007-08 From Fiscal Year 2006-07	Carried Forward Into Fiscal Year 2006-07 From Fiscal Year 2005-06
Insurance and consumer fees	$11,970,896	$18,083,288
Corporation fees	$ 9,190,584	$ 7,096,913
Low-Income and Energy Efficiency Fund	$ 6,555,234	$ 3,192,147
Remonumentation fees	$ 6,228,969	$ 7,785,239
Fire Protection Fund	$ 4,000,000	
Bank fees	$ 3,852,572	$ 3,108,994
Liquor license revenue	$ 2,380,254	$ 2,833,076
Licensing and regulation fees	$ 3,298,854	$ 2,328,967
Workers' Compensation Administrative Revolving Fund	$ 2,702,031	$ 2,159,473

c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used 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 or used. Some of DLEG's more significant restricted financing sources include:

Description	Fiscal Year 2007-08	Fiscal Year 2006-07
Federal agencies	$487,527,738	$484,753,706
Low-Income and Energy Efficiency Fund	$ 85,263,833	$ 83,112,852
Insurance and consumer fees	$ 19,899,793	$ 13,340,448
Corporation fees	$ 19,641,771	$ 19,832,538
Public utility assessments	$ 19,127,753	$ 21,520,375
Securities fees	$ 13,005,024	$ 14,366,145
Licensing and regulation fees	$ 15,555,349	$ 13,603,862

d. 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. DLEG's significant intrafund expenditure reimbursements in fiscal years 2007-08 and 2006-07 included $10.0 million and $9.4 million, respectively, for hearings services provided by the State Office of Administrative Hearings and Rules to other State of Michigan departments.

e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

f. Restricted revenues - not authorized or 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. Some of

DLEG's more significant restricted revenues - not authorized or used include:

Description	Fiscal Year 2007-08	Fiscal Year 2006-07
Low-Income and Energy Efficiency Fund	$18,628,033	$ 6,555,234
Corporation fees	$ 9,647,188	$ 9,190,584
Insurance and consumer fees	$ 9,631,101	$11,970,896
Licensing and regulation fees	$ 6,285,678	$ 3,298,854
Remonumentation fees	$ 4,122,826	$ 6,228,969
Fire Protection Fund	$ 4,000,000	$ 4,000,000
Bank fees	$ 3,074,610	$ 3,852,572
Workers' Compensation Administrative Revolving Fund	$ 2,983,704	$ 2,702,031
Public utility assessments	$ 2,717,056	$ 3,804,307

g. 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.

SUPPLEMENTAL
FINANCIAL SCHEDULE

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2007: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
Food Stamp Cluster:					
Pass-Through Program:					
Michigan Department of Human Services					
State Administrative Matching Grants for the Food Stamp Program	10.561	2MI420122	$ 138,577	$ 2,504,393	$ 2,642,970
Total U.S. Department of Agriculture			**$ 138,577**	**$ 2,504,393**	**$ 2,642,970**
U.S. Department of Labor					
Employment Service Cluster:					
Direct Programs:					
Employment Service/Wagner-Peyser Funded Activities	17.207		$ 9,428,922	$ 15,519,356	$ 24,948,278
Disabled Veterans' Outreach Program (DVOP)	17.801		2,536,319		2,536,319
Local Veterans' Employment Representative Program	17.804		3,083,250		3,083,250
Total Employment Service Cluster			$ 15,048,491	$ 15,519,356	$ 30,567,847
Workforce Investment Act (WIA) Cluster:					
Direct Programs:					
WIA Adult Program	17.258		$ 2,480,930	$ 45,912,865	$ 48,393,795
WIA Youth Activities	17.259		2,705,327	44,315,044	47,020,371
WIA Dislocated Workers	17.260		8,368,587	61,960,722	70,329,309
Total Workforce Investment Act (WIA) Cluster			$ 13,554,844	$ 152,188,631	$ 165,743,475
Direct Programs:					
Labor Force Statistics	17.002		$ 2,572,066	$	$ 2,572,066
Compensation and Working Conditions	17.005		213,000		213,000
Trade Adjustment Assistance	17.245		508,271	20,812,576	21,320,847
WIA Pilots, Demonstrations, and Research Projects	17.261		433	248,278	248,711
Work Incentive Grants	17.266		25,435	547,595	573,030
Incentive Grants - WIA Section 503	17.267			800,952	800,952
H-1B Job Training Grants	17.268			8,184,269	8,184,269
Occupational Safety and Health - State Program	17.503		9,893,100		9,893,100
Consultation Agreements	17.504		1,614,000		1,614,000
OSHA Data Initiative	17.505		76,498		76,498
Total Direct Programs			$ 14,902,803	$ 30,593,670	$ 45,496,473
Pass-Through Program:					
Michigan Unemployment Insurance Agency					
Unemployment Insurance	17.225	SOM-DLEG	$	$ 857,124	$ 857,124
Total U.S. Department of Labor			**$ 43,506,138**	**$ 199,158,781**	**$ 242,664,919**
U.S. Department of Transportation					
Direct Program:					
Pipeline Safety Program Base Grants	20.700		$ 322,951	$	$ 322,951
Pass-Through Programs:					
Michigan Department of Transportation					
Highway Training and Education	20.215	STPG 0884 (036)	$	$	$ 0
Michigan Department of State Police					
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEMI6018140	$ 47,768	$	$ 47,768
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEMI7018150			0
Total Interagency Hazardous Materials Public Sector Training and Planning Grants			$ 47,768	$ 0	$ 47,768
Total Pass-Through Programs			$ 47,768	$ 0	$ 47,768
Total U.S. Department of Transportation			**$ 370,719**	**$ 0**	**$ 370,719**

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2008			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 160,324	$2,448,532	$ 2,608,856	$ 5,251,826
$ 160,324	**$ 2,448,532**	**$ 2,608,856**	**$ 5,251,826**
$ 9,731,475	$ 17,091,006	$ 26,822,481	$ 51,770,759
2,480,868		2,480,868	5,017,187
3,138,851		3,138,851	6,222,101
$ 15,351,194	$ 17,091,006	$ 32,442,200	$ 63,010,047
$ 2,266,631	$ 54,134,030	$ 56,400,661	$ 104,794,456
3,121,451	47,783,940	50,905,391	97,925,762
10,715,063	67,972,059	78,687,122	149,016,431
$ 16,103,145	$ 169,890,029	$ 185,993,174	$ 351,736,649
$ 2,464,325	$	$ 2,464,325	$ 5,036,391
189,450		189,450	402,450
1,072,848	25,016,742	26,089,590	47,410,437
1,213	66,296	67,509	316,220
40,172	888,650	928,822	1,501,852
	618,177	618,177	1,419,129
	10,511,589	10,511,589	18,695,858
9,727,300		9,727,300	19,620,400
1,586,000		1,586,000	3,200,000
76,498		76,498	152,996
$ 15,157,806	$ 37,101,454	$ 52,259,260	$ 97,755,733
$	$	$ 0	$ 857,124
$ 46,612,145	**$ 224,082,489**	**$ 270,694,634**	**$ 513,359,553**
$ 322,558	$ 9,001	$ 331,559	$ 654,510
$	$ 313,505	$ 313,505	$ 313,505
$	$	$ 0	$ 47,768
43,303		43,303	43,303
$ 43,303	$ 0	$ 43,303	$ 91,071
$ 43,303	$ 313,505	$ 356,808	$ 404,576
$ 365,861	**$ 322,506**	**$ 688,367**	**$ 1,059,086**

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2007 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Veterans Affairs					
Direct Program:					
Veterans Information and Assistance	64.115		$ 367,945	$	$ 367,945
Total U.S. Department of Veterans Affairs			**$ 367,945**	**$ 0**	**$ 367,945**
U.S. Department of Energy					
Direct Programs:					
National Energy Information Center	81.039		$ 6,414	$	$ 6,414
State Energy Program	81.041		894,163	941,721	1,835,884
Regional Biomass Energy Programs	81.079		10,564	12,812	23,376
Conservation Research and Development	81.086			57,719	57,719
Renewable Energy Research and Development	81.087				0
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117			14,392	14,392
State Energy Program Special Projects	81.119			220,207	220,207
Total U.S. Department of Energy			**$ 911,141**	**$ 1,246,851**	**$ 2,157,992**
U.S. Department of Education					
Student Financial Assistance Cluster:					
Direct Programs:					
Federal Supplemental Educational Opportunity Grants	84.007		$ 26,772	$	$ 26,772
Federal Pell Grant Program	84.063		853,248		853,248
Total Student Financial Assistance Cluster			$ 880,020	$ 0	$ 880,020
Direct Programs:					
Adult Education - Basic Grants to States	84.002		$ 2,037,259	$ 13,641,847	$ 15,679,106
Career and Technical Education - Basic Grants to States (3)	84.048		3,014,979	35,501,450	38,516,429
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		84,558,464	4,964,270	89,522,734
Independent Living - State Grants	84.169		198,721	369,052	567,773
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		1,193,810	12,273	1,206,083
Supported Employment Services for Individuals with Significant Disabilities	84.187		900,909		900,909
Assistive Technology	84.224		10,094	1,079,867	1,089,961
Tech-Prep Education	84.243		189,154	3,471,362	3,660,516
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		66,199	36,038	102,237
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		1,630,322	1,022,067	2,652,389
Total Direct Programs			$ 93,799,911	$ 60,098,226	$ 153,898,137
Pass-Through Programs:					
Michigan Department of Education					
Career and Technical Education - Basic Grants to States (3)	84.048	V048A080022	$	$	$ 0
Tech-Prep Education	84.243	V243A060022			0
Total Pass-Through Programs			$ 0	$ 0	$ 0
Total U.S. Department of Education			**$ 94,679,931**	**$ 60,098,226**	**$ 154,778,157**
U.S. Department of Health and Human Services					
Medicaid Cluster:					
Pass-Through Programs:					
Michigan Department of Community Health					
State Survey and Certification of Health Care Providers and Suppliers	93.777	05-0705-MI-5000	$ 427,109	$	$ 427,109
State Survey and Certification of Health Care Providers and Suppliers	93.777	05-0805-MI-5000			0
Total State Survey and Certification of Health Care Providers and Suppliers			$ 427,109	$ 0	$ 427,109
Medical Assistance Program	93.778	05-0705-MI-5001	$ 250,512	$	$ 250,512
Medical Assistance Program	93.778	05-0805-MI-5001			0
Total Medical Assistance Program			$ 250,512	$ 0	$ 250,512
Total Medicaid Cluster			$ 677,621	$ 0	$ 677,621

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2008			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 347,668	$	$ 347,668	$ 715,613
$ 347,668	**$ 0**	**$ 347,668**	**$ 715,613**
$ 4,030	$	$ 4,030	$ 10,444
930,134	706,910	1,637,044	3,472,928
11,469	9,820	21,289	44,665
		0	57,719
	39,672	39,672	39,672
		0	14,392
	140,719	$140,719	360,926
$ 945,633	**$ 897,121**	**$ 1,842,754**	**$ 4,000,746**
$ 27,185	$	$ 27,185	$ 53,957
363,810		363,810	1,217,058
$ 390,995	$ 0	$ 390,995	$ 1,271,015
$ 1,823,080	$ 13,878,336	$ 15,701,416	$ 31,380,522
817,476	14,527,471	15,344,947	53,861,376
89,333,480	4,023,734	93,357,214	182,879,948
192,613	357,710	550,323	1,118,096
553,614	302,364	855,978	2,062,061
820,742		820,742	1,721,651
10,169	649,939	660,108	1,750,069
		0	3,660,516
92,226	21,477	113,703	215,940
1,762,172	955,347	2,717,519	5,369,908
$ 95,405,572	$ 34,716,378	$ 130,121,950	$ 284,020,087
$	$ 435,007	$ 435,007	$ 435,007
(201)		(201)	(201)
$ (201)	$ 435,007	$ 434,806	$ 434,806
$ 95,796,366	**$ 35,151,385**	**$ 130,947,751**	**$ 285,725,908**
$	$	$ 0	$ 427,109
403,235		403,235	403,235
403,235	$ 0	403,235	$ 830,344
$	$	$ 0	$ 250,512
268,943		268,943	268,943
$ 268,943	$ 0	$ 268,943	$ 519,455
$ 672,178	$ 0	$ 672,178	$ 1,349,799

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008
Continued

Federal Agency/Program or Cluster	*CFDA (2)* Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2007 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Direct Program:					
Occupational Safety and Health Program	93.262		$	$ 171,171	$ 171,171
Pass-Through Programs:					
Michigan Department of Human Services					
Temporary Assistance for Needy Families	93.558	G0602MITANF	$	$ (1,015,787)	$ (1,015,787)
Temporary Assistance for Needy Families	93.558	G0702MITANF	2,037,177	73,765,561	75,802,738
Temporary Assistance for Needy Families	93.558	G0802MITANF			0
Total Temporary Assistance for Needy Families			$ 2,037,177	$ 72,749,774	$ 74,786,951
Chafee Foster Care Independence Program	93.674	G-0501MI1420	$	$ 859	$ 859
Chafee Foster Care Independence Program	93.674	G-0601MI1420		400,000	400,000
Chafee Foster Care Independence Program	93.674	G-0801MI1420			0
Total Chafee Foster Care Independence Program			$ 0	$ 400,859	$ 400,859
Total Pass-Through Programs			$ 2,037,177	$ 73,150,633	$ 75,187,810
Total U.S. Department of Health and Human Services			**$ 2,714,798**	**$ 73,321,804**	**$ 76,036,602**
U.S. Department of Homeland Security					
Direct Programs:					
State Fire Training Systems Grants	97.043		$ 23,503	$	$ 23,503
Total U.S. Department of Homeland Security			**$ 23,503**	**$ 0**	**$ 23,503**
Total Expenditures of Federal Awards			$ 142,712,752	$ 336,330,055	$ 479,042,807

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Labor and Economic Growth (DLEG) on the modified accrual basis of accounting and 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.

(2) *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

(3) Program Transfers: This schedule includes federal grant activity for Career and Technical Education - Basic Grants to State *(CFDA* 84.048) for the fiscal year ended September 30, 2007. On May 1, 2007, the Governor issued Executive Order No. 2007-4, which transferred career and technical education programs, pursuant to the Carl D. Perkins Vocational and Technical Education Act of 1998, as amended, to the State Board of Education, Michigan Department of Education (MDE). The State Board of Education then delegated the responsibilities regarding postsecondary career and technical education back to DLEG, while responsibility for secondary students remained with MDE. Pursuant to an interagency agreement between DLEG and MDE, these transfers took effect for administrative purposes on October 1, 2007.

For the Fiscal Year Ended September 30, 2008			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$	$	$ 0	$ 171,171
$	$	$ 0	$ (1,015,787)
	(460,080)	(460,080)	75,342,658
3,022,874	71,017,791	74,040,665	74,040,665
$ 3,022,874	$ 70,557,711	$ 73,580,585	$ 148,367,536
$	$	$	$ 859
			400,000
	399,994	399,994	399,994
$ 0	$ 399,994	$ 399,994	$ 800,853
$ 3,022,874	$ 70,957,705	$ 73,980,579	$ 149,168,389
$ 3,695,052	**$ 70,957,705**	**$ 74,652,757**	**$ 150,689,359**
$ 24,000	$	$ 24,000	$ 47,503
$ 24,000	**$ 0**	**$ 24,000**	**$ 47,503**
$ 147,947,049	$333,859,738	$ 481,806,787	$ 960,849,594

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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
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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. Stanley F. Pruss, Director
Department of Energy, Labor & Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Pruss:

We have audited the financial schedules of the Department of Labor and Economic Growth for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents, and have issued our report thereon dated June 18, 2009. 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 Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in Finding 1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the third paragraph of this section is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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*.

The Department's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Department, the Governor, 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

June 18, 2009

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. Stanley F. Pruss, Director
Department of Energy, Labor & Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Pruss:

Compliance

We have audited the compliance of the Department of Labor and Economic Growth 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, 2008. The Department's 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 Department's management. Our responsibility is to express an opinion on the Department's 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 preceding 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 Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Findings 3, 4, 6 through 8, and 11 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles and subrecipient monitoring that are applicable to its Labor Force Statistics, Employment Service Cluster, H-1B Job Training Grants, Occupational Safety and Health - State Program, Consultation Agreements, and Rehabilitation Services - Vocational Rehabilitation Grants to States. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Department of Labor and Economic Growth did not comply in all material respects, with the requirements referred to in the first paragraph that are applicable to the H-1B Job Training Grants. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the Department of Labor and Economic Growth complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its other major federal programs for the two-year period ended

September 30, 2008. The results of our auditing procedures also disclosed other 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 2, 5, 9, 10, 12, and 13.

Internal Control Over Compliance

The management of the Department 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 Department's 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2, 4 through 11, and 13 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described in the preceding paragraph, we consider Findings 4, 6 through 8, and 11 to be material weaknesses.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, the Governor, 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

June 18, 2009

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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
Significant deficiencies* 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?	Yes
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except:

<u>Qualified*</u>
Labor Force Statistics
Employment Service Cluster
Occupational Safety and Health - State Program
Consultation Agreements
Rehabilitation Services - Vocational Rehabilitation Grants to States

<u>Adverse*</u>
H-1B Jobs Training Grants

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster*
10.561	Food Stamp Cluster
17.002	Labor Force Statistics
17.207, 17.801, and 17.804	Employment Service Cluster
17.245	Trade Adjustment Assistance
17.268	H-1B Job Training Grants
17.503	Occupational Safety and Health - State Program
17.504	Consultation Agreements
81.041	State Energy Program
84.002	Adult Education - Basic Grants to States
84.048	Career and Technical Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.187	Supported Employment Services for Individuals with Significant Disabilities
84.243	Tech-Prep Education
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
93.558	Temporary Assistance for Needy Families

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 (6410901)

1. Internal Control Over the Processing of Payroll Transactions

   The Department of Labor and Economic Growth (DLEG) needs to improve its internal control over the processing of payroll transactions.

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

DLEG processed payroll transactions that were not independently approved or authorized. The processing of these transactions increases the risk of fraud. Examples of questionable transactions identified include adding overtime and compensatory hours worked, changing sick and annual leave usage to time worked, and adding hours worked. While there may be plausible explanations for why these transactions occurred, the assignment of incompatible roles allowed for the processing of these transactions without an independent review and approval.

During our audit fieldwork, we identified instances in which DLEG employees' time was processed without supervisory approval and employees could submit, audit, and certify their own time records. As a result, we expanded our review to determine the existence of other incompatible capabilities and their potential impact on payroll transactions. Our review of DLEG's internal control over payroll activities and records noted:

a. DLEG did not minimize incompatible capabilities in the assignment of roles and functions within the Data Collection and Distribution System* (DCDS). As a result, 465 DLEG employees had the ability to make unauthorized changes to their own time records or process their own time records without an independent review and approval.

   Section 3.1 of the DCDS Procedures Manual states that assigned functions, roles, and scopes should not create an unacceptable internal control risk because of incompatible capabilities in DCDS.

   Our review of payroll activity disclosed:

   (1) DLEG assigned the roles of individual entry, supervisor, timekeeper, and certifier to 22 employees whose own time was reported within the same timekeeping unit (TKU). These role assignment combinations allow employees to enter, approve, audit, certify, and modify their own time records without an independent review.

   (2) DLEG assigned the roles of individual entry, certifier, and either timekeeper or supervisor to 125 employees. These role assignment combinations allow employees to enter, approve, and certify their own

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

time records. Also, employees have the ability to modify previously approved time records after the completion of the audit and certify functions.

(3) DLEG had 318 employees possessing both the individual entry and the supervisor role assignment for the same TKU. The assignment of both roles within the same TKU allows the employees to approve their own time records. In addition, this combination creates the opportunity for employees to modify their own time records, after they have been audited and/or certified, and approve their own modifications before the release of time records.

(4) DLEG's customization of the roles of supervisor, timekeeper, and certifier created the assignment of incompatible functions to employees within DCDS. One specific example allows these employees to have the ability to approve or make changes within their TKU without an independent review or verification of their appropriateness and accuracy.

We noted that DLEG customized the roles of supervisor, timekeeper, and certifier by adding functions within each of the roles:

Role	Number of Functions Added to the Role	Number of Functions Added That Employees Have Access to Only Because of Customization
Supervisor	17	15
Timekeeper	14	14
Certifier	17	14

The additions of functions from the standard roles created instances in which incompatible functions may not have compensating controls designed to minimize risks. For example, DLEG added the data collection modify function to the supervisor and certifier roles. This function allowed the user to modify payroll information after its submission. This addition also allowed employees with only entry and supervisor or certifier roles to modify their time records at any point in the approval process.

Because of the incompatible role assignments noted in parts (1) through (4), we reviewed DLEG payroll records to identify how many times DLEG employees utilized these incompatible role assignments. Our review noted the following:

Fiscal Year	Number of Employees Who Approved Their Own Time	Number of Times These Employees Approved Their Own Time	Number of Employees Performing the Last Step Before Release	Number of Times These Employees Were the Last Step Before Release
2006-07	54	116	22	48
2007-08	69	137	37	66

b. DLEG did not ensure that its department security administrators (DSAs) had no human resource responsibility. As a result, DSAs, who have the authority to enter employees' time records and approve, audit, certify, and release those time records without an independent review, could also establish new employees and make modifications to existing employees within the State's payroll system.

Part VIII, Chapter 7 of the State of Michigan Financial Management Guide identifies requirements and provides guidance for users of the State's DCDS to help ensure an appropriate separation of duties for payroll transaction processing. In summary, DCDS provides for the appropriate separation of duties through the use of user identifications, passwords, and limitations on the user capabilities assigned.

We identified 11 DSAs within the Human Resources Division. Three DSAs worked as personnel management assistants for various TKUs and performed the release function for payroll records within DCDS.

c. DLEG did not always document the approval of additional roles within DCDS. As a result, DLEG could not ensure the approval of additional role assignments and that appropriate compensating controls were developed.

Section 3.1 of the DCDS Procedures Manual states that assignment of user capabilities must be documented.

DLEG could not provide written affirmation supporting the assignment for 18 (35%) of 51 roles added within DCDS. Written affirmation would support the reason for the combinations and the description of the compensating controls established to reduce the associated risks.

RECOMMENDATION

We recommend that DLEG improve its internal control over the processing of payroll transactions.

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

FINDING (6410902)

2. Food Stamp Cluster, *CFDA* 10.561

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.561: State Administrative Matching Grants for the Food Stamp Program
Award Number: DLEG 07-IA-10 DLEG 08-IA-07	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
Pass-Through Entity: Michigan Department of Human Services	Known Questioned Costs: $0

DLEG's internal control over the Food Stamp Cluster did not ensure that subrecipients* were informed of the *CFDA* title and federal grant award number. As a result, subrecipients did not have this information, which is critical to comply with federal laws and regulations.

OMB Circular A-133, Section 400(d)(1) requires pass-through entities* to inform all subrecipients of the *CFDA* number and title, federal grant award name and number, and the federal awarding agency. OMB Circular A-133, Section 400(d)(2) also requires pass-through entities to advise all subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or

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

grant agreements, as well as any supplemental requirements imposed by the pass-through entity.

Federal expenditures for the Food Stamp Cluster totaled $5.3 million for the two-year period ended September 30, 2008. DLEG expended federal financial assistance under only the State Administrative Matching Grants for the Food Stamp Program (*CFDA* 10.561), one of the two programs included in the cluster. DLEG distributed $2.5 million and $2.4 million of the Food Stamp Cluster expenditures to 23 and 24 subrecipients (Michigan Works! Agencies) in fiscal years 2006-07 and 2007-08, respectively.

RECOMMENDATION

We recommend that DLEG improve its internal control over the Food Stamp Cluster to ensure that subrecipients are informed of the *CFDA* title and federal grant award number.

FINDING (6410903)

3. Labor Force Statistics, *CFDA* 17.002

U.S. Department of Labor	*CFDA* 17.002: Labor Force Statistics
Award Number: W9J78026 W9J88026	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: $559,515

DLEG did not ensure that Labor Force Statistics Program employees completed the required semiannual payroll certifications. As a result, the Program was in material noncompliance with federal laws and regulations regarding allowable costs/cost principles. Therefore, we issued a qualified opinion on compliance with federal laws and regulations for the Labor Force Statistics Program.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Labor Force Statistics Program awards. Federal expenditures for the Labor Force Statistics Program totaled $5.0 million for the two-year period ended September 30, 2008. We reported known questioned costs totaling $559,515.

The Implementation Guide for OMB Circular A-87, *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government,* question 3-19 states:

> If an employee works on only one Federal award, is a certification required?
>
> Yes. However, this requirement can be met through certain payroll codings and time and attendance certifications pursuant to payroll authorizations. For example, if (1) employees work in a dedicated function; (2) *their potential assignment to multiple programs/activities is not within the authority, function, or purview of the supervisor responsible for certifying payroll time and attendance* [emphasis added]; and (3) the employee is coded to a dedicated function not benefitting multiple functions or programs, the payroll certification shall be accepted in lieu of the semi-annual certification of time and effort.

DLEG staff use a time and attendance reporting system whereby employees input their time worked for approval by their supervisor. Our review of time and activity reports for the two-year period ended September 30, 2008 identified 13 employees who charged 100% of their time to the Labor Force Statistics Program but did not complete the required semiannual certification. Also, these same 13 employees had their time and attendance certified by a supervisor who had the authority to assign these employees to multiple federal programs.

Labor Force Statistics Program employees completed the required semiannual certifications for the fiscal year ended September 30, 2007 and the first half of the fiscal year ended September 30, 2008.

RECOMMENDATION

We recommend that DLEG ensure that Labor Force Statistics Program employees complete the required semiannual payroll certifications.

FINDING (6410904)

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

U.S. Department of Labor	Employment Service Cluster: *CFDA* 17.207: Employment Service/Wagner-Peyser Funded Activities, *CFDA* 17.801: Disabled Veterans' Outreach Program (DVOP), and *CFDA* 17.804: Local Veterans' Employment Representative Program
Award Number: ES-15703-06-55 ES-16219-07-55	Award Period: 07/01/2006 - 09/30/2009 07/01/2007 - 09/30/2010
	Known Questioned Costs: $5,006,009

DLEG's internal control over the Employment Service Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Employment Service Cluster.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Employment Service Cluster awards.

Federal expenditures for the Employment Service Cluster totaled $63.0 million for the two-year period ended September 30, 2008. DLEG distributed $15.5 million and $17.1 million of the Employment Service Cluster expenditures to 25 subrecipients (Michigan Works! Agencies) in fiscal years 2006-07 and 2007-08, respectively. We reported known questioned costs totaling $5,006,009.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DLEG did not obtain required semiannual certifications for employees who worked solely on one program (i.e., one *CFDA* number) within the Employment Service Cluster. As a result, we reported known questioned costs totaling $5,006,009.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations* [*CFR*]), Appendix B, section 8.h.(3) requires employees who work solely on a single federal award to complete, at least semiannually, a certification that they worked solely on that program for the period covered by the certification.

Our review of time and activity reports for 20 employees for the 18-month period ended March 31, 2008 identified 2 employees who charged 100% of their time ($92,083) to a program within the Employment Service Cluster but did not complete the required semiannual certification. In addition, DLEG staff did not complete any of the 132 required semiannual certifications for the six-month period ended September 30, 2008 ($4,913,926).

Near the end of our audit fieldwork (March and April 2009), DLEG created semiannual certifications for the 132 employees in question during the six-month period ended September 30, 2008.

b. Subrecipient Monitoring

DLEG's internal control did not ensure that subrecipients were informed of the federal grant award numbers for the Employment Service Cluster. As a result, subrecipients did not have this information, which is critical to comply with federal laws and regulations.

OMB Circular A-133, Section 400(d)(1) requires pass-through entities to inform all subrecipients of the *CFDA* number and title, federal grant award name and number, and the federal awarding agency.

RECOMMENDATION

We recommend that DLEG improve its internal control over the Employment Service Cluster to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

FINDING (6410905)

5. Trade Adjustment Assistance (TAA), *CFDA* 17.245

U.S. Department of Labor	*CFDA* 17.245: Trade Adjustment Assistance
Award Number: TA-15884-07-55-A-26 TA-16806-08-55-A-26	Award Period: 10/01/2006 - 09/30/2009 10/01/2007 - 09/30/2010
	Known Questioned Costs: $0

DLEG's internal control did not ensure that TAA Program subrecipients were informed of the *CFDA* number and title, federal grant award name and number, and federal awarding agency. As a result, subrecipients did not have this information, which is critical to comply with federal laws and regulations.

OMB Circular A-133, Section 400(d)(1) requires pass-through entities to inform all subrecipients of the *CFDA* number and title, federal grant award name and number, and the federal awarding agency. During the prior audit, DLEG included the required information in its grant action notices to subrecipients. However, in fiscal year 2007-08, DLEG discontinued the use of grant action notices for TAA Program subrecipients and did not develop a replacement control procedure to inform subrecipients of the required information.

Federal expenditures for the TAA Program totaled $47.4 million for the two-year period ended September 30, 2008. DLEG distributed $20.8 million and $25.0 million of the TAA Program expenditures to 24 subrecipients (Michigan Works! Agencies) in fiscal years 2006-07 and 2007-08, respectively.

RECOMMENDATION

We recommend that DLEG improve its internal control over the TAA Program to ensure that subrecipients are informed of the *CFDA* number and title, federal grant award name and number, and federal awarding agency.

FINDING (6410906)

6. H-1B Job Training Grants, *CFDA* 17.268

U.S. Department of Labor	*CFDA* 17.268: H-1B Job Training Grants
Award Number: WR-15410-06-60 WR-15411-06-60 WR-15539-06-60	Award Period: 02/01/2006 - 01/31/2010 02/01/2006 - 01/31/2010 05/01/2006 - 01/29/2010
	Known Questioned Costs: $0

DLEG's internal control over the H-1B Job Training Grants (Workforce Innovation in Regional Economic Development - WIRED) did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding subrecipient monitoring. As a result, we issued an adverse opinion on compliance with federal laws and regulations for H-1B Job Training Grants.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of H-1B Job Training Grant awards.

Federal expenditures for H-1B Job Training Grants totaled $18.7 million for the two-year period ended September 30, 2008, which was distributed in its entirety to three subrecipients.

Our exceptions, by compliance area, are as follows:

a. Reporting

DLEG did not require subrecipients to submit quarterly performance reports. DLEG informed us that subrecipients submitted performance reports directly to the U.S. Department of Labor during our audit period.

Federal regulation 29 *CFR* 97.40(b)(1) requires grantees to submit annual performance reports, and federal regulation 29 *CFR* 97.40(a) requires grantees to monitor grant and subgrant supported activities to ensure compliance with federal requirements and achievement of performance goals.

b. Subrecipient Monitoring

DLEG did not monitor its subrecipients' compliance with federal requirements.

DLEG maintained that it did not have oversight responsibility for H-1B Job Training Grants for the entire two-year period ended September 30, 2008. DLEG contends that its sole responsibility during this period focused on the receipt of federal funds and the subsequent distributions of those funds to its three subrecipients.

Our review of DLEG's activities noted:

(1) DLEG did not conduct on-site visits or other monitoring activities of subrecipients to ensure that federal awards were used for allowable activities and costs.

Federal regulation 29 *CFR* 97.40 and OMB Circular A-133, Section 400(d)(3) require DLEG to monitor the operations of its subrecipients to ensure compliance with applicable federal program requirements. Effective monitoring of subrecipients by DLEG can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

(2) DLEG did not ensure that its subrecipients obtained the required Single Audits. Also, DLEG did not review subrecipient Single Audits and take the necessary action to ensure timely corrective action.

OMB Circular A-133, Section 400(d) requires DLEG to ensure that subrecipients expending $500,000 or more in federal awards in a fiscal year have met the audit requirements for that fiscal year. Section 400(d) also requires DLEG to issue a management decision on subrecipient Single Audit findings within six months after receipt of the subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

RECOMMENDATION

We recommend that DLEG improve its internal control over the H-1B Job Training Grants to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

FINDING (6410907)

7. Occupational Safety and Health - State Program, *CFDA* 17.503

U.S. Department of Labor	*CFDA* 17.503: Occupational Safety and Health - State Program
Award Number: 60F7-0052 60FB-0052	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: $5,517,367

DLEG's internal control over the Occupational Safety and Health - State Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable costs/cost principles. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Occupational Safety and Health - State Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Occupational Safety and Health - State Program awards.

Federal expenditures for the Occupational Safety and Health - State Program totaled $19.6 million for the two-year period ended September 30, 2008. We reported known questioned costs totaling $5,517,367 and known and likely questioned costs totaling $5,511,534.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

(1) DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports (see the Allowable Costs/Cost Principles section

of Finding 8, part b.(2)). In our review of the Consultation Agreements Program, we identified payroll charges that should have been charged to the Occupational Safety and Health - State Program. As a result, we reported known negative questioned costs totaling $44,997 in this finding.

(2) One DLEG employee's time was mistakenly charged to the Consultation Agreements Program, but the employee actually worked for the Occupational Safety and Health - State Program (see the Activities Allowed or Unallowed section of Finding 8, part a.(2)). As a result, we reported known negative questioned costs totaling $6,601 in this finding.

b. Allowable Costs/Cost Principles

(1) DLEG did not obtain required semiannual certifications for employees who worked solely on the Occupational Safety and Health - State Program. As a result, we reported known questioned costs totaling $3,119,494.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(3) requires employees who work solely on a single federal award to complete, at least semiannually, a certification that they worked solely on that program for the period covered by the certification.

Our review of time and activity reports for the two-year period ended September 30, 2008 identified 41 employees (all isolated to the Consultation Education and Training Division) who charged 100% of their time to the Occupational Safety and Health - State Program but did not complete the required semiannual certification.

(2) DLEG did not obtain signed time sheets from General Industry Division (GI) field staff during fiscal year 2007-08. As a result, we reported known questioned costs in the amount of $1,224,612. Also, we noted isolated instances of unsigned time sheets outside of GI during fiscal year 2007-08. As a result, we reported known questioned costs totaling $4,558.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(5)(d) states that time sheets must be signed by the employee.

GI field staff completed time sheets and e-mailed the time sheets to GI central office staff for entry into the State's Data Collection and Distribution System (DCDS). GI field staff did not sign the time sheets prior to submission and GI central office staff did not obtain GI field staff signatures after submission.

(3) DLEG did not maintain signed time sheets for GI field staff during fiscal year 2006-07. As a result, we reported known questioned costs totaling $1,182,030.

The *CFDA* for the Occupational Safety and Health - State Program and DLEG's DCDS procedures require records to be maintained for three years following the closeout of the federal grant or final audit, whichever is later.

GI field staff prepared and submitted time sheets to GI central office staff for entry into the State's DCDS. DLEG informed us that it destroyed GI field staff time sheets after one year.

(4) DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports (see the Allowable Costs/Cost Principles section of Finding 8, part b.(2)). We identified charges to the Consultation Agreements Program that should have been charged to the Occupational Safety and Health - State Program. As a result, we reported known negative questioned costs totaling $44,997 in this finding.

(5) DLEG did not obtain supervisor approval of payroll transactions for all staff charging time to the Occupational Safety and Health - State Program. As a result, we reported known questioned costs totaling $28,281.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(1) requires payroll charged to federal awards to be approved by a responsible official of the governmental unit.

Our review of payroll records identified two employees who charged time to the Occupational Safety and Health - State Program whose time was not approved by a supervisor for 52 (100%) and 26 (50%) of the

52 biweekly pay periods during the two-year period ended September 30, 2008.

(6) DLEG did not require the appropriate separation of duties for payroll costs charged to the Occupational Safety and Health - State Program. As a result, we reported known questioned costs totaling $10,573.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(1) requires payroll charged to federal awards to be approved by a responsible official of the governmental unit. Also, section 3.1 of the DCDS Procedures Manual states that functions and roles assigned to system users should not create an unacceptable internal control risk because of incompatible capabilities in DCDS. Strong internal control over payroll requires the separation of duties between individuals submitting, approving, auditing, and certifying payroll records.

Our review of payroll records identified one Occupational Safety and Health - State Program employee who submitted, audited, and certified his/her own time for four biweekly pay periods and approved his/her own time for seven additional pay periods during the two-year period ended September 30, 2008.

(7) DLEG improperly charged time to the Consultation Agreements Program, but the employee actually worked for the Occupational Safety and Health - State Program (see the Activities Allowed or Unallowed section of Finding 8, part a.(2)). As a result, we reported known negative questioned costs totaling $6,601 in this finding.

(8) DLEG improperly charged vehicle usage expenditures from the Occupational Safety and Health - State Program to the Consultation Agreements Program (see the Allowable Costs/Cost Principles section of Finding 8, part b.(5)). As a result, we reported known negative questioned costs of $583 and known and likely negative questioned costs totaling $6,416.

RECOMMENDATION

We recommend that DLEG improve its internal control over the Occupational Safety and Health - State Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable costs/cost principles.

FINDING (6410908)

8. Consultation Agreements, *CFDA* 17.504

U.S. Department of Labor	*CFDA* 17.504: Consultation Agreements
Award Number: E9F7-0952 E9F8-0952	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: $588,014

DLEG's internal control over the Consultation Agreements Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable costs/cost principles. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Consultation Agreements Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Consultation Agreements Program awards.

Federal expenditures for the Consultation Agreements Program totaled $3.2 million for the two-year period ended September 30, 2008. We reported known questioned costs totaling $588,014 and known and likely questioned costs totaling $593,847.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

(1) DLEG staff payroll charges did not always agree with employee-prepared project reports (see the Allowable Costs/Cost Principles section within

part b.(2) of this finding). We identified charges to the Consultation Agreements Program that should have been charged to the Occupational Safety and Health - State Program. As a result, we also reported known questioned costs totaling $44,997 in this compliance area.

(2) DLEG did not ensure that only valid Consultation Agreements Program employees charged time to the federal grant. As a result, we reported known questioned costs totaling $6,601.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(5)(a) states that personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee.

During our review of Consultation Agreements Program personnel charges, we identified one employee who charged all of his/her time to the program but worked for the Occupational Safety and Health - State Program. We also reported known negative questioned costs for the Occupational Safety and Health - State Program (see Finding 7, parts a.(2) and b.(7)).

b. Allowable Costs/Cost Principles

(1) DLEG did not obtain required semiannual certifications for employees who worked solely on the Consultation Agreements Program. As a result, we reported known questioned costs totaling $506,003.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(3) requires employees who work solely on a single federal award to complete, at least semiannually, a certification that they worked solely on that program for the period covered by the certification.

Our review of time and activity reports for the two-year period ended September 30, 2008 identified seven employees who charged 100% of their time to the Consultation Agreements Program but did not complete the required semiannual certifications.

(2) DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports. As a result, we reported known questioned costs totaling $44,997.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(5)(a) states that personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee.

We compared employee-prepared weekly project time reports for 15 Consultation Education and Training Division employees in each fiscal year to reported payroll charges and identified one employee with a significant variance between actual time charged to and actual time reported working on Consultation Agreements Program activities. The questioned costs associated with this employee's activities represent time that should have been charged to the Occupational Safety and Health - State Program and have been reported as negative questioned costs in Finding 7, parts a.(1) and b. (4).

(3) DLEG did not obtain federal approval prior to the purchase of computer equipment. As a result, we reported known questioned costs totaling $29,830.

The Cooperative Agreement for Occupational Safety and Health Administration (OSHA) Consultation, under sections 21(c) and 21(d) of the Occupational Safety and Health Act of 1970, Appendix A - Exhibit I, states that microcomputer equipment (hardware and software), regardless of unit cost, requires prior written approval.

DLEG did request subsequent approval for this equipment in its fiscal year 2008-09 grant application.

(4) DLEG improperly charged one employee's time to the Consultation Agreements Program that should have been charged to the Occupational Safety and Health - State Program (see the Activities Allowed or Unallowed section within part a.(2) of this finding). As a result, we also reported known questioned costs totaling $6,601 in this compliance area.

(5) DLEG improperly charged vehicle usage expenditures from the Occupational Safety and Health - State Program to the Consultation Agreements Program. As a result, we reported known questioned costs totaling $583 and known and likely questioned costs totaling $6,416. We also reported known negative questioned costs totaling $583 and known and likely negative questioned costs totaling $6,416 for the Occupational Safety and Health - State Program in Finding 7, part b.(8).

RECOMMENDATION

We recommend that DLEG improve its internal control over the Consultation Agreements Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable costs/cost principles.

FINDING (6410909)

9. Adult Education - Basic Grants to States, *CFDA* 84.002

U.S. Department of Education	*CFDA* 84.002: Adult Education - Basic Grants to States
Award Number: V002A050022 V002A060022 V002A070022 V002A080022	Award Period: 07/01/2005 - 09/30/2007 07/01/2006 - 09/30/2008 07/01/2007 - 09/30/2009 07/01/2008 - 09/30/2010
	Known Questioned Costs: $14,514

DLEG's internal control over the Adult Education - Basic Grants to States (Adult Education Program) did not ensure compliance with federal laws and regulations regarding period of availability of federal funds, reporting, and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Adult Education Program awards.

Federal expenditures for the Adult Education Program totaled $31.4 million for the two-year period ended September 30, 2008. DLEG distributed $13.6 million and $13.9 million of the Adult Education Program expenditures to 99 subrecipients in fiscal years 2006-07 and 2007-08, respectively. Program subrecipients include

primarily local educational agencies, community colleges, nonprofit organizations, and two State agencies. We reported known questioned costs totaling $14,514.

Our exceptions, by compliance area, are as follows:

a. Period of Availability of Federal Funds

DLEG's internal control did not ensure that the Adult Education Program recorded expenditures within the Program's period of availability. As a result, we questioned costs totaling $539.

Federal regulation 34 *CFR* 80.23 states that where a funding period is specified, a grantee may only charge costs to the award resulting from obligations of the funding period.

Our review identified two transactions totaling $539 that DLEG charged to grant awards for which the period of availability had not started.

b. Reporting

DLEG did not ensure the accuracy of federal financial reports. As a result, the Adult Education Program overstated program expenditures on the final financial status report by $29,066.

Federal regulation 34 *CFR* 80.20 requires accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant.

DLEG moved expenditures in the accounting system to different grant awards after the submission of the final financial status report. DLEG inaccurately included these expenditures in the report submitted May 25, 2007.

c. Subrecipient Monitoring

DLEG's internal control did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3) and federal regulation 34 *CFR* 80.40. Without sufficient monitoring of subrecipients' activities, DLEG lacks assurance that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.

Our review of DLEG's subrecipient monitoring activities for the Adult Education Program determined that DLEG reviewed subrecipient program budgets for allowable activities and costs, provided training, and performed a total of 23 on-site monitoring reviews and 9 in-depth desk reviews in fiscal years 2006-07 and 2007-08. However, we identified the following weaknesses:

(1) DLEG did not conduct the level of on-site monitoring and in-depth desk reviews of subrecipients for fiscal years 2006-07 and 2007-08 that it committed to in its State plan.

In its State plan, DLEG committed to perform annual on-site monitoring visits for 10% of its subrecipients and in-depth desk reviews for 14% of its subrecipients. Also, DLEG included the 10% on-site monitoring visit and 14% in-depth desk review commitments in its corrective action plan from the prior Single Audit (Finding 6410705). However, DLEG only completed on-site monitoring for 9 (9%) of 99 subrecipients and in-depth desk reviews for 9 (9%) of 99 subrecipients in fiscal year 2006-07. Also, DLEG did not complete any in-depth desk reviews in fiscal year 2007-08.

We noted the same condition in our prior Single Audit.

(2) DLEG did not obtain corrective action plans resulting from Adult Education Program on-site monitoring visits and in-depth desk reviews in a timely manner.

The timely review of corrective action plans helps ensure that subrecipients initiate appropriate corrective action for weaknesses identified during on-site monitoring visits and in-depth desk reviews and helps ensure future subrecipient compliance with federal laws and regulations. DLEG requires subrecipients to submit corrective action plans within 45 days of receiving their on-site monitoring or in-depth desk review report.

We reviewed the files for 23 on-site monitoring visits conducted during the two-year period ended September 30, 2008 and noted that DLEG did not obtain 3 (13%) corrective action plans from the subrecipients. We also noted 12 (52%) additional corrective action plans obtained by DLEG an average of 68 days beyond the required 45 days. We also reviewed the

files for 9 in-depth desk reviews conducted during the two-year period ended September 30, 2008 and noted that 3 (33%) corrective action plans obtained by DLEG averaged 150 days beyond the required 45 days.

We noted the same condition in our prior Single Audit.

(3) DLEG did not document its review of program expenditures during on-site monitoring visits.

Our review of the files for 23 on-site monitoring visits conducted during the two-year period ended September 30, 2008 disclosed that all files contained a completed financial review form and all monitoring reports included a financial component with positive and/or negative comments. However, 7 (30%) of the 23 monitoring files did not include supporting documentation for the review of program expenditures.

We noted the same condition in our prior Single Audit.

(4) DLEG did not ensure that it recovered unallowable costs from subrecipients. As a result, we questioned costs totaling $13,975.

The Adult Education Program identified unallowable general educational development (GED) testing costs during an on-site monitoring visit but did not recover these unallowable costs from the subrecipient.

RECOMMENDATIONS

We recommend that DLEG improve its internal control over the Adult Education Program to ensure compliance with federal laws and regulations regarding period of availability of federal funds and reporting.

WE AGAIN RECOMMEND THAT DLEG IMPROVE ITS INTERNAL CONTROL OVER THE ADULT EDUCATION PROGRAM TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

FINDING (6410910)

10. Career and Technical Education - Basic Grants to States, *CFDA* 84.048

U.S. Department of Education	*CFDA* 84.048: Career and Technical Education - Basic Grants to States
Award Number: V048A060022A V048A070022A	Award Period: 07/01/2006 - 09/30/2008 07/01/2007 - 09/30/2009
	Known Questioned Costs: $0

DLEG's internal control over the Career and Technical Education - Basic Grants to States (Career and Technical Education Program) did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Career and Technical Education Program awards.

Federal expenditures for the Career and Technical Education Program totaled $54.3 million for the two-year period ended September 30, 2008. DLEG distributed $35.5 million and $15.0 million of the Career and Technical Education Program expenditures to 59 subrecipients in fiscal years 2006-07 and 2007-08, respectively. Program subrecipients included secondary educational institutions, postsecondary educational institutions, and two State agencies.

Our exceptions, by compliance area, are as follows:

a. Matching, Level of Effort, and Earmarking

DLEG did not comply with maintenance of effort (MOE) requirements for fiscal year 2006-07.

Section 311(b)(1)(A) of the Carl D. Perkins Vocational and Technical Education Act of 1998 requires total career and technical education program expenditures for the fiscal year to equal or exceed the total program expenditures for the preceding fiscal year in aggregate or on a per student basis.

In fiscal year 2006-07, DLEG had, in aggregate, a $16.5 million shortfall in MOE.

Near the end of our audit fieldwork (March 2009), DLEG recalculated the MOE on a per student basis using only secondary student program enrollment. DLEG contends that, by using the per student calculation, it met the MOE requirement for fiscal year 2006-07. However, we calculated the MOE on a per student basis using both secondary and postsecondary student enrollment and concluded that DLEG had a $6.3 million shortfall. Based on informal guidance received from the U.S. Department of Education, DLEG recalculated the MOE using only the nonfederal State administrative match and vocational education added cost expenditures appropriated from the State School Aid Fund. Using this revised methodology, DLEG again contends that it met the MOE requirement in fiscal year 2006-07.

b. Subrecipient Monitoring

DLEG's internal control did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3) and federal regulation 34 *CFR* 80.40.

Without sufficient monitoring of subrecipients' activities, DLEG lacks assurance that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved.

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. OMB Circular A-133, Section 400(d) 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.

Our review of DLEG's subrecipient monitoring activities disclosed that DLEG reviewed subrecipient program budgets for allowable activities and costs, provided training, appropriately identified federal award information to its subrecipients, and performed 13 on-site compliance reviews in fiscal year 2006-07. However, grant awards made to the Department of Corrections and the Department of Human Services were not subject to DLEG's subrecipient

monitoring activities. In fiscal year 2006-07, the Department of Corrections and Department of Human Services expended $163,892 and $93,827, respectively.

Effective July 1, 2007, the Governor issued Executive Order No. 2007-04, which transferred career and technical education programs to the State Board of Education, Michigan Department of Education (MDE). The State Board of Education then delegated the responsibilities regarding postsecondary career and technical education back to DLEG, while responsibility for secondary students remained with MDE. Pursuant to an interagency agreement between DLEG and MDE, this activity took effect for administrative purposes on October 1, 2007.

RECOMMENDATION

We recommend that DLEG improve its internal control over the Career and Technical Education Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

FINDING (6410911)

11. Rehabilitation Services - Vocational Rehabilitation Grants to States, *CFDA* 84.126

U.S. Department of Education	*CFDA* 84.126: Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H126A070031D H126A080031C	Award Period: 10/01/2006 - 9/30/2008 10/01/2007 - 9/30/2009
	Known Questioned Costs: $10,676,526

DLEG's internal control over the Rehabilitation Services - Vocational Rehabilitation Grants to States Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Rehabilitation Services - Vocational Rehabilitation Grants to States Program awards. Federal expenditures for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program totaled $182.9 million for the two-year period ended September 30, 2008. We reported known questioned costs totaling $10,676,526.

OMB Circular A-87 (federal regulation 2 *CFR* 225) Appendix B, section 8.h.(3) requires employees who work solely on a single federal award to complete, at least semiannually, a certification that they worked solely on that program for the period covered by the certification.

DLEG did not obtain required semiannual certifications for employees who worked solely on the Rehabilitation Services - Vocational Rehabilitation Grants to States Program. Our review of time and activity reports for the two-year period ended September 30, 2008 identified 105 employees (all Michigan Commission for the Blind employees) who charged 100% of their time to the Rehabilitation Services - Vocational Rehabilitation Grants to States Program but did not complete the required semiannual certifications.

RECOMMENDATION

We recommend that DLEG improve its internal control over the Rehabilitation Services - Vocational Rehabilitation Grants to States Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6410912)

12. 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: P334S060004	Award Period: 07/21/2006 - 07/20/2012
	Known Questioned Costs: $0

DLEG did not ensure GEAR-UP compliance with federal laws and regulations regarding subrecipient monitoring.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of GEAR-UP awards. Federal expenditures for GEAR-UP totaled $5.4 million for the two-year period ended September 30, 2008. DLEG distributed $1.0 million of the GEAR-UP expenditures to 16 subrecipients in each fiscal year. Program subrecipients included 15 State universities and a nonprofit organization.

Federal regulation 34 *CFR* 80.40 and OMB Circular A-133, Section 400(d)(3) require DLEG to monitor the operations of its subrecipients to ensure compliance with applicable federal program requirements. DLEG stated that it would conduct annual on-site monitoring visits for each of its subrecipients in its 2006 - 2012 GEAR-UP grant application.

Our review of DLEG's subrecipient monitoring activities determined that DLEG reviewed subrecipient program budgets for allowable activities and costs, provided training and technical assistance, and appropriately identified federal award information to its 16 subrecipients. However, DLEG did not conduct any on-site monitoring visits of its subrecipients during the two-year period ended September 30, 2008.

RECOMMENDATION

We recommend that DLEG ensure GEAR-UP compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (6410913)

13. Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G-0702MITTANF G-0802MITTANF	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
Pass-Through Entity: Michigan Department of Human Services	Known Questioned Costs: $0

DLEG's internal control over the TANF Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of TANF Program awards. Federal expenditures for the TANF Program totaled $148.4 million for the two-year period ended September 30, 2008. DLEG distributed $72.7 million and $70.6 million of the TANF expenditures to 25 subrecipients (Michigan Works! Agencies) in fiscal years 2006-07 and 2007-08, respectively.

OMB Circular A-133, Section 400(d)(1) requires pass-through entities to inform all subrecipients of the *CFDA* number and title, federal grant award name and number, and the federal awarding agency.

DLEG's internal control did not ensure that subrecipients were informed of the federal award grant number for the TANF Program. As a result, subrecipients did not have this information, which is critical to comply with federal laws and regulations.

RECOMMENDATION

We recommend that DLEG improve its internal control over the TANF Program to ensure compliance with federal laws and regulations regarding 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.

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OTHER SCHEDULES

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Summary Schedule of Prior Audit Findings
As of June 18, 2009

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules in the prior Single Audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410702
Finding Title: Trade Adjustment Assistance (TAA), *CFDA* 17.245

Finding: The Department of Labor and Economic Growth's (DLEG's) internal control did not ensure that the TAA Program complied with federal laws and regulations regarding reporting.

Agency Comments: The Department of Energy, Labor & Economic Growth (DELEG) has corrected the deficiency.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410703
Finding Title: Consultation Agreements, *CFDA* 17.504

Finding: DLEG's internal control did not ensure that the Consultation Agreements Program complied with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DELEG has corrected the deficiency.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410704
Finding Title: State Energy Program, *CFDA* 81.041

Finding: DLEG's internal control over the State Energy Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: DELEG has corrected the deficiency.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410706
Finding Title: Vocational Education - Basic Grants to States, *CFDA* 84.048

Finding: DLEG's internal control did not ensure that Vocational Education - Basic Grants to States (Vocational Education Program) complied with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and subrecipient monitoring.

Part a. DLEG did not document its approval of grant applications prior to issuing subrecipient grant awards.

Part b. DLEG did not ensure that required employees completed periodic certifications of personnel costs.

Part c.(1) DLEG did not consistently document the justification for significant deviations between budgeted and actual expenditures for subrecipients.

Part c.(2) DLEG did not consistently verify the accuracy of student enrollment and performance data for subrecipients.

Agency Comments: Part a. DELEG has corrected the deficiency.

Part b. DELEG disagreed with this finding. In a subsequent determination received from the Assistant Secretary for Vocational and Adult Education (dated March 11, 2008), the U.S. Department of Education (USDOE) did not sustain the finding that the employees in issue were required to keep semiannual certifications rather than the personnel activity reports.

Part c.(1) DELEG has corrected the deficiency.

Part c.(2) DELEG disagreed with this finding. The Office of Postsecondary Services completes on-site compliance reviews of a specified number of colleges that participate in the Perkins activities each year. Staff verify student enrollment data at the time the colleges submit the annual data. Student data is received electronically in aggregate form, not by individual student, which is the case for secondary education students. A series of reliability and accuracy tests occur. Any variations in data trends are followed up with the college at that time, as opposed to waiting for on-site visits. The core indicator data is summarized individually for each college and State averages are calculated and reported to the USDOE each December. Subsequently, DLEG confirmed with the USDOE that the present process is appropriate and that viewing individual student records is not mandated.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 6410707

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

Finding: DLEG's internal control did not ensure that the Rehabilitation Services - Vocational Rehabilitation Grants to States (Rehabilitation Services Program) complied with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DELEG has corrected the deficiency. DELEG terminated the employment of the individual involved in 2007.

Since this incident, all Michigan Rehabilitation Services managers and administrative support staff have received mandatory training in Department of Management and Budget travel rules and regulations. Also, significant detail is now required on all vouchers and State car logs and DELEG Financial Services Division will provide a second, detailed review of travel records. Finally, supplemental employment procedures have been reviewed and have several new levels of review and approval, including DELEG's Office of Human Services.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410708
Finding Title: Supported Employment Services for Individuals with Severe Disabilities, *CFDA* 84.187

Finding: DLEG's internal control did not ensure that Supported Employment Services for Individuals with Severe Disabilities (Supported Employment Program) complied with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Agency Comments: DELEG has corrected the deficiency.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410709
Finding Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *CFDA* 84.334

Finding: DLEG's internal control did not ensure that GEAR-UP complied with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DELEG has corrected the deficiency.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410710
Finding Title: AmeriCorps, *CFDA* 94.006

Finding: DLEG's internal control did not ensure that the AmeriCorps Program complied with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: On August 14, 2006, the Governor issued Executive Order No. 2006-18, which transferred the Michigan Community Service Commission, including the AmeriCorps Program, to the Department of Human Services.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410701
Finding Title: Labor Force Statistics, *CFDA* 17.002

Finding: DLEG's internal control did ensure that the Labor Force Statistics Program complied with federal laws and regulations regarding allowable costs/cost principles.

Agency Comments: DELEG's Labor Market Information and Strategic Initiatives agreed to reinstitute the semiannual paper certification of employees whose time was spent solely on a single federal grant and to file the reports with DELEG Financial Services Division for periods ending March 31 and September 30 of each calendar year.

Subsequently, this practice was brought to the attention of both the federal and regional offices of the Bureau of Labor Statistics (BLS), U.S. Department of Labor. It was determined that Michigan was not in violation of the U.S. Office of Management and Budget (OMB) Circular and to this end has written into the annual BLS Cooperative Agreement grant application the following:

From Part I., Administrative Requirements Section G.3. from the 2009 BLS Cooperative Agreement:

> Additionally, if an employee's time charges are levied solely against a single Federal award or cost objective (i.e., any or all of the LMI programs covered under this cooperative agreement), the State grantee must certify at least semi-annually that the work being charged for relates exclusively to that award. OMB Circular A-87, Attachment B (Selected Items of Cost), provides full guidance regarding this requirement. Note that States with time and attendance systems that account for employees' time at the project code level on a weekly, bi-weekly, or monthly basis are already in compliance with this requirement.

This point was also identified in memorandum S-08-04 dated May 5, 2008 to all State workforce agency administrators and BLS regional commissioners from Robert A. Gaddie, associate commissioner of the field operations.

Based on this ruling and notification, Labor Market Information and Strategic Initiatives did not complete semiannual certifications for the six-month period ended September 30, 2008 but will continue with the coding supported by the State's time and attendance system.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410705
Finding Title: Adult Education - State Grant Program, *CFDA* 84.002

Finding: DLEG's internal control did not ensure that the Adult Education - State Grant Program (Adult Education Program) complied with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and reporting.

Part a. DLEG did not consistently include in-kind contributions* as program effort.

Part b.(1) DLEG did not conduct the level of on-site monitoring of subrecipients for fiscal years 2005-06 and 2004-05 that it agreed to with the USDOE in its corrective action plan.

Part b.(2) DLEG did not obtain for review the corrective action plans resulting from Adult Education Program on-site monitoring visits.

Part b.(3) DLEG did not document its review of program expenditures during on-site monitoring visits.

Part b.(4) DLEG did not include the *CFDA* title, federal grant award number, or federal awarding agency for grant award notices it issued to subrecipients during the two-year period ended September 30, 2006.

Part b.(5) DLEG did not ensure that Adult Education Program subrecipients complied with federal laws and regulations regarding eligibility.

Part c. DLEG did not verify the accuracy of data entered into its Web-based reporting system by subrecipients.

Agency Comments: DELEG will track all in-kind contributions and incorporate these amounts into calculations for determining compliance with maintenance of effort (MOE) requirements. DLEG created and

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

distributed Certified Expenditure Contribution forms to its Adult Education service providers on October 24, 2007 and requested that they complete, sign, and submit the forms when providing in-kind contributions for MOE purposes. Instructions to the providers were that they must have records that substantiate the contribution, must meet federal requirements for an in-kind contribution, and must make the records available for review by DELEG Office of Adult Education staff. DELEG Office of Adult Education staff went on site to review records and/or obtain copies of documentation supporting the in-kind contributions made during the year cited in the audit. DELEG will review in-kind contribution forms submitted each year and follow up to verify and document these contributions for MOE purpose.

Part a. DELEG did not use in-kind contributions to meet MOE requirements during the two-year period ended September 30, 2008.

Part b.(1) DELEG did not correct the prior audit deficiency and was repeated as part of the current audit (Finding 6410909, part c.(1)).

Part b.(2) DELEG did not correct the prior audit deficiency and was repeated as part of the current audit (Finding 6410909, part c.(2)).

Part b.(3) DELEG did not correct the prior audit deficiency and was repeated as part of the current audit (Finding 6410909, part c.(3)).

Part b.(4) DELEG has corrected the deficiency.

Part b.(5) DELEG has corrected the deficiency.

Part c. DELEG has corrected the deficiency.

DEPARTMENT OF LABOR AND ECONOMIC GROWTH

Corrective Action Plan

As of June 11, 2009

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 6410901

Finding Title: Internal Control Over the Processing of Payroll Transactions

Management Views:

Part a. The Department of Energy, Labor & Economic Growth (DELEG) agrees with this finding and will comply.

Part b. DELEG agrees in part with this finding and will comply. However, DELEG disputes the premise that all human resource responsibilities are incompatible with the department security administrator (DSA) function, as not all Department of Civil Service (DCS) and DELEG Human Resource staff are (or must be) afforded full personnel management system capabilities.

Part c. DELEG agrees with this finding and will comply.

Planned Corrective Action:

DELEG will work with DCS and DELEG Human Resources to assess whether any improper transactions occurred as a result of the cited deficiencies.

Parts a.(1) through a.(4) DELEG will work with DCS and DELEG Human Resources to either establish adequate separation of duties of

incompatible functions or develop other compensating controls.

Part b. DELEG will work with DCS and DELEG Human Resources to explore the possibility of either assigning the DSA duties to DELEG staff or limiting and separating the incompatible functions and capabilities of DCS and DELEG Human Resource staff functioning as DSAs.

Part c. DELEG will work with DCS and DELEG Human Resources to perform periodic reviews and follow-up of Data Collection and Distribution System (DCDS) records to ensure that additional role assignments are properly justified, approved, and documented.

Anticipated Completion Date: September 30, 2010

Responsible Individuals: Patty Gamin, Human Resources Director, DCS/DELEG
Allan Pohl, Chief Financial Officer, DELEG

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 6410902
Finding Title: Food Stamp Cluster, *CFDA* 10.561

Management Views: DELEG agrees with this finding and will comply.

Planned Corrective Action: DELEG informs a subrecipient of grants via a grant action notice document. DELEG is in the process of developing a new fiscal system to award and track

grants to subrecipients. The grant action notice documents created in the new fiscal system will be altered to include the federal award number.

Anticipated Completion Date: December 31, 2009

Responsible Individual: Gary Clark, Director, Accelerated Learning Division, Bureau of Workforce Transformation, DELEG

Finding Number: 6410903

Finding Title: Labor Force Statistics, *CFDA* 17.002

Management Views: DELEG does not agree with this finding. DELEG received a written acknowledgement from the Bureau of Labor Statistics, U.S. Department of Labor (USDOL), indicating that its timekeeping was compliant with U.S. Office of Management and Budget Circular A-87 (Title 2, Part 225 of the *Code of Federal Regulations*). Prior to receiving the acknowledgement, DELEG's Labor Market Information and Strategic Initiatives voluntarily reinstituted semiannual paper certifications of employees whose time was spent solely on a single federal grant for six-month periods ended September 2007 and March 2008. However, after receiving the acknowledgement in May 2008, DELEG ceased preparation of the semiannual certifications and resumed coding employees' time utilizing the State's time and attendance system.

Planned Corrective Action: Not applicable.

Anticipated Completion Date: Not applicable.

Responsible Individual: Rick Waclawek, Director, Labor Market Information and Strategic Initiatives, DELEG

Finding Number: 6410904

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

Management Views: DELEG agrees with this finding and will comply.

Planned Corrective Action:

Part a. DELEG will obtain the two missing semiannual certifications for the 18-month period ended March 31, 2008. Any missing certifications will be obtained and erroneous certifications will be corrected. DELEG will follow this process in the future to ensure that all semiannual certifications are obtained.

Part b. DELEG informs subrecipients of grants via a grant action notice document. DELEG is in the process of developing a new fiscal system to award and track grants to subrecipients. The grant action notice documents created in the new system will be altered to include the federal award number.

Anticipated Completion Date: December 31, 2009

Responsible Individual: Liza Estlund-Olson, Director, Bureau of Workforce Transformation, DELEG

Finding Number: 6410905

Finding Title: Trade Adjustment Assistance (TAA), *CFDA* 17.245

Management Views: DELEG agrees with this finding and has complied.

Planned Corrective Action: DELEG has modified the policy of issuing grant action notices to the current cash request system for the purpose of streamlining the expenditures of TAA

funds. DELEG will issue a blanket memorandum at the beginning of each fiscal year informing all Michigan Works! Agencies of the *CFDA* number and title, award name and number, and award year.

Anticipated Completion Date: Complied.

Responsible Individual: Dianne Duthie, Director, Lifelong Learning Division, Bureau of Workforce Transformation, DELEG

Finding Number: 6410906

Finding Title: H-1B Job Training Grants, *CFDA* 17.268

Management Views: DELEG agrees with this finding and will comply.

Part a. It was DELEG's understanding that the USDOL had instructed the Workforce Innovation in Regional Economic Development (WIRED) subrecipients to submit quarterly performance reports directly to USDOL and that it was being done.

Planned Corrective Action:

Part a. DELEG will now instruct subrecipients to submit all future quarterly performance reports to DELEG instead of the USDOL.

Part b. DELEG's Office of Audit and Financial Compliance has begun conducting extensive follow-up work and is in the process of hiring additional staff to perform in-depth monitoring.

Anticipated Completion Date: December 31, 2009

Responsible Individuals: Allan Pohl, Chief Financial Officer, DELEG
Allen Williams, Director, Office of Audit and Financial Compliance, DELEG

Finding Number: 6410907

Finding Title: Occupational Safety and Health - State Program, *CFDA* 17.503

Management Views: DELEG agrees with this finding and will comply.

Planned Corrective Action:

Part a.(1) DELEG has made the necessary correction in its timekeeping system and will explore utilizing a standard distribution methodology for entering time.

Part a.(2) DELEG will ensure that additional review is provided to ensure that the correct index code is listed in the future.

Part b.(1) DELEG has created an employee certification form for use by employees who work 100% of their time in the program area. The form will be distributed to employees to cover the period October 1, 2008 through March 31, 2009 and will be provided to employees for their signature on a semiannual basis.

Part b.(2) DELEG has made the necessary changes to allow field staff direct access to the State of Michigan's timekeeping system from most any location. On those occasions when individuals have lost access and must submit time via a

nondirect means, DELEG will retain their time as submitted for signature by them.

Part b.(3) DELEG will review the records retention and disposal schedule and train staff on the schedule requirements for all time submitted via nondirect means to ensure compliance.

Part b.(4) See DELEG's response to part a.(1).

Part b.(5) DELEG has provided additional training to ensure that all supervisors properly approve biweekly entries of staff time in the State's timekeeping system.

Part b.(6) DELEG will adjust its timekeeping units to prevent the possible reoccurrence of an internal timekeeper having the capability of potentially submitting, auditing, and certifying his or her own time.

Part b.(7) See DELEG's response to part a.(2).

Part b.(8) Beginning in fiscal year 2008-09, DELEG assigned an analyst to monitor vehicle responsibilities. The analyst will review monthly reports to ensure that they accurately reflect the employees assigned to State vehicles and the use of appropriate index codes.

Anticipated Completion Date: December 31, 2009

Responsible Individual: Douglas Kalinowski, Director, Michigan Occupational Safety and Health Administration, DELEG

Finding Number: 6410908

Finding Title: Consultation Agreements, *CFDA* 17.504

Management Views: DELEG agrees with this finding and will comply.

Planned Corrective Action:

Part a.(1) DELEG has made the necessary correction in its timekeeping system and will explore utilizing a standard distribution methodology for entering time.

Part a.(2) DELEG will ensure that additional review is provided to ensure that the correct index code is listed in the future.

Part b.(1) DELEG has created an employee certification form for use by employees who work 100% of their time in the program area. The form will be distributed to employees to cover the period October 1, 2008 through March 31, 2009 and will be provided to employees for their signature on a semiannual basis.

Part b.(2) See DELEG's response to part a.(1).

Part b.(3) DELEG will notify the Occupational Safety and Health Administration prior to any future computer purchases.

Part b.(4) See DELEG's response to part a.(2).

Part b.(5) Beginning in fiscal year 2008-09, DELEG assigned an analyst to monitor vehicle responsibilities. The analyst will review monthly reports to ensure that they

accurately reflect the employees assigned to State vehicles and the use of appropriate index codes.

Anticipated Completion Date: December 31, 2009

Responsible Individual: Douglas Kalinowski, Director, Michigan Occupational Safety and Health Administration, DELEG

Finding Number: 6410909

Finding Title: Adult Education - Basic Grants to States, *CFDA* 84.002

Management Views:

Part a. DELEG agrees with this finding.

Part b. DELEG agrees in part with this finding. DELEG appropriately reported expenditures in the final financial status report to reflect payments made to subrecipients during the funding period. However, this transaction was not properly recorded in the accounting system until after the supporting documentation was available and complete.

Part c.(1) DELEG agrees with this finding. Due to resource limitations, DELEG will continue to rely heavily on desk reviews for subrecipient monitoring activities. For fiscal year 2008-09, the on-site monitoring goal was reduced to a more realistic target of 10% of all State and federal recipients.

Parts c.(2) through c.(4) DELEG agrees with these findings.

Planned Corrective Action:	Part a.	DELEG will adhere to established procedures to ensure that this does not reoccur in the future.
	Part b.	DELEG will obtain supporting documentation more timely to avoid similar reoccurrences in the future.
	Part c.(1)	DELEG will continue to set more realistic targets for on-site monitoring reviews to supplement its desk review monitoring of State and federal grant recipients.
	Part c.(2)	DELEG will remind all subrecipients who fail to submit their corrective action plan within the 45-day stipulated time period and will penalize those that fail to submit a corrective action plan 30 days after the due date.
	Part c.(3)	DELEG will maintain sufficient documentation (in addition to the completed financial review form) to support the review.
	Part c.(4)	DELEG will reassess the questioned costs cited and will initiate collection efforts where it is deemed appropriate.
Anticipated Completion Date:	July 1, 2010	
Responsible Individual:	Dianne Duthie, Director, Lifelong Learning Division, Bureau of Workforce Transformation, DELEG	

Finding Number: 6410910

Finding Title: Career and Technical Education - Basic Grants to States, *CFDA* 84.048

Management Views:	Part a.	DELEG agrees in part with this finding. When the Michigan Department of Education (MDE) became aware that the current methodology for calculating Perkins maintenance of effort (MOE) would likely be adversely impacted by the State's poor economic climate, it brought the matter to the attention of the Office of Vocational and Adult Education (OVAE) within the U.S. Department of Education. MDE received a response from an OVAE Washington office employee responsible for MOE compliance that informed MDE that it would be appropriate for MDE to shift to a different calculation that measured both secondary categorical funding and nonfederal state administration match dollars. Unfortunately, it has now come to MDE and DELEG's attention that the OVAE employee providing the ruling did not possess the proper level of authority to officially authorize the use of an alternate MOE calculation methodology.
	Part b.	DELEG agrees with this finding and will comply. As fellow State of Michigan agencies, these subrecipients are not subject to the same level of monitoring as Perkins subrecipients. However, DELEG, in conjunction with MDE, will begin conducting monitoring activities as outlined in the interagency agreements.
Planned Corrective Action:	Part a.	MDE will continue efforts to obtain proper approval for the alternate MOE calculation methodology.

Part b. DELEG will begin conducting monitoring activities as outlined in the interagency agreements.

Anticipated Completion Date: March 31, 2010

Responsible Individuals: Patti Cantu, Director, Office of Career and Technical Preparation, MDE

Dianne Duthie, Director, Lifelong Learning Division, Bureau of Workforce Transformation, DELEG

Finding Number: 6410911

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

Management Views: DELEG agrees with this finding and will comply.

Planned Corrective Action: DELEG has implemented semiannual certifications for employees who work solely on the Rehabilitation Services - Vocational Rehabilitation Grants to States Program for 2009. DELEG has (retroactively) prepared certifications for 2008. In addition, DELEG will adjust its timekeeping methodology to ensure accurate time distribution.

Anticipated Completion Date: December 31, 2009

Responsible Individual: Cheryl Heibeck, Administrative Services Manager, Michigan Commission for the Blind, DELEG

Finding Number: 6410912

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

Management Views: DELEG agrees that on-site monitoring visits were not conducted. This was due to the moratorium on travel

	as stated in a 2007 executive order. In October 2008, these travel and on-site visitation restrictions were lifted and a comprehensive 4-year plan to complete the on-site visitations was completed.
Planned Corrective Action:	DELEG has resumed conducting on-site monitoring visits.
Anticipated Completion Date:	Complied.
Responsible Individual:	Dianne Duthie, Director, Lifelong Learning Division, Bureau of Workforce Transformation, DELEG

Finding Number:	6410913
Finding Title:	Temporary Assistance for Needy Families (TANF), *CFDA* 93.558
Management Views:	DELEG agrees with this finding and will comply.
Planned Corrective Action:	DELEG informs subrecipients of grants via a grant action notice document. DELEG is in the process of developing a new fiscal system to award and track grants to subrecipients. The grant action notice documents created in the new system will be altered to include the federal award number.
Anticipated Completion Date:	December 31, 2009
Responsible Individual:	Gary Clark, Director, Accelerated Learning Division, Bureau of Workforce Transformation, DELEG

GLOSSARY

Adult Education Program	Adult Education - Basic Grants to States.
adverse opinion	An auditor's opinion in which the auditor states that the audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
BLS	Bureau of Labor Statistics.
Career and Technical Education Program	Career and Technical Education - Basic Grants to States.
CFDA	*Catalog of Federal Domestic Assistance.*
CFR	*Code of Federal Regulations.*
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
control deficiency in internal control over federal program compliance	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system.
DCS	Department of Civil Service.
DELEG	Department of Energy, Labor & Economic Growth.
DLEG	Department of Labor and Economic Growth.
DSA	department security administrator.
executive order	An official pronouncement of the Governor provided for in Article V, Section 2 of the Michigan 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 presented fairly in all material respects in conformity with the disclosed basis of accounting.
GEAR –UP	Gaining Early Awareness and Readiness for Undergraduate Programs.
GI	General Industry Division.
in-kind contribution	The value of a noncash contribution by a nonfederal third party without charge to the grantee or a cost-type contractor of supplies, equipment, goods, property, and services, directly benefiting and specifically identifiable to a federal program.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting,

	effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
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, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MBDA	Michigan Broadband Development Authority.
MDE	Michigan Department of Education.
MOE	maintenance of effort.

MSHDA	Michigan State Housing Development Authority.
OMB	U.S. Office of Management and Budget.
OVAE	Office of Vocational and Adult Education.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
qualified opinion	An auditor's opinion in which the auditor: a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information 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 and/or financial statements 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 and/or financial statements taken by themselves; or b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a 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.

significant deficiency in internal control over federal program compliance

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

significant deficiency in internal control over financial reporting

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

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	Trade Adjustment Assistance.
TANF	Temporary Assistance for Needy Families.
TKU	timekeeping unit.
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 and/or financial statements 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 and/or financial statements 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.

USDOE	U.S. Department of Education.
USDOL	U.S. Department of Labor.
WIRED	Workforce Innovation in Regional Economic Development.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL