MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

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

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH

October 1, 2008 through September 30, 2010

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

641-0100-11

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

Department of Energy, Labor & Economic Growth

October 1, 2008 through September 30, 2010

Report Number:
641-0100-11

Released:
June 2011

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 Energy, Labor & Economic Growth's (DELEG's) financial schedules.

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Internal Control Over Financial Reporting

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify significant deficiencies (Findings 1 through 5).

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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 (including 9 ARRA related programs) as major programs and reported known questioned costs of $24.0 million. DELEG expended $1.3 billion in federal awards, including $211.0 million of ARRA funding, during the two-year period ended September 30, 2010. We issued 14 unqualified opinions and 1 qualified 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 a material weakness in internal control over federal program compliance (Finding 13). We also identified significant deficiencies (Findings 6 through 14).

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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 6 through 14).

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Internal Accounting and Administrative Control System:

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget, we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that the Department of Energy, Labor & Economic Growth was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

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We audited the following programs as major programs:

CFDA Number	***Program or Cluster Title***	***Compliance Opinion***
	SNAP Cluster:	Unqualified
10.561	• State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	
17.002	Labor Force Statistics	Unqualified
	Employment Service Cluster:	Unqualified
17.207*	• Employment Service/Wagner-Peyser Funded Activities	
17.801	• Disabled Veterans' Outreach Program (DVOP)	
17.804	• Local Veterans' Employment Representative Program	
17.245	Trade Adjustment Assistance	Unqualified
	WIA Cluster:	Unqualified
17.258*	• WIA Adult Program	
17.259*	• WIA Youth Activities	
17.260*	• WIA Dislocated Workers	
17.278	• WIA Dislocated Worker Formula Grants	
17.268	H-1B Job Training Grants	Unqualified
17.503*	Occupational Safety and Health - State Program	Unqualified
81.041*	State Energy Program	Unqualified
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)	Unqualified
81.128	ARRA - Energy Efficiency and Conservation Block Grant (EECBG)	Unqualified
84.002	Adult Education - Basic Grants to States	Unqualified
84.048	Career and Technical Education - Basic Grants to States	Unqualified
	Vocational Rehabilitation Cluster:	Qualified
84.126	• Rehabilitation Services - Vocational Rehabilitation Grants to States	
84.390	• ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Unqualified
	TANF Cluster:	Unqualified
93.558	• Temporary Assistance for Needy Families (TANF)	

* Includes American Recovery and Reinvestment Act of 2009 (ARRA) funding.

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 28, 2011

Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Hilfinger:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Energy, Labor & Economic Growth (DELEG) for the period October 1, 2008 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial schedules, and the DELEG 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 that could have a direct and material effect on 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 DELEG'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 plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES

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

Independent Auditor's Report on the Financial Schedules

Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Hilfinger:

We have audited the accompanying financial schedules of the Department of Energy, Labor & Economic Growth for the fiscal years ended September 30, 2010 and September 30, 2009, 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 Energy, Labor & 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 Energy, Labor & Economic Growth for the fiscal years ended September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2011 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 16, 2011

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

	2010	2009
REVENUES		
Taxes:		
Beer and wine	$ 50,949,777	$ 50,770,390
Insurance company premium tax	11,174,552	12,191,144
Liquor tax	37,963,941	38,001,959
Total taxes	$ 100,088,270	$ 100,963,493
From federal agencies	$ 683,064,461	$ 626,607,586
From local agencies	$ 5,510,149	$ 6,760,718
From services	$ 2,516,474	$ 2,907,914
From licenses and permits	$ 151,975,871	$ 151,168,719
Miscellaneous (Note 2)		
Low-Income and Energy Efficiency Fund	$ 86,649,781	$ 83,766,319
Fire Protection Fund	8,500,000	8,500,000
Other	18,702,088	15,685,434
Total miscellaneous	$ 113,851,869	$ 107,951,754
Total revenues	$ 1,057,007,095	$ 996,360,182
OTHER FINANCING SOURCES (Note 3)		
Transfers from Liquor Purchase Revolving Fund	$ 159,517,701	$ 163,422,764
Other transfers	4,689,929	3,672,300
Total other financing sources	$ 164,207,630	$ 167,095,064
Total revenues and other financing sources	$ 1,221,214,725	$ 1,163,455,247

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

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	2010	2009
SOURCES OF AUTHORIZATIONS (Note 4)		
General purpose appropriations	$ 57,281,900	$ 62,326,800
Balances carried forward	100,429,654	83,683,355
Restricted financing sources	965,256,666	905,994,762
Less: Intrafund expenditure reimbursements	(14,620,465)	(20,855,721)
Total	$ 1,108,347,755	$ 1,031,149,196
DISPOSITIONS OF AUTHORIZATIONS (Note 4)		
Gross expenditures and transfers out	$ 998,614,181	$ 955,571,944
Less: Intrafund expenditure reimbursements	(14,620,465)	(20,855,721)
Net expenditures and transfers out	$ 983,993,715	$ 934,716,223
Balances carried forward:		
Multi-year projects	$ 4,468,698	$ 149,748
Encumbrances	6,647,219	3,559,102
Restricted revenues - authorized (Note 5)	17,518,494	584,731
Restricted revenues - not authorized or used	93,845,126	91,544,010
Total balances carried forward	$ 122,479,537	$ 95,837,591
Balances lapsed	$ 1,874,503	$ 595,382
Total	$ 1,108,347,755	$ 1,031,149,196

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. 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.

The accompanying financial schedules report the results of the financial transactions of DELEG for the fiscal years ended September 30, 2010 and September 30, 2009. The financial transactions of DELEG 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 DELEG. 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.

For purposes of presenting the financial transactions of DELEG 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.

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

(2) Michigan State Housing Development Authority (MSHDA), including federal financial assistance. MSHDA issues annual audited financial statements and also obtains a biennial single audit*. Effective May 30, 2010, the Governor issued Executive Order No. 2010-2, which transferred MSHDA to the Department of Treasury.

(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) 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; and Insurance Carrier Deposits Fund. These funds receive no federal assistance and receive periodic financial audits.

Effective April 25, 2011, Executive Order No. 2011-4 transferred various programs to other State departments, including workforce programs and energy and labor market information programs. Also, DELEG became the Department of Licensing and Regulatory Affairs (LARA). Further, the Bureau of Health Professions and the Bureau of Health Systems transferred from the Department of Community Health to LARA.

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

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

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 DELEG's General Fund accounts for the fiscal years ended September 30, 2010 and September 30, 2009. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DELEG or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Miscellaneous Revenue

DELEG received revenue for the Low-Income and Energy Efficiency Fund of $86.6 million and $83.8 million for the fiscal years 2009-10 and 2008-09, respectively. DELEG's 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, DELEG received revenue for the Fire Protection Fund of $8.5 million annually in fiscal years 2009-10 and 2008-09. Act 52, P.A, 2004, created the Fund within the Michigan Department of Treasury and authorized DELEG to expend appropriated money from the Fund for fire protection grants to cities, villages, and townships with State-owned facilities for fire services.

Note 3 Other Financing Sources

The transfers from the Liquor Purchase Revolving Fund for fiscal years 2009-10 and 2008-09 were statutory transfers of fund profits to finance general operations ($157.1 million and $161.0 million, respectively) and grants to cities,

villages, and townships with State-owned facilities for fire protection services ($2.4 million and $2.4 million, respectively).

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.

The balance carried forward into the fiscal year ended September 30, 2010 of $100.4 million was $4.6 million more than the total balances carried forward out of the fiscal year ended September 30, 2009. The $4.6 million increase is attributable to the effects of Executive Order No. 2008-20, which designated the director of DELEG as the chief energy officer of the State of Michigan. As a result, programs to promote the use of renewable energy, the development of advanced energy technologies, and the implementation of energy efficiencies in the State were transferred to DELEG from other departments.

Some of DELEG's more significant balances carried forward include:

Description	Carried Forward Into Fiscal Year 2009-10 From Fiscal Year 2008-09	Carried Forward Into Fiscal Year 2008-09 From Fiscal Year 2007-08
Low-Income and Energy Efficiency Fund	$29,296,342	$18,628,033
Insurance and consumer fees	$ 9,669,877	$ 9,631,101
Corporation fees	$ 6,729,828	$ 9,647,188
Licensing and regulation fees	$ 5,647,796	$ 6,285,678
Remonumentation fees	$ 4,218,157	$ 4,122,826
Fire Protection Fund	$ 4,025,924	$ 4,000,000
Public utility assessment	$ 4,779,895	$ 2,717,056
Bank fees	$ 3,227,019	$ 3,074,610
Workers' Compensation Administrative Revolving Fund	$ 3,159,124	$ 2,983,704

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 DELEG's more significant restricted financing sources include:

Description	Fiscal Year 2009-10	Fiscal Year 2008-09
Federal agencies	$668,477,752	$627,300,144
Low-Income and Energy Efficiency Fund	$ 86,920,146	$ 83,766,319
Public utility assessments	$ 23,608,564	$ 24,758,925
Insurance and consumer fees	$ 22,340,110	$ 22,615,214
Corporation fees	$ 21,194,083	$ 20,095,640
Securities fees	$ 14,052,452	$ 14,314,121
Liquor license revenue	$ 12,136,879	$ 11,892,646

d. 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.

e. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. DELEG may not expend the revenue without additional legislative authorization. Some of DELEG's more significant restricted revenues - not authorized or used include:

	Fiscal Year	
Description	2009-10	2008-09
Low-Income and Energy Efficiency Fund	$20,315,328	$29,296,342
Insurance and consumer fees	$ 9,780,329	$ 9,669,877
Corporation fees	$ 8,866,539	$ 6,729,828
Licensing and regulation fees	$ 5,449,431	$ 5,647,796
Remonumentation fees	$ 5,052,723	$ 4,218,157
Fire Protection Fund	$ 4,030,876	$ 4,025,924
Public utility assessments	$ 4,713,202	$ 4,779,895
Bank fees	$ 2,324,929	$ 3,227,019
Workers' Compensation Administrative Revolving Fund	$ 2,832,957	$ 3,159,124

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

Note 5 Restricted Revenue - Authorized

Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization. Significant restricted revenues - authorized for DELEG in fiscal year 2009-10 included $16,947,668 that related to the Energy Efficiency and Renewable Energy Revolving Loan Fund. This fund was established late in fiscal year 2009-10 with American Recovery and Reinvestment Act of 2009* (ARRA) federal funding.

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

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SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
SNAP Cluster:					
Pass-Through Program:					
Michigan Department of Human Services					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	2MI430122	$ 237,763	$ 3,180,684	$ 3,418,447
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	2MI420122			0
Total U.S. Department of Agriculture			**$ 237,763**	**$ 3,180,684**	**$ 3,418,447**
U.S. Department of Labor					
Employment Service Cluster:					
Direct Programs:					
Employment Service/Wagner-Peyser Funded Activities	17.207		$ 9,123,661	$ 16,049,002	$ 25,172,663
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207		95,917	260,042	355,959
Disabled Veterans' Outreach Program (DVOP)	17.801		2,563,512		2,563,512
Local Veterans' Employment Representative Program	17.804		3,387,907		3,387,907
Total Employment Service Cluster			$ 15,170,997	$ 16,309,044	$ 31,480,041
WIA Cluster:					
Direct Programs:					
WIA Adult Program	17.258		$ 1,533,120	$ 75,375,972	$ 76,909,092
ARRA - WIA Adult Program	17.258		1,407	10,387,711	10,389,118
WIA Youth Activities	17.259		1,703,273	54,403,069	56,106,342
ARRA - WIA Youth Activities	17.259		3,374	47,157,409	47,160,783
WIA Dislocated Workers	17.260		6,786,049	92,343,959	99,130,008
ARRA - WIA Dislocated Workers	17.260		3,581	13,767,573	13,771,154
WIA Dislocated Worker Formula Grants	17.278				0
Total WIA Cluster			$ 10,030,804	$ 293,435,693	$ 303,466,497
Direct Programs:					
Labor Force Statistics	17.002		$ 2,658,890	$	$ 2,658,890
Compensation and Working Conditions	17.005		191,582		191,582
ARRA - Unemployment Insurance	17.225				0
Trade Adjustment Assistance	17.245		914,992	39,523,778	40,438,770
WIA Pilots, Demonstrations, and Research Projects	17.261			47,963	47,963
Work Incentive Grants	17.266		(3,518)	677,821	674,303
H-1B Job Training Grants	17.268			7,441,220	7,441,220
Temporary Labor Certification for Foreign Workers	17.273		293,766		293,766
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275				0
Occupational Safety and Health - State Program	17.503		$ 9,893,100	$	$ 9,893,100
ARRA - Occupational Safety and Health - State Program	17.503		4,107		4,107
Total Occupational Safety and Health - State Program			$ 9,897,207	$ 0	$ 9,897,207
Consultation Agreements	17.504		1,616,292		1,616,292
OSHA Data Initiative	17.505		76,498		76,498
Total Direct Programs			$ 15,645,709	$ 47,690,782	$ 63,336,491
Pass-Through Program:					
Indiana Department of Workforce Development					
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	MINOH-9-814	$	$	$ 0
Total Pass-Through Program			$ 0	$ 0	$ 0
Total U.S. Department of Labor			**$ 40,847,510**	**$ 357,435,519**	**$ 398,283,029**
U.S. Department of Transportation					
Direct Program:					
Pipeline Safety Program Base Grants	20.700		$ 380,806	$	$ 380,806
Total Direct Program			$ 380,806	$	$ 380,806

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2010			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
$	$	$ 0	$ 3,418,447
206,173	3,352,730	3,558,903	3,558,903
$ 206,173	**$ 3,352,730**	**$ 3,558,903**	**$ 6,977,350**
$ 8,179,582	$ 16,290,432	$ 24,470,014	$ 49,642,677
38,168	8,163,900	8,202,068	8,558,027
2,727,922		2,727,922	5,291,434
3,111,747		3,111,747	6,499,654
$ 14,057,419	$ 24,454,332	$ 38,511,751	$ 69,991,792
$ 2,420,192	$ 58,313,528	$ 60,733,720	$ 137,642,812
31,593	19,246,465	19,278,058	29,667,176
2,630,280	58,243,963	60,874,243	116,980,585
76,917	16,547,723	16,624,640	63,785,423
4,876,833	59,303,062	64,179,895	163,309,903
156,386	58,997,789	59,154,175	72,925,329
15,844	6,571,916	6,587,760	6,587,760
$ 10,208,045	$ 277,224,446	$ 287,432,491	$ 590,898,988
$ 2,775,700	$	$ 2,775,700	$ 5,434,590
199,156		199,156	390,738
1,006,328		1,006,328	1,006,328
1,367,717	59,471,620	60,839,337	101,278,107
		0	47,963
43,325	457,470	500,795	1,175,098
182,003	5,856,539	6,038,542	13,479,762
327,407		327,407	621,173
	78,107	78,107	78,107
$ 10,499,100	$	$ 10,499,100	$ 20,392,200
95,892		95,892	99,999
$ 10,594,992	$ 0	$ 10,594,992	$ 20,492,199
1,662,490		1,662,490	3,278,782
76,498		76,498	152,996
$ 18,235,616	$ 65,863,736	$ 84,099,352	$ 147,435,843
$ 175,993	$ 340,183	$ 516,176	$ 516,176
$ 175,993	$ 340,183	$ 516,176	$ 516,176
$ 42,677,073	**$ 367,882,697**	**$ 410,559,770**	**$ 808,842,799**
$ 479,281	$ 9,721	$ 489,002	$ 869,808
$ 479,281	$ 9,721	$ 489,002	$ 869,808

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010
Continued

Federal Agency/Program or Cluster	*CFDA (2)* Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Programs:					
Michigan Department of Transportation					
Highway Training and Education	20.215	STPG 0884	$	$ 1,096,587	$ 1,096,587
Highway Training and Education	20.215	STPG 0984 (014)			0
Total Highway Training and Education			$ 0	$ 1,096,587	$ 1,096,587
Michigan Department of State Police					
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEMI8018160	$ 43,144	$	$ 43,144
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP-0034-09-01-00			0
Total Interagency Hazardous Materials Public Sector Training and Planning Grants			$ 43,144	$ 0	$ 43,144
Total Pass-Through Programs			$ 43,144	$ 1,096,587	$ 1,139,731
Total U.S. Department of Transportation			**$ 423,950**	**$ 1,096,587**	**$ 1,520,537**
U.S. Department of Veterans Affairs					
Direct Program:					
Veterans Information and Assistance	64.115		$ 311,328	$	$ 311,328
Total U.S. Department of Veterans Affairs			**$ 311,328**	**$ 0**	**$ 311,328**
U.S. Department of Energy					
Direct Programs:					
National Energy Information Center	81.039		$ 15,068	$	$ 15,068
State Energy Program	81.041		$ 991,024	$ 1,014,533	$ 2,005,557
ARRA - State Energy Program	81.041		45,641		45,641
Total State Energy Program			$ 1,036,665	$ 1,014,533	$ 2,051,198
Renewable Energy Research and Development	81.087		2,285	71,424	73,709
State Energy Program Special Projects	81.119			231,437	231,437
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122				0
ARRA - Energy Efficient Appliance Rebate Program (EEARP)	81.127				0
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128				0
Total U.S. Department of Energy			**$ 1,054,018**	**$ 1,317,394**	**$ 2,371,412**
U.S. Department of Education					
Student Financial Assistance Cluster:					
Direct Programs:					
Federal Supplemental Educational Opportunity Grants	84.007		$ 27,185	$	$ 27,185
Federal Pell Grant Program	84.063		466,854		466,854
Total Student Financial Assistance Cluster			$ 494,039	$ 0	$ 494,039
Vocational Rehabilitation Cluster:					
Direct Programs:					
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		$ 95,214,229	$ 4,298,200	$ 99,512,429
ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	84.390		23,273		23,273
Total Vocational Rehabilitation Cluster			$ 95,237,502	$ 4,298,200	$ 99,535,702
Independent Living State Grants Cluster:					
Direct Programs:					
Independent Living - State Grants	84.169		$	$	$ 0
ARRA - Independent Living State Grants, Recovery Act	84.398				0
Total Independent Living - State Grants Cluster			$ 0	$ 0	$ 0
Independent Living Services for Older Individuals Who are Blind Cluster:					
Direct Programs:					
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		$	$	$ 0

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2010			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
$	$	$ 0	$ 1,096,587
	879,733	879,733	879,733
$ 0	$ 879,733	$ 879,733	$ 1,976,320
$	$	$ 0	$ 43,144
30,597		30,597	30,597
$ 30,597	$ 0	$ 30,597	$ 73,741
$ 30,597	$ 879,733	$ 910,330	$ 2,050,061
$ 509,878	**$ 889,454**	**$ 1,399,332**	**$ 2,919,869**
$ 316,703	$	$ 316,703	$ 628,031
$ 316,703	**$ 0**	**$ 316,703**	**$ 628,031**
$ 5,088	$ 0	$ 5,088	$ 20,156
$ 719,859	$ 311,407	$ 1,031,266	$ 3,036,823
837,379	10,804,395	11,641,774	11,687,415
$ 1,557,238	$ 11,115,802	$ 12,673,040	$ 14,724,238
17,058	85,420	102,478	176,187
	186,135	186,135	417,572
394,111		394,111	394,111
7,795,983		7,795,983	7,795,983
532,419	6,998,830	7,531,249	7,531,249
$ 10,301,897	**$ 18,386,187**	**$ 28,688,084**	**$ 31,059,496**
$ 27,185	$	$ 27,185	$ 54,370
541,082		541,082	1,007,936
$ 568,267	$ 0	$ 568,267	$ 1,062,306
$ 99,511,772	$ 1,730,446	$ 101,242,218	$ 200,754,647
5,483,037	1,104,096	6,587,133	6,610,406
$ 104,994,809	$ 2,834,542	$ 107,829,351	$ 207,365,053
$ 17,453	$ 549,008	$ 566,461	$ 566,461
5,466		5,466	5,466
$ 22,919	$ 549,008	$ 571,927	$ 571,927
$ 1,053,342	$ 169,545	$ 1,222,887	$ 1,222,887

DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399		$	$	$ 0
Total Independent Living Services for Older Individuals Who are Blind Cluster			$ 0	$ 0	$ 0
Direct Programs:					
Adult Education - Basic Grants to States	84.002		$ 1,688,085	$ 13,146,484	$ 14,834,569
Independent Living - State Grants	84.169		78,886	497,331	576,217
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		1,008,568	92,029	1,100,597
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		804,925		804,925
Assistive Technology	84.224		7,952	665,252	673,204
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		111,852		111,852
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		2,307,413	1,060,432	3,367,845
ARRA - Independent Living - State Grants, Recovery Act	84.398			290,695	290,695
ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399		1,462		1,462
Total Direct Programs			$ 6,009,143	$ 15,752,223	$ 21,761,366
Pass-Through Program:					
Michigan Department of Education					
Career and Technical Education - Basic Grants to States	84.048	V048A - MDOE	$ 711,329	$ 14,926,108	$ 15,637,437
Total Pass-Through Program			$ 711,329	$ 14,926,108	$ 15,637,437
Total U.S. Department of Education			**$ 102,452,013**	**$ 34,976,531**	**$ 137,428,544**
U.S. Department of Health and Human Services					
TANF Cluster:					
Pass-Through Programs:					
Michigan Department of Human Services					
Temporary Assistance for Needy Families (TANF)	93.558	G0802MITANF	$	$ (972,785)	$ (972,785)
Temporary Assistance for Needy Families (TANF)	93.558	G0902MITANF	2,757,385	78,935,381	81,692,766
Temporary Assistance for Needy Families (TANF)	93.558	G1002MITANF			0
Total TANF Cluster			$ 2,757,385	$ 77,962,596	$ 80,719,981
Medicaid Cluster:					
Pass-Through Programs:					
Michigan Department of Community Health					
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	1005MI5000	$ 391,595	$	$ 391,595
Medical Assistance Program	93.778	1005MI5001	252,115		252,115
Total Medicaid Cluster			$ 643,710	$ 0	$ 643,710
Pass-Through Program:					
Michigan Department of Human Services					
Chafee Foster Care Independence Program	93.674	G-0901MI1420	$	$ 320,000	$ 320,000
Total Pass-Through Program			$ 0	$ 320,000	$ 320,000
Total U.S. Department of Health and Human Services			**$ 3,401,095**	**$ 78,282,596**	**$ 81,683,691**
U.S. Department of Homeland Security					
Direct Program:					
State Fire Training Systems Grants	97.043		$ 9,516	$ 0	$ 9,516
Total U.S. Department of Homeland Security			**$ 9,516**	**$ 0**	**$ 9,516**
Total Expenditures of Federal Awards			$ 149,649,193	$ 475,377,311	$ 625,026,504

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Energy, Labor & Economic Growth (DELEG) 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.*

For the Fiscal Year Ended September 30, 2010			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
$ 61,769	$	$ 61,769	$ 61,769
$ 1,115,111	$ 169,545	$ 1,284,656	$ 1,284,656
$ 1,125,763	$ 13,660,155	$ 14,785,918	$ 29,620,487
		0	576,217
		0	1,100,597
843,015		843,015	1,647,940
15,917	551,491	567,408	1,240,612
100,995		100,995	212,847
1,758,180	1,477,809	3,235,989	6,603,834
		0	290,695
		0	1,462
$ 3,843,870	$ 15,689,455	$ 19,533,325	$ 41,294,691
$ 465,262	$ 14,807,552	$ 15,272,814	$ 30,910,251
$ 465,262	$ 14,807,552	$ 15,272,814	$ 30,910,251
$ 111,010,238	**$ 34,050,102**	**$ 145,060,340**	**$ 282,488,884**
$	$	$ 0	$ (972,785)
		0	81,692,766
2,276,124	72,265,877	74,542,001	74,542,001
$ 2,276,124	$ 72,265,877	$ 74,542,001	$ 155,261,982
$ 393,360	$	$ 393,360	$ 784,955
221,778		221,778	473,893
$ 615,138	$ 0	$ 615,138	$ 1,258,848
$	$	$ 0	$ 320,000
$ 0	$ 0	$ 0	$ 320,000
$ 2,891,262	**$ 72,265,877**	**$ 75,157,139**	**$ 156,840,830**
$ 15,087	$ 0	$ 15,087	$ 24,603
$ 15,087	**$ 0**	**$ 15,087**	**$ 24,603**
$ 168,642,811	$ 496,112,547	$ 664,755,358	$ 1,289,781,862

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Hilfinger:

We have audited the financial schedules of the Department of Energy, Labor & Economic Growth for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated June 16, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as

defined in the preceding paragraph. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in Findings 1 through 5, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 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 the Governor, the Legislature, management, others within the Department, 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 16, 2011

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 That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Hilfinger:

Compliance

We have audited the Department of Energy, Labor & Economic Growth's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2010. 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 of its major federal programs 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 Finding 13 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding matching, level of effort, and earmarking that are applicable to its Vocational Rehabilitation Cluster. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department of Energy, Labor & Economic Growth complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the two-year period ended September 30, 2010. 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 6 through 14.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 13 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 6 through 14 to be significant deficiencies.

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 the Governor, the Legislature, management, others within the Department, 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 16, 2011

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?	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?	Yes

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

Unqualified for all major programs except:

Qualified*
Vocational Rehabilitation Cluster

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

*CFDA** Number	Name of Federal Program or Cluster
	SNAP Cluster:
10.561	• State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
17.002	Labor Force Statistics

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

	Employment Service Cluster:
17.207	• Employment Service/Wagner-Peyser Funded Activities
17.207	• ARRA - Employment Service/Wagner-Peyser Funded Activities
17.801	• Disabled Veterans' Outreach Program (DVOP)
17.804	• Local Veterans' Employment Representative Program
17.245	Trade Adjustment Assistance
	WIA Cluster:
17.258	• WIA Adult Program
17.258	• ARRA - WIA Adult Program
17.259	• WIA Youth Activities
17.259	• ARRA - WIA Youth Activities
17.260	• WIA Dislocated Workers
17.260	• ARRA - WIA Dislocated Workers
17.278	• WIA Dislocated Worker Formula Grants
17.268	H-1B Job Training Grants
17.503	Occupational Safety and Health - State Program
17.503	ARRA - Occupational Safety and Health - State Program
81.041	State Energy Program
81.041	ARRA - State Energy Program
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)
81.128	ARRA - Energy Efficiency and Conservation Block Grant (EECBG)
84.002	Adult Education - Basic Grants to States
84.048	Career and Technical Education - Basic Grants to States

	Vocational Rehabilitation Cluster:
84.126	• Rehabilitation Services - Vocational Rehabilitation Grants to States
84.390	• ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
	TANF Cluster:
93.558	• Temporary Assistance for Needy Families (TANF)

Dollar threshold used to distinguish between type A and type B programs: $3,869,346

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (6411101)

1. Internal Control Over the Processing of Payroll Transactions

The Department of Energy, Labor & Economic Growth (DELEG), in conjunction with the Department of Technology, Management & Budget (DTMB), needs to improve its internal control over the approval of payroll transactions. As a result, DELEG processed payroll transactions that did not comply with State and DELEG payroll processing requirements and federal allowable costs/cost principles requirements.

Internal control is 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. Internal control consists of the control environment, risk assessments, policies and procedures, information and communications, and monitoring. Monitoring occurs when management reviews, on an ongoing basis, whether internal control is operating as intended and is modified as appropriate for changes in conditions.

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

Part IV Chapter 1, Section 100 of the State of Michigan Financial Management Guide (FMG) states that supervisory review and approval is required for employee time sheets. Also, the DELEG Data Collection and Distribution System (DCDS) Supervisor Guide states that all time sheets need to be approved every pay period. In addition, Appendix B, section 8.h.(1) of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations* [*CFR*]), states that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

DELEG processed 73,297 and 71,542 original submission time and activity reports in fiscal years 2009-10 and 2008-09, respectively. The payroll expenditures associated with the original submission time and activity reports totaled $230.1 million and $217.9 million in fiscal years 2009-10 and 2008-09, respectively. Our analysis of data within DCDS identified instances when DELEG employees' time and activity reports were processed without approval by employees' direct supervisors.

DELEG did not obtain supervisory approval for 7,259 (10%) and 5,167 (7%) originally submitted time and activity reports for fiscal years 2009-10 and 2008-09, respectively. The expenditure amount associated with the unapproved time and activity reports totaled $14.9 million (6%) and $18.3 million (8%) in fiscal years 2009-10 and 2008-09, respectively. After we noted the deficiency, DELEG obtained supervisor approval for nearly all the federal time and activity reports in question, thus leaving unapproved time and activity reports pertaining to 9 of DELEG's 15 major federal programs or clusters totaling $1.1 million.

This internal control deficiency occurred because DELEG, in conjunction with DTMB, had not developed and used a monitoring tool, such as a query for each pay period, to identify all unapproved and unauthorized time and activity reports.

RECOMMENDATION

We recommend that the Department of Licensing and Regulatory Affairs (LARA), in conjunction with DTMB, improve its internal control over the approval of payroll transactions.

FINDING (6411102)

2. Comprehensive Information Technology (IT) Security Program

DELEG had not established a comprehensive IT security program over its information systems. As a result, DELEG could not demonstrate that it had implemented effective internal control over the integrity, availability, and confidentiality of its information systems and data.

Federal regulation 29 *CFR* 97.20 requires states to establish effective internal control over their financial management systems to ensure accountability over all grant and subgrant assets and to ensure that grant and subgrant assets are used only for authorized purposes.

Also, according to DTMB Administrative Guide procedure 1270.12, State agencies are responsible for establishing and maintaining appropriate internal control over IT systems. The FMG recommends that State agencies and DTMB use a service level agreement to clearly communicate IT roles and responsibilities. The service level agreement between DELEG and DTMB states that DTMB is responsible for general controls and requires DELEG to adequately communicate to DTMB its security requirements.

In addition, the FMG requires State agencies to implement a control framework, such as Control Objectives for Information and Related Technology* (COBIT), developed by the IT Governance Institute, and recommends the use of other best practices from organizations such as the National Institute of Standards and Technology (NIST). NIST is the IT standard used by DELEG's federal oversight agency and is the basis for the DTMB Office of Enterprise Security's Security Plan and Assessment.

According to NIST, a comprehensive IT security program includes categorization of information systems to determine the appropriate security requirements; performance of periodic risk assessments; establishment of a security plan, including provisions for disaster recovery; and performance of periodic risk assessments and information system security reviews. In addition, an effective security program requires State agencies to appoint a security officer with the

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

responsibility to establish security related policies and procedures, to monitor the effectiveness of application security, and to ensure the effective implementation of entity-wide security policies and procedures.

We assessed selected general controls over seven of DELEG's information systems, of which five were significant to the administration of the following federal programs or clusters:

System(s)	Name of Federal Program or Cluster
AWARE/System 7	Vocational Rehabilitation Cluster - *CFDA* 84.126 and 84.390
MAERS	Adult Education - Basic Grants to States - *CFDA* 84.002
MAERS/MCCNET	Career and Technical Education - Basic Grants to States - *CFDA* 84.048
MARS/OSMIS	SNAP Cluster - *CFDA* 10.561
MARS/OSMIS	Employment Service Cluster - *CFDA* 17.207, 17.801, and 17.804
MARS/OSMIS	Trade Adjustment Assistance - *CFDA* 17.245
MARS/OSMIS	WIA Cluster - *CFDA* 17.258, 17.259, 17.260, and 17.278
MARS/OSMIS	H-1B Job Training Grants - *CFDA* 17.268
MARS/OSMIS	Gaining Early Awareness and Readiness for Undergraduate Programs - *CFDA* 84.334
MARS/OSMIS	TANF Cluster - *CFDA* 93.558

Note: The Michigan Adult Education Reporting System (MAERS) is a component of the One-Stop Management Information System (OSMIS). See glossary for other system names.

Two other information systems, the C3 system and the NP250 system, were significant to DELEG's financial processes. DELEG used the C3 system and NP250 system to process revenues of $153.3 million and $155.8 million in fiscal years 2009-10 and 2008-09, respectively. Our review disclosed:

a. DELEG had not performed a security categorization for 6 (86%) of 7 information systems. As a result, DELEG cannot ensure that its information systems have been appropriately secured based on defined risk levels.

b. DELEG, in conjunction with DTMB, did not complete risk assessments for 6 (86%) of 7 information systems. Without an effective risk assessment process, DELEG cannot ensure that appropriate, cost-effective controls have been established to mitigate risks to DELEG applications and data.

c. DELEG, in conjunction with DTMB, had not prepared an information system security plan for the seven information systems reviewed. Without documented security plans, DELEG cannot demonstrate that appropriate security safeguards have been implemented to mitigate potential risks that could result in unauthorized disclosure, modification, or destruction of sensitive information stored or processed on DELEG's information systems.

d. DELEG, in conjunction with DTMB, had not prepared and tested disaster recovery plans or had not obtained applicable disaster and recovery documentation from its contractor for 6 (86%) of 7 information systems. For the seventh information system, DELEG and DTMB obtained, from the hosting contractor, high level documentation of a disaster recovery plan and disaster recovery test results. However, the test results did not specify whether the contractor actually tested its ability to recover DELEG's information system. Without documented and tested disaster recovery plans, DELEG cannot ensure its information systems and data will be completely recovered in the event of a disruption.

e. DELEG, in conjunction with DTMB, needs to improve its evaluation and reporting of the effectiveness of information system security. Specifically, DELEG and DTMB had not completed biennial internal control evaluations for 4 (57%) of 7 information systems. Many questions within completed biennial internal control evaluations lacked responses or conclusions, and some responses did not correspond to the evaluation questions or did not adequately describe how management monitored the control.

   As a result, DELEG cannot demonstrate that controls have been implemented correctly, are operating as intended, and meet security requirements. The FMG requires State agencies to evaluate the effectiveness of general controls and report on the controls' effectiveness for information systems significant to the agency's operations.

f. DELEG had not assigned its security officer the responsibility of implementing application security management controls, such as those identified in parts a. through e. of this finding. Without effective application security management controls, there is an increased risk that DELEG management, IT staff, and

application users will not properly assess risk and will, consequently, implement inappropriate or inadequate information security over DELEG's applications.

DELEG informed us that it had incorporated the position of information security officer into the position of director of Office of Audit and Financial Compliance. However, it had not yet fully defined the specific duties of the new position. DTMB Administrative Guide policy 1340 identifies agency-specific information security responsibilities that DELEG should assign to its security officer.

RECOMMENDATION

We recommend that LARA establish a comprehensive IT security program over its information systems.

FINDING (6411103)

3. Third Party Service Organizations

DELEG, in conjunction with DTMB, did not obtain assurances regarding internal control over information systems hosted by third party service organizations (TPSOs). As a result, DELEG cannot ensure that TPSOs established effective internal control over the information systems.

Part VII, Chapter 1, Section 100 of the FMG identifies information and communication and monitoring of internal control by management as elements of internal control that apply to information systems. These internal control elements are especially critical when DELEG relies on information systems hosted at TPSOs to produce accurate and reliable information.

Also, Part VII, Chapter 1, Section 1000 of the FMG requires State agencies to ensure that TPSOs have an adequate internal control system when TPSOs develop, provide, or maintain information technology systems and applications.

According to the FMG, State agencies can obtain assurances regarding TPSO controls by developing compensating controls within the agency to minimize risk, by conducting an audit or evaluation of the control system at the TPSO, or by

contracting for an independent audit, typically performed in accordance with Statement on Auditing Standards No. 70, *Service Organizations* (SAS 70 report*).

The FMG requires management responsible for oversight of the TPSO to document the method of assessing and monitoring internal control at the TPSO.

We noted that management responsible for oversight of each TPSO did not document the method of assessing internal control at the TPSO or conclusions regarding TPSO internal control. In addition, the TPSO contracts did not require the establishment and evaluation of the internal control system.

DTMB contracts with TPSOs to host three of DELEG's information systems: the Management of Awards to Recipients System (MARS), System 7, and the Michigan Community College NETwork (MCCNET). We determined that controls in the information systems are significant to DELEG's internal control over federal programs as follows:

System	Name of Federal Program or Cluster
MARS	SNAP Cluster - *CFDA* 10.561
MARS	Employment Service Cluster - *CFDA* 17.207, 17.801, and 17.804
MARS	Trade Adjustment Assistance - *CFDA* 17.245
MARS	WIA Cluster - *CFDA* 17.258, 17.259, 17.260, and 17.278
MARS	H-1B Training Grants - *CFDA* 17.268
MARS	Gaining Early Awareness and Readiness for Undergraduate Programs - *CFDA* 84.334
MARS	TANF Cluster - *CFDA* 93.558
System 7	Vocational Rehabilitation Cluster - *CFDA* 84.126 and 84.390
MCCNET	Career and Technical Education - Basic Grants to States - *CFDA* 84.048

RECOMMENDATION

We recommend that LARA, in conjunction with DTMB, obtain assurances regarding internal control over information systems hosted by TPSOs.

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

FINDING (6411104)

4. C3 Application Access Controls

DELEG, in conjunction with DTMB, had not established effective access controls over the C3 system. Without effective access controls*, individuals have the opportunity to obtain unauthorized or inappropriate access to the C3 system application and data.

Access controls help provide reasonable assurance that only authorized personnel have access to an information system application and only for authorized purposes. Without such controls, for example, a user with inappropriate access to the system might misclassify DELEG revenues.

DELEG's C3 system interfaces DELEG's revenue transactions to the Michigan Administrative Information Network* (MAIN). In fiscal years 2009-10 and 2008-09, DELEG estimated that receipts of $153.3 million and $155.8 million, respectively, were interfaced from the C3 system to MAIN.

Our review of selected access controls over the C3 system disclosed:

a. DELEG, in conjunction with DTMB, had not documented the C3 system's security controls. Without documented security controls, DELEG could not demonstrate that the C3 system's controls were sufficient to protect the confidentiality, integrity, and availability of C3 system data. Undocumented security controls included application security parameters and the specific privileges associated with each C3 system security role which, in the C3 system, determine each user's access rights.

   DTMB Administrative Guide policy 1340 requires agencies to ensure that the information security controls implemented over an information system are sufficient to ensure the confidentiality, integrity, and availability of its data.

b. DELEG did not grant C3 system users only the minimum access required for users to perform their job responsibilities. As a result, users may have capabilities that are incompatible or exceed their job responsibilities. For example, DELEG assigned multiple security roles to 233 (99%) of the C3

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

system's 235 active users. Also, users granted one of the security roles were automatically granted the access vested in two other security roles culminating in capabilities of all three security roles. In addition, DELEG granted four users more access than should have been granted based on their security roles. As a result, these users likely had access that exceeded what management authorized or intended.

Users' access can be restricted by additional application security parameters. However, DELEG and DTMB were unable to show the impact of the additional application security parameters on users' access because DELEG and DTMB had not documented the C3 system's security controls, as noted in part a. of this finding.

DTMB Administrative Guide policy 1335 requires agencies to establish policies and procedures to ensure that user access is based on the principle of least privilege and promotes a proper segregation of duties.

c. DELEG's C3 system access request process did not require authorized requestors to identify the specific security role and parameters to be assigned to the user. As a result, new access requests were typically based on an existing user's access, which might not appropriately identify the security role and parameters needed for the new user. Without specifying the security role and parameters in access requests, DELEG and DTMB have increased the risk that a C3 system user's access will exceed the minimum access needed to perform their job responsibilities.

   DTMB Administrative Guide policy 1335 requires agencies to provide a mechanism for controlling and documenting the allocation of user access rights from new users' initial access through deregistration, when the user changes jobs or leaves the agency.

d. DELEG had not established a process to periodically review the propriety of each C3 system user's access. Also, DELEG and DTMB did not have a process to ensure that each inactive or terminated C3 system user's access was disabled or removed in a timely manner. DELEG informed us that it rarely revokes a user's access to the C3 system once granted.

DTMB Administrative Guide policy 1335 requires agencies to periodically review each user's access to ensure that the user's access agrees with the specific privileges granted.

e. DELEG, in conjunction with DTMB, needs to improve the effectiveness of the C3 system's password rules and other security parameters. Weaknesses in password rules, such as a lack of requirements for password length and complexity, and other security parameters increase the risk that user accounts could be compromised. COBIT requires organizations to establish effective password rules and security parameters to validate a user's authority to access data.

RECOMMENDATION

We recommend that LARA, in conjunction DTMB, establish effective access controls over the C3 system.

FINDING (6411105)

5. MARS Selected General Controls

DELEG, in conjunction with DTMB, needs to improve selected general controls over MARS. Without strong general controls, DELEG cannot ensure the confidentiality, integrity, and availability of the MARS application and data.

Part VII, Chapter 1, Section 900 of the FMG states that effective general controls are necessary for reliance to be placed on application controls. Effective general controls safeguard data, protect business process application programs, and ensure continued computer operations in case of unexpected interruptions.

DELEG uses MARS in the administration of the following federal programs or clusters, which had the following federal expenditures during the audit period:

Name of Federal Program or Cluster	Total Program Expenditures During Audit Period
WIA Cluster - *CFDA* 17.258, 17.259, 17.260, and 17.278	$590,898,988
TANF Cluster - *CFDA* 93.558	$155,261,982
Trade Adjustment Assistance - *CFDA* 17.245	$101,278,107
Employment Services Cluster - *CFDA* 17.207, 17.801, and 17.804	$ 69,991,792
H-1B Job Training Grants - *CFDA* 17.268	$ 13,479,762
SNAP Cluster - *CFDA* 10.561	$ 6,977,350
Gaining Early Awareness and Readiness for Undergraduate Programs - *CFDA* 84.334	$ 6,603,834

Our review of select general controls over MARS disclosed:

a. DELEG did not restrict one MARS software developer's access to the MARS production system. A software developer's specialized knowledge of the software application increases the risk that unauthorized transactions might occur and not be detected in a timely manner in the normal course of business. Proper segregation of duties restrict developers' access to production applications and data.

b. DELEG did not monitor the activities of MARS privileged users. Privileged users have the ability to perform activities that could bypass internal control. DELEG should ensure that MARS has an audit trail that captures privileged users' activities and that appropriate DELEG management, such as the security officer mentioned in part f. of Finding 2, periodically monitor the propriety of the privileged access.

These control weaknesses exist because DELEG, in conjunction with DTMB, did not fully consider IT general controls during the development of MARS. As discussed in part c. of Finding 2, DELEG and DTMB had not completed an information system security plan, which DELEG and DTMB were required to complete in the requirements definition phase of DTMB's system development methodology.

RECOMMENDATION

We recommend that LARA, in conjunction with DTMB, improve general controls over MARS.

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

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than $10,000 for a type of compliance requirement for a major program and known questioned costs that are less than $10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed $10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

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

FINDING (6411106)

6. Employment Service Cluster, Including ARRA - Employment Service/Wagner-Peyser Funded Activities, *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* 17.207: ARRA - Employment Service/Wagner-Peyser Funded Activities *CFDA* 17.801: Disabled Veterans' Outreach Program (DVOP) *CFDA* 17.804: Local Veterans' Employment Representative Program
Award Number:	Award Period:
ES16219YS	07/01/2007 - 06/30/2010
ES175682Z	07/01/2008 - 06/30/2011
ES175682X	07/01/2008 - 06/30/2011
ES175685X	02/17/2009 - 06/30/2011
ES175685Z	02/17/2009 - 06/30/2011
ES192097I	07/01/2009 - 06/30/2012
ES192097K	07/01/2009 - 06/30/2012
ES20756BG	07/01/2010 - 09/30/2013
ES20756BK	07/01/2010 - 09/30/2013
E-9-5-9-5065	10/01/2008 - 03/31/2010
DV196421055526/DV19642D04	10/01/2009 - 03/31/2011
	Known Questioned Costs: $73,340

DELEG's internal control over the Employment Service Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we identified known questioned costs of $73,340.

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

Federal expenditures for the Employment Services Cluster totaled $70.0 million for the two-year period ended September 30, 2010. Of this total, $8.6 million was from ARRA and the remaining $61.4 million was non-ARRA.

Appendix B, section 8.h.(1) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that charges to federal awards for salaries and wages, whether treated as

direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

As discussed more fully in Finding 1, DELEG did not ensure that payroll costs, including federally funded payroll expenditures, were properly approved. We identified known questioned costs totaling $73,340.

RECOMMENDATION

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

FINDING (6411107)

7. WIA Cluster, Including ARRA - WIA Adult Program, ARRA - WIA Youth Activities, ARRA - WIA Dislocated Workers, *CFDA* 17.258, 17.259, 17.260, and 17.278

U.S. Department of Labor	WIA Cluster: *CFDA* 17.258: WIA Adult Program *CFDA* 17.258: ARRA - WIA Adult Program *CFDA* 17.259: WIA Youth Activities *CFDA* 17.259: ARRA - WIA Youth Activities *CFDA* 17.260: WIA Dislocated Workers *CFDA* 17.260: ARRA - WIA Dislocated Workers *CFDA* 17.278: WIA Dislocated Workers-Formula Grants
Award Number: AA154860655 AA-16035-07-55-A-26 AA-17128-08-55-A-26 AA-17128-08-55-A-26 AA-18647-09-55-A-26 AA-18647-09-55-A-26 AA-20200-10-55-A-26 CA-15858-07-60-A-26 EM-17472-08-60-A-26 MI-17525-08-60-A-26	Award Period: 07/01/2006 - 06/30/2009 07/01/2007 - 06/30/2010 07/01/2008 - 06/30/2011 02/17/2009 - 06/30/2011 07/01/2009 - 06/30/2012 04/01/2009 - 06/30/2012 07/01/2010 - 06/30/2013 12/04/2006 - 06/30/2009 05/01/2008 - 06/30/2010 07/01/2008 - 06/30/2011
	Known Questioned Costs: $97,386

DELEG's internal control over the Workforce Investment Act (WIA) Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we identified known questioned costs of $97,386.

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

Federal expenditures for the WIA Cluster totaled $590.9 million for the two-year period ended September 30, 2010. Of this total, $166.4 million was from ARRA and the remaining $424.5 million was non-ARRA.

Our review disclosed:

a. DELEG's internal control did not ensure that the WIA Program approved payroll transactions. As a result, we identified questioned costs of $63,914.

   Appendix B, section 8.h.(1) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

   As discussed more fully in Finding 1, DELEG did not ensure that payroll costs, including federally funded payroll expenditures, were properly approved. We identified known questioned costs totaling $63,914.

b. DELEG's internal control did not ensure that the WIA Program recorded payroll expenditures based on actual activity. As a result, we identified questioned costs of $33,472.

   Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual

activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DELEG to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

We identified that DELEG charged the time for a WIA Cluster employee to multiple federal awards using predetermined payroll cost distributions for which DELEG neither adjusted the amount of predetermined payroll cost distributions to reflect actual costs nor maintained employee personnel activity reports or equivalent documentation to reflect actual activity. During the audit period, this employee was paid $33,472 using predetermined payroll cost distributions from the WIA Cluster, which we will consider to be known questioned costs.

RECOMMENDATION

We recommend that LARA improve its internal control over the WIA Cluster to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6411108)

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

U.S. Department of Labor	*CFDA* 17.503: Occupational Safety and Health - State Program *CFDA* 17.503: ARRA - Occupational Safety and Health - State Program
Award Number: SP-16711-SP10 SP-17741-SP9	Award Period: 10/01/2009 - 09/30/2010 10/01/2008 - 09/30/2009
	Known Questioned Costs: $17,820

DELEG's internal control over the Occupational Safety and Health - State Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we identified known questioned costs of $17,820.

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

Federal expenditures for the Occupational Safety and Health - State Program totaled $20.5 million for the two-year period ended September 30, 2010. Of this total, $99,999 was from ARRA and the remaining $20.4 million was non-ARRA.

Appendix B, section 8.h.(1) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

As discussed more fully in Finding 1, DELEG did not ensure that payroll costs, including federally funded payroll expenditures, were properly approved. We identified known questioned costs totaling $17,820.

RECOMMENDATION

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

FINDING (6411109)

9. State Energy Program and ARRA - State Energy Program, *CFDA* 81.041

U.S. Department of Energy	*CFDA* 81.041: State Energy Program *CFDA* 81.041: ARRA - State Energy Program
Award Number: DE-EE0000166 DEFG2607NT43165	Award Period: 04/17/2009 - 04/30/2012 10/01/2007 - 09/30/2011
	Known Questioned Costs: $286,793

DELEG's internal control over the State Energy Program (SEP) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

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

Federal expenditures for SEP totaled approximately $14.7 million for the two-year period ended September 30, 2010. Of this total, $11.7 million was from ARRA and the remaining $3.0 was non-ARRA. We reported known questioned costs totaling $286,793.

Our review of DELEG's controls over compliance with allowable costs/cost principles requirements disclosed:

a. DELEG's internal control did not ensure that SEP recorded payroll expenditures based on actual activity. As a result, we identified questioned costs of $133,158.

   Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DELEG to compare, at least quarterly, actual payroll costs with predetermined payroll cost distributions and to revise distributions as necessary.

   DELEG charged the time for three SEP employees to multiple federal awards using predetermined payroll cost distributions for which DELEG neither adjusted the amount of predetermined payroll cost distributions to reflect actual costs nor maintained employee personnel activity reports or equivalent documentation to reflect actual activity. During the audit period, these three employees were paid $133,158 using predetermined payroll cost distributions from SEP, which we consider to be known questioned costs.

b. DELEG's internal control did not ensure that SEP approved payroll transactions. As a result, we identified known questioned costs of $153,635.

Appendix B, section 8.h.(1) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

As discussed more fully in Finding 1, DELEG did not ensure that payroll costs, including federally funded payroll expenditures, were properly approved. We identified known questioned costs totaling $153,635.

RECOMMENDATION

We recommend that LARA improve its internal control over SEP to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6411110)

10. ARRA - Energy Efficient Appliance Rebate Program (EEARP), *CFDA* 81.127

U.S. Department of Energy	*CFDA* 81.127: ARRA - Energy Efficient Appliance Rebate Program (EEARP)
Award Number: DE-EE0001671	Award Period: 08/24/2009 - 02/17/2012
	Known Questioned Costs: $14,256

DELEG's internal control over EEARP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

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

Federal ARRA expenditures for EEARP totaled approximately $7.8 million for the two-year period ended September 30, 2010. We reported known questioned costs totaling $14,256.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DELEG to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

We identified that DELEG charged the time for 2 EEARP employees to multiple federal awards using predetermined payroll cost distributions for which DELEG neither adjusted the amount of predetermined payroll cost distributions to reflect actual costs nor maintained employee personnel activity reports or equivalent documentation to reflect actual activity. During the audit period, these 2 employees were paid $14,256 using predetermined payroll cost distributions from the EEARP, which we will consider to be known questioned costs.

RECOMMENDATION

We recommend that LARA improve its internal control over EEARP to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6411111)

11. ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG), *CFDA* 81.128

U.S. Department of Energy	*CFDA* 81.128: ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
Award Number: DE-EE0000753 DE-EE0003559	Award Period: 09/14/2009 - 09/13/2012 06/03/2010 - 06/02/2013
	Questioned Costs: $34,671

DELEG's internal control over EECBG did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

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

Federal expenditures for EECBG totaled approximately $7.5 million for the two-year period ended September 30, 2010. Of this total, $7.5 million was from ARRA. We reported known questioned costs totaling $34,671.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DELEG to compare, at least quarterly, actual payroll costs with predetermined payroll cost distributions and to revise distributions as necessary.

DELEG charged the time for four EECBG employees to multiple federal awards using predetermined payroll cost distributions for which DELEG neither adjusted the amount of predetermined payroll cost distributions to reflect actual costs nor maintained employee personnel activity reports or equivalent documentation to reflect actual activity. During the audit period, these four employees were paid $34,671 using predetermined payroll cost distributions from EECBG, which we consider to be known questioned costs.

RECOMMENDATION

We recommend that LARA improve its internal control over EECBG to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6411112)

12. 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: V002A060022 V002A070022 V002A080022 V002A090022 V002A090022A	Award Period: 07/01/2006 - 09/30/2008 07/01/2007 - 09/30/2009 07/01/2008 - 09/30/2010 07/01/2009 - 09/30/2011 07/01/2009 - 09/30/2011
	Known Questioned Costs: $0

DELEG's internal control did not ensure compliance with federal laws and regulations regarding subrecipient monitoring for Adult Education - Basic Grants to States (Adult Education Program).

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 regulation 34 *CFR* 80.40 and OMB Circular A-133, section 400(d)(3) require DELEG to monitor its subrecipients to ensure compliance with applicable federal program requirements.

Federal expenditures for the Adult Education Program totaled approximately $29.6 million for the two-year period ended September 30, 2010, including $26.8 million that DELEG distributed to 117 subrecipients.

We reviewed DELEG's on-site monitoring records for 8 of 36 monitoring visits conducted during the two-year period ended September 30, 2010. DELEG's monitoring records include financial review forms, participant eligibility forms, and monitoring reports issued to subrecipients detailing any areas requiring corrective action. Our review identified the following significant deficiencies pertaining to DELEG's subrecipient monitoring:

a. DELEG did not sufficiently document its review of program expenditures during its on-site monitoring visits. Our review of documentation pertaining to

8 on-site monitoring visits disclosed that in 6 (75%) instances the documentation did not specify which expenditures were reviewed, how the expenditure transactions were selected, or whether the selected transactions related to the federal program.

We noted the same situation in our prior single audit. DELEG stated in its corrective action plan in the prior single audit that it will maintain sufficient documentation (in addition to the completed financial review form) to support the review.

b. DELEG's conclusions in its on-site monitoring financial review forms did not sufficiently support the recommendations contained in the monitoring report that DELEG issued to the subrecipients. In 3 (38%) of 8 instances, DELEG indicated in its financial review form that the subrecipients complied with OMB Circular A-87 cost principles. However, the monitoring reports that DELEG issued to the subrecipients contained findings related to documentation of expenditures or federal payroll.

c. DELEG did not determine compliance with applicable cost principles for 1 (13%) of the 8 subrecipient monitoring files we reviewed. DELEG indicated that OMB Circular A-87 Cost Principles were not applicable because the subrecipient was a nonprofit organization and conducted no further review. However, nonprofit organizations are subject to the cost principles of OMB Circular A-122 and should be reviewed for compliance with the applicable cost principles.

d. DELEG did not sufficiently address required eligibility criteria on the participant eligibility review form when reviewing participant files. In 6 (75%) of the 8 on-site monitoring records we reviewed, DELEG did not sufficiently document its review for requirements such as participant age and secondary school status.

e. DELEG did not sufficiently document its conclusion as to whether subrecipients adequately documented the eligibility of the participant to receive Adult Education Program services in the participant eligibility review form in our review of 6 (75%) of 8 on-site monitoring records.

f. DELEG did not maintain relevant corrective action information in its on-site monitoring tracking log, which is its primary internal control over its efforts to timely obtain corrective action plans. Information missing from the tracking log included items such as the date the subrecipients submitted their corrective action plan and whether DELEG timely corresponded with subrecipients that had not timely submitted their corrective action plan. We noted that 1 (13%) of 8 subrecipients submitted the corrective action plan 91 days past the due date, and DELEG could not provide documentation that 1 (13%) of 8 subrecipients submitted a revised corrective action plan in response to DELEG's request. In both of these instances, DELEG did not document that it followed up with subrecipients to timely obtain the corrective action plans.

We noted the same situation in our prior single audit. DELEG stated in its corrective action plan in the prior single audit that it will remind all subrecipients who fail to submit their corrective action plan within the 45-day stipulated time period and will penalize those who fail to submit a corrective action plan 30 days after the due date.

The preceding deficiencies existed because DELEG procedures did not require applicable activities and documentation.

RECOMMENDATION

We again recommend that LARA improve its internal control over the adult education program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (6411113)

13. Vocational Rehabilitation Cluster, Including ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act, *CFDA* 84.126 and *CFDA* 84.390

U.S. Department of Education	*CFDA* 84.126: Rehabilitation Services - Vocational Rehabilitation Grants to States *CFDA* 84.390: ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act
Award Number: H126A080030D H126A090030B H126A100030D H390A090030A H126A080031C H126A090031B H126A100031C H390A090031A	Award Period: 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2010 02/17/2009 - 09/30/2010 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 02/17/2009 - 09/30/2010
	Known Questioned Costs: $24,201,911

DELEG's internal control did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; procurement and suspension and debarment; and matching, level of effort, and earmarking for the Vocational Rehabilitation Cluster. Also, DELEG did not comply with federal laws and regulations regarding eligibility. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding matching, level of effort, and earmarking. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Vocational Rehabilitation Cluster.

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

Federal expenditures for the Vocational Rehabilitation Cluster totaled approximately $207.4 million for the two-year period ended September 30, 2010. Of this total, $6.6 million was from ARRA and the remaining $200.8 million was non-ARRA. We reported known questioned costs totaling $24,201,911.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DELEG's internal control did not ensure that all payments were made in accordance with activities allowed or unallowed requirements. As a result, we identified questioned costs of $718,442.

Federal regulation 34 *CFR* 361.3 identifies authorized activity for the Vocational Rehabilitation Cluster as costs associated with providing services under the State plan. DELEG entered into memorandums of understanding (MOUs) with another DELEG bureau in which all of the activity identified in the MOU did not meet the requirements of costs associated with the State plan. Although the activity described in the MOUs benefit Vocational Rehabilitation Cluster consumers, the activity is not provided specifically to Vocational Rehabilitation Cluster consumers.

DELEG required the bureau to submit quarterly reports identifying the activity performed under the MOU; however, DELEG did not ensure that the reports included only allowable activities for the Vocational Rehabilitation Cluster. In April 2011, DELEG reviewed the quarterly reports for fiscal years 2009-10 and 2008-09 and determined that only a portion of the total activity reported was allowable under the Vocational Rehabilitation Cluster federal regulations. DELEG reimbursed the bureau $270,622 and $447,820 for expenditures incurred during fiscal years 2009-10 and 2008-09, respectively, for activity that is not allowed under the Vocational Rehabilitation Cluster federal regulations.

b. Allowable Costs/Cost Principles

DELEG's internal control did not ensure that the Vocational Rehabilitation Cluster approved payroll transactions. As a result, we identified known questioned costs of $745,609.

Appendix B, section 8.h.(1) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

As discussed more fully in Finding 1, DELEG did not ensure that payroll costs, including federally funded payroll expenditures, were properly approved.

c. Eligibility

DELEG did not ensure compliance with federal laws and regulations regarding eligibility within the required time frame.

Federal regulation 34 *CFR* 361.41(b) states that once an individual has submitted an application for vocational rehabilitation services, an eligibility determination must be made within 60 days.

We identified DELEG counselors who did not determine eligibility within 60 days for 3 (12%) of 25 customers. Based on our review of the case files, we identified three separate reasons for the delays, which included the following:

(1) The customer did not respond to the counselor's attempts to meet with the customer. As a result, the counselor was not able to determine eligibility until 337 days past the 60-day requirement.

(2) The customer had not provided the counselor with the necessary medical examination in a timely manner. The counselor was not able to obtain current medical information in a timely manner. As a result, the counselor was not able to determine eligibility until 9 days past the 60-day requirement.

(3) The counselor did not make a sufficient attempt to meet with the customer before the 60-day requirement had elapsed after the customer had canceled a previous appointment. As a result, the counselor was not able to determine eligibility until 3 days past the 60-day requirement.

d. Procurement and Suspension and Debarment

DELEG's internal control did not ensure that vendors without a contract for the Vocational Rehabilitation Cluster were not suspended or debarred before a payment was issued.

Federal regulation 34 *CFR* 85.300 requires DELEG to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, collecting a certification from that entity, or adding a clause or condition to the covered transaction with that entity.

DELEG program staff stated that they did not ensure that vendors without a contract were not suspended or debarred before a payment was issued because they were unaware of the federal requirement. Although our review of 31 vendors without a contract disclosed that none were suspended or debarred, there is a risk that DELEG would not become aware that other, or future, vendors could be suspended or debarred. We estimated that vendors without contracts represent approximately $46.3 million of the $207.4 million in total federal expenditures.

e. Matching, Level of Effort, and Earmarking

DELEG's internal control did not ensure that funds used for matching were allowable for the Vocational Rehabilitation Cluster. As a result, we identified questioned costs of $22,737,860.

Federal regulation 34 *CFR* 361.60 requires DELEG to contribute a cash match of 21.3% of the total Vocational Rehabilitation Cluster costs as federal funds may not exceed 78.7% of total program costs. Alone, the General Fund/general purpose funds appropriated by the Legislature for this purpose did not meet the necessary federal matching requirements. Consequently, DELEG used agreements with other entities to assist DELEG to meet federal matching requirements.

During fiscal year 2008-09, the Rehabilitation Services Administration, Office of Special Education and Rehabilitative Services, U.S. Department of Education, reviewed the performance of the Vocational Rehabilitation Cluster related to fiscal year 2007-08 and reported that DELEG used funds for matching that did not comply with federal matching requirements.

Our review disclosed that DELEG has continued to use funds for matching that did not comply with federal requirements during fiscal years 2008-09 and 2009-10 of $4.4 million and $1.8 million, respectively:

(1) DELEG used $513,136 of funds furnished from a nonprofit entity to meet matching requirements during fiscal year 2008-09. Federal regulation 34 *CFR* 361.28 states that DELEG can use funds furnished by another State agency or a local public agency. We questioned the federal dollars associated with this match totaling $1,895,953.

(2) DELEG used $345,556 of non-federal expenditures incurred during fiscal year 2008-09 for independent living and youth low vision related purposes which are not allowable vocational rehabilitation expenditures as match for the Vocational Rehabilitation Cluster. We questioned the federal dollars associated with this match totaling $1,276,774.

(3) DELEG used $3,518,895 and $1,776,370 of expenditures incurred by local school districts, mental health agencies, and a different DELEG bureau during fiscal years 2008-09 and 2009-10, respectively, as match for the Vocational Rehabilitation Cluster. The expenditures did not qualify because they were not incurred by the cooperating agency pursuant to a valid third-party cooperative arrangement. We questioned the federal dollars associated with this match totaling $13,001,737 and $6,563,396 for fiscal years 2008-09 and 2009-2010, respectively.

RECOMMENDATIONS

We recommend that LARA improve its internal control to ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; procurement and suspension and debarment; and matching, level of effort, and earmarking for the Vocational Rehabilitation Cluster.

We also recommend that LARA comply with federal laws and regulations regarding eligibility.

FINDING (6411114)

14. Gaining Early Awareness and Readiness for Undergraduate Programs, *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: $18,492

DELEG's internal control did not ensure Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) compliance with federal laws and regulations regarding allowable costs/cost principles and 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 $6.6 million for the two-year period ended September 30, 2010, including $2.5 million that DELEG distributed to 20 subrecipients. We reported known questioned costs totaling $18,492.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DELEG's internal control did not ensure that GEAR-UP approved payroll transactions. As a result, we identified questioned costs of $18,492.

Appendix B, section 8.h.(1) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

As discussed more fully in Finding 1, DELEG did not ensure that payroll costs, including federally funded payroll expenditures, were properly approved. We identified known questioned costs totaling $18,492.

b. Subrecipient Monitoring

DELEG'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.

Federal regulation 34 *CFR* 80.40 and OMB Circular A-133, Section 400(d)(3) require DELEG to monitor the operations of its subrecipients to ensure compliance with applicable federal program requirements.

Our review of DELEG's subrecipient monitoring activities determined that DELEG reviewed subrecipient program budgets for allowable activities and costs, provided training and technical assistance, and appropriately identified federal award information to its 20 subrecipients. However, DELEG conducted only 4 (20%) on-site monitoring visits of its subrecipients during the two-year period ended September 30, 2010. DELEG's policy for performing site visits of GEAR-UP subrecipients states that all subrecipients will be reviewed over the four-year cycle of the remaining GEAR UP grant. During the two-year audit period covered by this single audit, DELEG should have performed site visits to approximately 9 subrecipients.

We noted the same condition in our prior single audit. DELEG stated in its corrective action plan in the prior single audit that it would resume conducting on-site monitoring visits in October 2008 after travel/on-site visitation restrictions were lifted.

RECOMMENDATIONS

We recommend that LARA improve its internal control to ensure GEAR-UP compliance with federal laws and regulations regarding allowable costs/cost principles.

We again recommend that LARA improve its internal control to ensure GEAR-UP 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.

OTHER SCHEDULES

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS*

Summary Schedule of Prior Audit Findings

As of June 16, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 6410901

Finding Title: Internal Control Over the Processing of Payroll Transactions

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

a. DLEG did not minimize incompatible capabilities in the assignment of roles and functions within the Data Collection and Distribution System (DCDS).

b. DLEG did not ensure that its department security administrators (DSAs) had no human resource responsibility.

c. DLEG did not always document the approval of additional roles within DCDS.

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

a. DELEG eliminated noncompatible timekeeping roles and functions and will ensure that future conflicts are avoided.

b. DELEG worked with DTMB and the Office of Human Resources to assign DSA duties to DELEG staff or limit and

separate incompatible functions and capabilities of DTMB and DELEG human resource staff functioning as DSAs.

The Department of Licensing and Regulatory Affairs (LARA) is still working on correcting the following:

c. LARA will work with DTMB and the Office of Human Resources to perform periodic reviews and follow-up of DCDS records to ensure that additional role assignments are properly justified, approved, and documented. This includes: 1) paying closer attention to ensure that DCDS security forms are completed for all roles added, changed, or deleted for employees; 2) e-mailing instructions along with DCDS security forms to bureaus for all changes, additions, and deletions to DCDS security; 3) requiring all DCDS security forms (which are entered by the personnel management assistants) to be signed off on by the personnel management assistant's manager and LARA's DSA; 4) ensuring that all requests for multiple role additions are more closely scrutinized; and 5) ensuring that all requests for the timekeeper's role are reviewed and questioned to determine if all security issues and alternatives have been addressed.

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: 6410701
Finding Title: Labor Force Statistics, *CFDA* 17.002

Finding: DLEG's internal control did not 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 appealed this finding to both the national and regional offices of the Bureau of Labor Statistics (BLS), U.S. Department of Labor. This agency ruled that DELEG was not in violation of the U.S. Office of Management and Budget (OMB) Circular and cited both the BLS Cooperative Agreement, Administrative Requirements Section G.3. and Memorandum (S-08-04) from Mr. Robert A. Gaddie dated May 5, 2008 addressed to all State workforce agency administrators and BLS regional commissioners, as the basis. The agreement reads:

> *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.*

Based upon this ruling and notification, Labor Market Information and Strategic Initiatives will continue to report actual biweekly time and attendance (with appropriate coding) as supported by the State's time and attendance system.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 6410902

Finding Title: Food Stamp Cluster, *CFDA* 10.561

Finding: 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.

Agency Comments: DELEG has corrected this deficiency.

In July 2009, DELEG implemented the Management of Awards to Recipients System (MARS). The MARS system now includes the federal award number as a data field on all grant action notice documents as applicable.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410903
Finding Title: Labor Force Statistics, *CFDA* 17.002

Finding: DLEG did not ensure that Labor Force Statistics Program employees completed the required semiannual payroll certifications.

Agency Comments: DELEG disagrees with this finding.

DELEG contends that its practice of requiring employees to complete biweekly timesheets that contain coding indicating that staff worked 100% on a single federal program was (and still is) sufficient to satisfy the reporting requirements of OMB Circular A-87. A letter (dated June 30, 2009) from Mr. Eliot P. Lewis, Assistant Inspector General for Audit, U.S. Department of Labor, sent to the Office of the Auditor General clearly supports DELEG's position. It concludes:

> *Since employee timesheets in this case meet OMB Circular A-87 standards for a Personnel Activity Report, we conclude an adequate control is provided by the employee completing and signing a bi-weekly timesheet that identifies and allocates their time to a single federal project code. Requiring an additional semi-annual certification appears to be a duplication of effort that provides no additional control or assurance.*

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410904
Finding Title: Employment Service Cluster, *CFDA* 17.207, 17.801, and 17.804

Finding: 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.

a. 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.

b. DLEG's internal control did not ensure that subrecipients were informed of the federal grant award numbers for the Employment Service Cluster.

Agency Comments: DELEG has corrected this deficiency.

a. DELEG began collecting semiannual certifications for employees who work solely on one program within the Employment Service Cluster starting with the period ended March 31, 2008. However, as stated in our response for Finding 6410903, DELEG disputes the validity of this finding because the DELEG employees in question completed and signed biweekly time sheets which identified and assigned their charges entirely to a single federal project code.

b. In July 2009, DELEG implemented MARS. This system ensures the inclusion of applicable federal grant award numbers.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410905
Finding Title: Trade Adjustment Assistance (TAA), *CFDA* 17.245

Finding: 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.

Agency Comments: DELEG has corrected this deficiency.

In July 2009, DELEG implemented MARS. This system ensures the inclusion of applicable federal grant award numbers.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410906
Finding Title: H-1B Job Training Grants, *CFDA* 17.268

Finding: 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. Specifically:

a. DLEG did not require subrecipients to submit quarterly performance reports.

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

(1) Conducting on-site visits and/or other monitoring activities.

(2) Ensuring subrecipients obtain single audits and take necessary corrective action.

Agency Comments: DELEG has corrected this deficiency.

a. The DELEG Office of Audit and Financial Compliance obtained and reviewed quarterly performance reports submitted by all three subrecipients and reminded subrecipients of all upcoming reporting due dates.

b. The DELEG Office of Audit and Financial Compliance has obtained and reviewed subrecipients' single audits to ensure corrective action was being taken. DELEG staff also worked extensively with subrecipients related to resolving recent monitoring findings cited by the U.S. Department of Labor. More in-depth monitoring activities (including on-site visits) were also performed. Also, subrecipients have been reminded of their duties and responsibilities for obtaining single audits from their subgrantees.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410908
Finding Title: Consultation Agreements, *CFDA* 17.504

Finding: 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.

Agency Comments: DELEG has corrected this deficiency.

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

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

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 provided to employees for signature on a semiannual basis.

b.(2) DELEG has made the necessary corrections in its timekeeping system and will explore utilizing a standard distribution methodology for entering time.

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

b.(4) DELEG now performs additional review to ensure that the correct index code is listed in the future.

b.(5) Beginning in fiscal year 2008-09, DELEG assigned an analyst to monitor vehicle responsibilities. The analyst reviews monthly reports to ensure that they accurately reflect the employees assigned to State vehicles and the use of approximate index codes.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 6410911

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

Finding: DLEG did not obtain required semiannual certifications for employees who worked solely on the Rehabilitation Services - Vocational Rehabilitation Grants to States Program.

Agency Comments: DELEG has corrected this deficiency.

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 has adjusted its timekeeping methodology and procedures to ensure accurate time distribution.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410913
Finding Title: Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

Finding: DLEG's internal control did not ensure that subrecipients were informed of the federal award grant number for the TANF Program.

Agency Comments: DELEG has corrected this deficiency.

In July 2009, DELEG implemented MARS. This system ensures the inclusion of the *CFDA* number and title, federal grant award number, and federal awarding agency as data fields on all grant action notice documents (as applicable).

Audit Findings Not Corrected or Partially Corrected:

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.

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

b.(1) DLEG did not conduct the level of on-site monitoring of subrecipients for fiscal years 2005-06 and 2004-05 that it

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

agreed to with the U.S. Department of Education in its corrective action plan.

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

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

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.

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

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

Agency Comments: DELEG agrees and has complied with the following portions of this finding: parts a., b.(1), b.(2), b.(4), and c.

DELEG agrees and will comply with the following portions of this finding:

b.(3) During on-site monitoring visits, DELEG acknowledges that it did not always provide detailed description of documents reviewed and how the expenditure transactions were selected on the financial review form. However, DELEG contends that our traditional review method was thorough enough to determine program compliance. DELEG reviewed a random selection of expenditure transactions and based on initial findings, requested additional supporting documents, whenever necessary. In

doing so, and based on knowledge and experience of the monitoring team, DELEG was able to determine if subrecipients were using both State and federal funds appropriately. These determinations are fully documented in the finding reports that are sent to the subrecipients. In the future, DELEG will specify the expenditure transactions and the number of invoices reviewed on the financial review form consistent with the finding.

b.(5) DELEG agrees and has already incorporated all of the eligibility criteria necessary for any participant to receive adult education services in our federal participant review form. DELEG has also added the State School Aid Section 107 language that sets the eligibility age limit and excludes any participant that is enrolled in K-12 to receive adult education services.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410909
Finding Title: Adult Education - Basic Grants to States, *CFDA* 84.002

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

a. The Adult Education Program recorded expenditures within the Program's period of availability.

b. Accuracy of federal financial reports.

c. Compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3) and federal regulation 34 *CFR* 80.40 by:

(1) Conducting 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.

(2) Obtaining corrective action plans resulting from Adult Education Program on-site monitoring visits and in-depth desk reviews in a timely manner.

(3) Documenting its review of program expenditures during on-site monitoring visits.

(4) Recovering unallowable costs from subrecipients.

Agency Comments: DELEG has corrected the following deficiencies:

a. DELEG has increased supervisory review to ensure that established procedures are followed.

b. DELEG has implemented tracking systems to ensure that it obtains supporting documentation more timely.

c.(1) DELEG has begun setting more realistic targets for on-site monitoring reviews to supplement its desk review monitoring of State and federal grant recipients.

c.(4) DELEG has reassessed the questioned costs cited and implemented collection efforts where appropriate.

DELEG is in the process of implementing corrective action for the following:

c.(2) DELEG will implement a procedure to 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 the corrective action plan 30 days after the due date.

c.(3) DELEG will begin maintaining sufficient documentation (in addition to the completed financial review form) to support the review.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 6410907
Finding Title: Occupational Safety and Health - State Program, *CFDA* 17.503

Finding: 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.

a.(1) DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports.

a.(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.

b.(1) DLEG did not obtain required semiannual certifications for employees who worked solely on the Occupational Safety and Health - State Program.

b.(2) DLEG did not obtain signed time sheets from General Industry Division (GI) field staff during fiscal year 2007-08.

b.(3) DLEG did not maintain signed time sheets for GI field staff during fiscal year 2006-07.

b.(4) DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports.

b.(5) DLEG did not obtain supervisor approval of payroll transactions for all staff charging time to the Occupational Safety and Health - State Program.

b.(6) DLEG did not require appropriate separation of duties for payroll costs charged to the Occupational Safety and Health - State Program.

b.(7) DLEG improperly charged time to the Consultation Agreements Program, but the employee actually worked for the Occupational Safety and Health - State Program.

b.(8) DLEG improperly charged vehicle usage expenditures from the Occupational Safety and Health - State Program to the Consultation Agreements Program.

Agency Comments: DELEG has corrected this deficiency.

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

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

b.(1) DELEG has created an employee certification form for use by employees who work 100% of their time in the program area. This form has been distributed to employees starting with the period October 1, 2008 through March 31, 2009

and will continue to obtain employee signatures (where applicable) on a semiannual basis.

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 occasions when individuals have lost access and must submit time via a nondirect means, DELEG will continue to retain their time as submitted for signature by them.

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

b.(4) DELEG has made the necessary correction to the timekeeping system and will explore utilizing a standard distribution methodology for entering time.

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.

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

b.(7) DELEG has implemented additional review to ensure that correct index codes are listed.

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

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 6410912

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

Finding: DLEG did not conduct any on-site monitoring visits of its subrecipients during the two-year period ended September 30, 2008.

Agency Comments: DELEG has resumed conducting on-site monitoring visits.

* Effective April 25, 2011, Executive Order No. 2011-4 transferred various programs to other State departments, including workforce programs and energy and labor market information programs. Also, DELEG became the Department of Licensing and Regulatory Affairs (LARA). Further, the Bureau of Health Professions and the Bureau of Health Systems transferred from the Department of Community Health to LARA.

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS

Corrective Action Plan

As of June 9, 2011

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 6411101

Finding Title: Internal Control Over the Processing of Payroll Transactions

Management Views: The Department of Licensing and Regulatory Affairs (LARA) agrees with this finding and has complied.

Planned Corrective Action: LARA and the Department of Technology, Management & Budget (DTMB) are working together to establish proper internal control over the payroll transaction processing to ensure time is properly certified at the end of each pay period.

Anticipated Completion Date: Complied.

Responsible Individuals: Marie Lisle, Human Resources Director, DCS/LARA
Allan Pohl, Chief Financial Officer, LARA

Finding Number: 6411102

Finding Title: Comprehensive Information Technology (IT) Security Program

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

Planned Corrective Action: Part a. The DIT-0170 security plan and assessment guidelines were released July 31, 2007. All subsequent system modifications will invoke review. DTMB ensures that all new

development and enhancement to existing systems have a security review and follow all DTMB security processes. The legacy systems are being systematically updated to be in accordance with DTMB policies and guidelines.

Part b. The risk assessments are part of the DIT-0170 security plan and assessment guidelines. All subsequent system modifications will invoke review. DTMB ensures that all new development and enhancement to existing systems have a security review and follow all DTMB security processes. The legacy systems are being systematically updated to be in accordance with DTMB policies and guidelines.

Part c. The DIT-0170 security plan and assessment guidelines were released July 31, 2007. All subsequent system modifications will invoke review. DTMB ensures that all new development and enhancement to existing systems have a security review and follow all DTMB security processes. The legacy systems are being systematically updated to be in accordance with DTMB policies and guidelines.

Part d. DTMB will document the current disaster and recovery plans and assess to ensure that they meet DTMB policy and guidelines. DTMB will also work with vendors to validate their disaster and recovery plans and to ensure that any required compensating controls are in place.

	Part e.	LARA and DTMB will ensure that the systems identified as not having completed a biennial internal control evaluation will do so.
	Part f.	LARA hopes to have this completed by August 31, 2011.
Anticipated Completion Date:	Part a.	October 31, 2011
	Part b.	October 31, 2011
	Part c.	October 31, 2011
	Part d.	April 30, 2012
	Part e.	August 31, 2011
	Part f.	August 31, 2011
Responsible Individuals:	Kirt Berwald, Chief Information Officer, Agency Services, DTMB Allan Pohl, Chief Financial Officer, LARA	

Finding Number:	6411103
Finding Title:	Third Party Service Organizations
Management Views:	LARA agrees with this finding and will comply.
Planned Corrective Action:	DTMB has boilerplate contract language that requires the third party service organization to adhere to DTMB security guidelines and processes and procedures. DTMB and LARA will ensure that these controls are followed or there are compensating controls in place to ensure adherence to State of Michigan policies.
Anticipated Completion Date:	December 31, 2011
Responsible Individuals:	Kirt Berwald, Chief Information Officer, Agency Services, DTMB Allan Pohl, Chief Financial Officer, LARA

Finding Number:	6411104
Finding Title:	C3 Application Access Controls
Management Views:	LARA agrees with this finding and will comply.
Planned Corrective Action:	LARA is working together with DTMB to resolve all issues identified.
Anticipated Completion Date:	August 31, 2011
Responsible Individuals:	Kirt Berwald, Chief Information Officer, Agency Services, DTMB Allan Pohl, Chief Financial Officer, LARA

Finding Number:	6411105
Finding Title:	MARS Selected General Controls
Management Views:	LARA agrees with this finding and will comply.
Planned Corrective Action:	LARA will work with DTMB staff to improve the general controls. Due to Executive Order No. 2011-4, this system will be transitioning to the control of the Michigan Strategic Fund.
Anticipated Completion Date:	July 31, 2011
Responsible Individuals:	Kirt Berwald, Chief Information Officer, Agency Services, DTMB Allan Pohl, Chief Financial Officer, LARA

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 6411106

Finding Title: Employment Service Cluster, Including ARRA - Employment Service/Wagner-Peyser Funded Activities, *CFDA* 17.207, 17.801, and 17.804

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

Planned Corrective Action: LARA and the Civil Service Commission are working together to establish proper internal controls over the payroll transaction processing to ensure that time is properly certified at the end of each pay period.

Anticipated Completion Date: Complied.

Responsible Individuals: Marie Lisle, Human Resources Director, DCS/ LARA
Allan Pohl, Chief Financial Officer, LARA

Finding Number: 6411107

Finding Title: WIA Cluster, Including ARRA - WIA Adult Program, ARRA - WIA Youth Activities, and ARRA - WIA Dislocated Workers, *CFDA* 17.258, 17.259, 17.260, and 17.278

Management Views:

Part a. LARA agrees with this finding and has complied.

Part b. LARA agrees with this finding and will comply.

Planned Corrective Action:

Part a. LARA and the Civil Service Commission are working together to establish proper internal control over the payroll transaction processing to ensure that time is properly certified at the end of each pay period.

Part b. LARA will implement the necessary internal control procedures to ensure that staff accurately record their time in the Data Collection Distribution System (DCDS) in relation to each federal grant staff time is expended on.

Anticipated Completion Date: Part a. Complied.
Part b. June 30, 2011

Responsible Individuals: Marie Lisle, Human Resources Director, DCS/ LARA
Allan Pohl, Chief Financial Officer, LARA

Finding Number: 6411108

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

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

Planned Corrective Action: LARA and the Civil Service Commission are working together to establish proper internal control over the payroll transaction processing to ensure that time is properly certified at the end of each pay period.

Anticipated Completion Date: Complied.

Responsible Individuals: Marie Lisle, Human Resources Director, DCS/ LARA
Allan Pohl, Chief Financial Officer, LARA

Finding Number: 6411109

Finding Title: State Energy Program and ARRA - State Energy Program, *CFDA* 81.041

Management Views: Part a. LARA agrees with this finding and will comply.

	Part b.	LARA agrees with this finding and has complied.
Planned Corrective Action:	Part a.	LARA, Bureau of Energy Services, will implement the necessary internal control procedures to ensure that staff accurately record their time in DCDS in relation to each federal grant staff time is expended on.
	Part b.	LARA and the Civil Service Commission are working together to establish proper internal control over the payroll transaction processing to ensure that time is properly certified at the end of each pay period.
Anticipated Completion Date:	Part a.	June 30, 2011
	Part b.	Complied.
Responsible Individuals:	Amy Butler, Director, State Energy Program, Bureau of Energy Services, LARA Marie Lisle, Human Resources Director, DCS/ LARA Allan Pohl, Chief Financial Officer, LARA	

Finding Number:	6411110
Finding Title:	ARRA - Energy Efficient Appliance Rebate Program (EEARP), *CFDA* 81.127
Management Views:	LARA agrees with this finding and will comply.
Planned Corrective Action:	LARA will implement the necessary internal control procedures to ensure that staff accurately record their time in DCDS in relation to each federal grant staff time is expended on.
Anticipated Completion Date:	June 30, 2011

Responsible Individual:	Robert Jackson, Manager of Green Practices Program, Michigan Economic Development Corporation

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Finding Number:	6411111
Finding Title:	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG), *CFDA* 81.128
Management Views:	LARA agrees with this finding and will comply.
Planned Corrective Action:	LARA's Bureau of Energy Services will implement the necessary internal control procedures to ensure that staff accurately record their time in DCDS in relation to each federal grant that staff time is expended on.
Anticipated Completion Date:	June 30, 2011
Responsible Individual:	Robert Jackson, Manager of Green Practices Program, Michigan Economic Development Corporation

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Finding Number:	6411112
Finding Title:	Adult Education - Basic Grants to States, *CFDA* 84.002
Management Views:	LARA agrees with this finding and will comply.
Planned Corrective Action:	Part a. During on-site monitoring visits, LARA acknowledges that it did not always provide detailed description of documents reviewed and how the expenditure transactions were selected on the financial review form. However, LARA contends that our traditional review method was thorough enough to determine program compliance. LARA reviewed a random selection of expenditure transactions and, based on initial findings,

requested additional supporting documents whenever necessary. In doing so and based on knowledge and experience of the monitoring team, LARA was able to determine if subrecipients were using both State and federal funds appropriately. These determinations are fully documented in the finding reports that are sent to the subrecipients. In the future, LARA will specify the expenditure transactions and the number of invoices reviewed on the financial review form consistent with the finding.

Part b. In the future, LARA will ensure (a) any recommendation is related directly to documented finding(s) only and (b) there will be no conflict between a required action and any commended activity.

Part c. In the future, LARA will provide additional guidance to all subrecipients reinforcing the necessary requirement to follow the cost principles of OMB Circular A-122 for nonprofit organizations and OMB Circular A-87 for other entities.

Part d. In the future, LARA will document all the eligibility requirements such as the participant's age, secondary school status, and skill level in the federal participant review form and the source document(s) instead of documenting that on the State participant review form.

Part e. LARA has already incorporated all the eligibility criteria necessary for any participant to receive adult education

services in our federal participant review form. LARA has also added the State School Aid Section 107 language that sets the eligibility age limit and excludes any participant that is enrolled in K-12 to receive adult education services.

Part f. The deficiencies existed because LARA procedures did not require applicable activities and documentation.

LARA agrees with the finding; however, LARA did maintain files on all corrective action activities.

In the future, LARA will post all communication including telephone messages on the tracking log. LARA will also establish and enforce a consistent time line within the tracking log to document all contacts (e-mail messages, telephone calls, correspondence, etc.) made in obtaining a corrective action plan from any subrecipient that is monitored and fails to meet any articulated monitoring requirements.

Anticipated Completion Date: September 30, 2011

Responsible Individual: Diane Duthie, Director, Adult Education & COSSA, LARA

Finding Number: 6411113

Finding Title: Vocational Rehabilitation Cluster, Including ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act, *CFDA* 84.126 and *CFDA* 84.390

Management Views:

Part a. LARA agrees with this finding and has complied.

Part b. LARA agrees with this finding and has complied.

Part c. LARA agrees in part with this finding and will comply.

Part d. LARA agrees with this finding and will comply.

Part e. LARA agrees with this finding and has complied.

Planned Corrective Action:

Part a. Upon receiving verbal communication of the potential violation during the May 1, 2009, Rehabilitation Services Administration (RSA) exit meeting, Michigan Rehabilitation Services (MRS) took progressive steps to correct the allowable activities issues with the Michigan Commission on Disability Concerns (MCDC). For fiscal year 2009-10, MRS established a memorandum of understanding (MOU) (which was reviewed and approved by RSA) to align MCDC's activities to eligible Title I activities. However, MCDC staff did not comply with all terms of the new MOU, which resulted in unallowable activities in fiscal year 2009-10. Therefore, DELEG discontinued the MOU and placed MCDC under the organizational oversight of MRS.

Part b. LARA and the Civil Service Commission are working together to establish proper internal control over the payroll transaction processing to ensure that time is properly certified at the end of each pay period.

Part c. LARA will improve its controls to ensure compliance in the future.

Part d. LARA will discuss federal regulation 34 *CFR* 85.300 with the appropriate entity to understand if a specific dollar threshold applies to these payments. If this is the case, LARA will research a possible solution to be incorporated within the Accessible Web-Based Activity and Reporting Environment (AWARE) system.

Part e. During fiscal year 2008-09, MRS believed it was in compliance with existing RSA requirements based on past practices. During fiscal year 2008-09, RSA conducted a review of their own and released a draft report September 2009. MRS began corrective action in fiscal year 2008-09.

Anticipated Completion Date: October 1, 2012

Responsible Individual: Debra K. Huntley, Evaluation and Program Support Division Director, MRS/LARA

Finding Number: 6411114

Finding Title: Gaining Early Awareness and Readiness for Undergraduate Programs, *CFDA* 84.334

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

Planned Corrective Action:	One additional GEAR-UP field review was conducted in December 2010. LARA plans to continue field reviews in June 2011, upon completion of several other mandatory activities associated with GEAR-UP and other programs administered by that staff unit. Staff is currently working with the subrecipients to develop a review schedule with the goal of conducting the balance of the field reviews as quickly as possible. Two staff will be involved in conducting the field reviews.
Anticipated Completion Date:	September 30, 2011
Responsible Individual:	Rudy Redmond, Director, GEAR-UP Michigan, LARA

GLOSSARY

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
AWARE	Accessible Web-Based Activity and Reporting Environment.
BLS	Bureau of Labor Statistics.
Catalog of Federal Domestic Assistance (CFDA)	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
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.
Code of Federal Regulations (CFR)	The codification of the general and permanent rules published by the departments and agencies of the federal government.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.

Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
DELEG	The Department of Energy, Labor & Economic Growth.
DLEG	The Department of Labor and Economic Growth.
DSA	department security administrator.
DTMB	Department of Technology, Management & Budget.
EEARP	Energy Efficient Appliance Rebate Program.
EECBG	Energy Efficiency and Conservation Block Grant Program.
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.
FMG	State of Michigan Financial Management Guide.

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.
IT	information technology.
LARA	Department of Licensing and Regulatory Affairs.
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.
MAERS	Michigan Adult Education Reporting System.
MARS	Management of Awards to Recipients System.
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 deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.
MCCNET	Michigan Community College NETwork.
MCDC	Michigan Commission on Disability Concerns.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MOU	memorandum of understanding.
MRS	Michigan Rehabilitation Services.
MSHDA	Michigan State Housing Development Authority.

NIST	National Institute of Standards and Technology.
OSMIS	One-Stop Management Information System.
other noncompliance	Violations of contracts or grant agreements that are not material to the financial schedules or financial statements but should be communicated to management in accordance with *Government Auditing Standards*. Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with *Government Auditing Standards*.
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.
RSA	Rehabilitation Services Administration.
SAS 70 report	Statement on Auditing Standards No. 70 report. SAS No. 70 provides guidance for independent auditors who issue reports on the processing of transactions by a service organization for use by other auditors. There are two types of SAS 70 reports. A "report on controls placed in operation" contains a description of the service organization's controls that may be relevant to a user of the service organization's internal control. A "report on controls placed in operation and tests of operating effectiveness" states whether controls were suitably designed to achieve specified control objectives, whether they had been placed in operation as of a specific date, and whether the controls that were tested were operating with sufficient effectiveness.
SEP	State Energy Program.

significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, 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.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*
TPSO	third party service organization.

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.

U.S. Office of Management and Budget (OMB)

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL