

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

MICHIGAN JOBS COMMISSION

October 1, 1996 through September 30, 1998

EXECUTIVE DIGEST

MICHIGAN JOBS COMMISSION

INTRODUCTION

This report contains the results of our financial audit*, including provisions of the Single Audit Act, of the Michigan Jobs Commission (MJC) for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of MJC was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

MJC was created as a temporary agency by Executive Order 1993-2, effective March 1, 1993. MJC was later made a permanent State department by Executive Order 1994-26, effective February 27, 1995. Subsequent to our audit period, Executive Order 1999-1, effective April 5, 1999, transferred the Michigan Strategic Fund (MSF) from MJC to the Department of Management and Budget, created the Michigan Department of Career Development, and abolished MJC and the Michigan Jobs Commission Board. The Executive Order also transferred various economic development programs and functions from MJC to MSF and transferred the remaining authority, powers,

* See glossary at end of report for definition.

duties, functions, responsibilities, and personnel of MJC to the Michigan Department of Career Development.

MJC's mission* was to promote and administer programs designed to foster economic expansion and work force development in the State. MJC's purpose was also to ensure maximum coordination, accountability, and performance-related measures with respect to these programs.

MJC was headed by a chief executive officer, who also served as department director. Executive Order 1994-26 also established the Michigan Jobs Commission Board. The Board, which consisted of up to 25 voting members appointed by the Governor, was established to advise the Governor and MJC's chief executive officer on matters regarding economic and work force development policy.

MJC's major funding sources were the State's General Fund and the U.S. Departments of Education, Health and Human Services, Housing and Urban Development, and Labor.

MJC had General Fund expenditures (which included MJC's federally funded expenditures) and operating transfers out totaling approximately \$406 million and \$374 million for fiscal years 1997-98 and 1996-97, respectively.

As of September 30, 1998, MJC had 998 employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit MJC's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

* See glossary at end of report for definition.

Conclusion: We expressed an unqualified opinion on MJC's financial schedules.

Audit Objective: To assess and report on MJC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to controls over access to the Michigan Administrative Information Network* (MAIN), MAIN reconciliation procedures, encumbrances and accounts payable, mail opening and cash receipts, and equipment inventory controls and financial reporting (Findings 1 through 5).

In addition, our assessment indicated that MJC was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on MJC's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

* See glossary at end of report for definition.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to timely federal reporting and subrecipient* monitoring that are required to be reported under OMB Circular A-133 (Findings 6 through 8). However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. We did identify reportable conditions related to timely federal reporting, subrecipient monitoring, controls over access to MAIN, and MAIN reconciliation procedures (Findings 6 through 10).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan Jobs Commission for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; 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*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit did not include the operations of the Michigan Strategic Fund or the Employment Services Agency, both of which were audited and reported on separately.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 8 findings and 12 corresponding recommendations. MJC's corrective action plan indicates that it agrees with the recommendations and plans to implement all of them.

* See glossary at end of report for definition.

As disclosed in MJC's summary schedule of prior audit findings, MJC complied with 5 of the 11 prior Single Audit* recommendations related to the 8 prior audit findings. Three of the prior audit recommendations were rewritten for inclusion in this report. Three of the prior audit recommendations are repeated in this report.

* See glossary at end of report for definition.

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Dr. Barbara Bolin, Director
Michigan Department of Career Development
and
Mr. Doug Rothwell, Chief Executive Officer
Michigan Economic Development Corporation
Victor Center
Lansing, Michigan

Dear Dr. Bolin and Mr. Rothwell:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Jobs Commission for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Michigan Jobs Commission financial schedules and notes to the financial schedules, required supplementary information, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

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

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

AUDITOR GENERAL

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Description of Agency

The Michigan Jobs Commission (MJC) was created as a temporary agency by Executive Order 1993-2, effective March 1, 1993. MJC was later made a permanent State department by Executive Order 1994-26 (Executive Reorganization Order 1994-10), effective February 27, 1995. Subsequent to our audit period, Executive Order 1999-1, effective April 5, 1999, transferred the Michigan Strategic Fund (MSF) from MJC to the Department of Management and Budget as an autonomous entity, created the Michigan Department of Career Development, and abolished MJC and the Michigan Jobs Commission Board.

MJC's mission was to promote and administer programs designed to foster economic expansion and work force development in the State. MJC's purpose was also to ensure maximum coordination, accountability, and performance-related measures with respect to these programs.

MJC was headed by a chief executive officer, who also served as department director. Executive Order 1994-26 also established the Michigan Jobs Commission Board. The Board, which consisted of up to 25 voting members appointed by the Governor, was established to advise the Governor and MJC's chief executive officer on matters regarding economic and work force development policy.

As of September 30, 1998, MJC was arranged into the following organizational units:

- Executive Office
- Administrative Services
- Michigan Community Services Commission
- Travel Michigan
- Public Affairs
- Michigan Renaissance Fund
- Michigan Business Ombudsman
- Workforce Development
- Michigan Rehabilitation Services
- Employment Services Agency
- Economic Development Job Training

Career Preparation and Program Development
International and National Business Development
Customer Assistance and Small Business Services
Michigan Business Development
Economic Development Infrastructure
Michigan Renaissance Zones

Administrative Services was responsible for maintaining MJC's budgeting, purchasing, information technology, personnel services, office services, and accounting and financial reporting, including the preparation and submission of most federal program cost reports. The individual program areas had the responsibility for establishing and implementing grant and service program policies.

The Michigan Employment Security Commission (MESC) was established by Act 1, P.A. 1936, to bring Michigan into conformity with the federal Wagner-Peyser Act of 1933. MESC was established as a statutorily and financially autonomous entity. Executive Order 1995-8 changed MESC's name to the Michigan Employment Security Agency (MESA) and transferred it to MJC. This transfer was pending resolution of related litigation and became effective after final action by the Michigan Supreme Court in December 1996. Executive Order 1997-12 subsequently transferred MESA's unemployment benefits functions to the Department of Consumer and Industry Services. MESA's employment services and other functions remained with MJC. Executive Order 1997-18 further specified the employment service functions that would remain with MJC and renamed it the Employment Services Agency (ESA). ESA was audited and reported on separately and was not part of the scope of this audit.

MJC's major funding sources were the State's General Fund and the U.S. Departments of Education, Health and Human Services, Housing and Urban Development, and Labor.

MJC's financial transactions were recorded primarily in the General Fund, with the exception of the financial transactions of the Michigan Strategic Fund, which were recorded in a proprietary fund, and those of ESA, which were recorded in a special revenue fund. MJC had General Fund expenditures (which included MJC's federally funded expenditures) and operating transfers out totaling approximately \$406 million and \$374 million for fiscal years 1997-98 and 1996-97, respectively.

As of September 30, 1998, MJC had 998 employees.

Executive Order 1999-1 also transferred the following economic development and other programs and functions from MJC to MSF: Michigan Economic Growth Authority; Plant Rehabilitation and Industrial Development Districts; State Education Tax Exclusion; Personal Property Tax Exemption; Community Development Block Grants; Economic Development Job Training; Department of Economic Expansion and the Economic Expansion Council; Michigan International Trade Authority; Michigan Enterprise Zone Authority; Neighborhood Enterprise Zones; Michigan Urban Land Assembly Act; Michigan Travel Commission; Travel Michigan; Office of the Michigan Business Ombudsman; Office of the Small Business Clean Air Ombudsman; Michigan Renaissance Zone Act; Michigan Business Incubation Act; Commercial Redevelopment Act; Economic Development Corporations Act; Office of Film and Television Services; operator and chauffeur license fees; Michigan Training Incentive Fund; Minority, Women and Small Business Services units; Capital Resources Group; Office of Business and Education Coordination; K.I. Sawyer Conversion Authority; and Wurtsmith Conversion Authority.

In addition, the Order transferred the remaining authority, powers, duties, functions, responsibilities, and personnel of MJC to the Michigan Department of Career Development.

Audit Objectives and Conclusions, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Michigan Jobs Commission (MJC) had the following objectives:

1. To audit MJC's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed an unqualified opinion on MJC's financial schedules.

2. To assess and report on MJC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to controls over access to MAIN, MAIN reconciliation procedures, encumbrances and accounts payable, mail opening and cash receipts, and equipment inventory controls and financial reporting (Findings 1 through 5).

In addition, our assessment indicated that MJC was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs* .

* See glossary at end of report for definition.

3. To assess and report on MJC's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to timely federal reporting and subrecipient monitoring that are required to be reported under OMB Circular A-133 (Findings 6 through 8). However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. We did identify reportable conditions related to timely federal reporting, subrecipient monitoring, controls over access to MAIN, and MAIN reconciliation procedures (Findings 6 through 10).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan Jobs Commission for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit did not include the operations of the Michigan Strategic Fund or the Employment Services Agency, both of which were audited and reported on separately.

We considered MJC's internal control over compliance applicable to each major federal program and assessed MJC's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on MJC's summary schedule of prior audit

findings. MJC's major federal programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 8 findings and 12 corresponding recommendations. MJC's corrective action plan indicates that it agrees with the recommendations and plans to implement all of them.

MJC's corrective action plan, which is included in this report, was prepared by MJC as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MJC to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with 5 of the 11 prior Single Audit recommendations related to the 8 prior audit findings. Three of the prior audit recommendations were rewritten for inclusion in this report. Three of the prior audit recommendations are repeated in this report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants - State's Program
17.207	Employment Service
17.246 and 17.250	Job Training Partnership Act Cluster
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.278	Michigan School to Work Initiative
93.558	Temporary Assistance for Needy Families
94.006	AmeriCorps

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

Auditee qualified as low-risk auditee? No

Section II: Findings Related to the Financial Schedules

FINDING (459901)

1. Controls Over Access to MAIN

MJC did not have sufficient control procedures over access to the Michigan Administrative Information Network (MAIN) to ensure that all employees were assigned user classes that were compatible with assigned job responsibilities. Also, MJC sometimes did not obtain signed security agreements prior to granting or modifying MAIN user capabilities.

User classes play a critical role in providing internal control over a department's initiation and approval of transactions that affect the accounting records. Also, the MAIN FACS (Financial Administration and Control System) Security Manual requires each agency to maintain effective control over which employees have access to various MAIN functions.

Our review disclosed:

- a. MJC did not sufficiently control the assignment of user capabilities within the Advanced Purchasing and Inventory Control System (ADPICS), the Statewide purchasing system within MAIN.

ADPICS User Class 17 is intended for use by small agencies and local offices that require the capability for selected users to act as a one-person office. User Class 17 capabilities include requisitioning, receiving, purchasing, accounts payable processing, document cancellation, and change order processing. These capabilities could allow an individual to bypass established internal controls, such as the proper separation of duties. Therefore, MJC should limit the assignment of User Class 17.

MJC assigned User Class 17 capabilities to 12 different users. Nine of these users did not need these capabilities to perform their primary job functions.

- b. MJC did not sufficiently limit the assignment of user access capabilities within the Relational Standard Accounting and Reporting System (R*STARS). R*STARS is the State's accounting and financial software reporting package and is a part of MAIN FACS.

R* STARS User Class 80 is used to designate an employee as an agency security administrator (ASA). In accordance with the MAIN FACS Security Manual, each agency will designate an ASA who will then have the authority to indicate agency-level approval for all MAIN FACS security additions, modifications, and deletions. The MAIN FACS Security Manual also requires each agency to maintain effective control over which employees have access to MAIN FACS and to appropriately segregate the duties performed by its employees to achieve adequate internal controls over financial records and transactions. The ASA's primary functions include reviewing and determining the level of access to MAIN provided to other agency employees. Because of these capabilities, departments should limit the assignment of User Class 80.

* See glossary at end of report for definition.

MJC assigned User Class 80 to 8 employees, 4 of whom did not need these capabilities to perform their job responsibilities.

- c. MJC did not obtain signed MAIN FACS security request forms from users when requesting modifications to existing ADPICS and R*STARS access capabilities. Also, MJC did not obtain signed security request forms from employees who transferred from other departments with existing MAIN access capabilities.

The MAIN FACS Security Manual requires each agency's ASA to submit an accurate and complete security request form to the Office of Financial Management (OFM), Department of Management and Budget (DMB), whenever it requests a change to an existing user's security profile. This form should include the reason for the change, elements to be added or modified, the employee's name and classification, and the employee's and ASA's signatures. The employee's signature is his/her affirmation that he/she agrees to protect his/her password from unauthorized use and will hold information obtained from MAIN in the strictest confidence.

MJC did not have a signed MAIN FACS security request form on file for 8 of the 19 employees in our review.

RECOMMENDATIONS

We recommend that MJC implement control procedures over access to MAIN to ensure that all employees are assigned user classes that are compatible with assigned job responsibilities.

We also recommend that MJC obtain signed security agreements prior to granting or modifying MAIN user capabilities.

FINDING (459902)

2. MAIN Reconciliation Procedures

MJC did not have sufficient control procedures to reconcile interface control totals from an internal subsystem used to process payments to vendors and clients of the

Michigan Rehabilitation Services (MRS) Program with batch control totals from MAIN.

Client and vendor payments for the MRS Program were processed throughout the day at approximately 35 district offices on the MRS payment subsystem and then merged into MAIN during a nightly batch process. During fiscal years 1997-98 and 1996-97, MRS processed 307,167 transactions and 331,174 transactions, respectively, through this payment subsystem, which generated payments of approximately \$35.3 million and \$34.6 million, respectively.

Within the MRS payment subsystem, MRS program staff reconciled payment listing reports with transaction reports that were produced during the batch process to ensure that the transaction totals agreed. However, there was no reconciliation of these transaction totals with MAIN accounting records to ensure that all payments processed by the MRS payment subsystem were accurately recorded in MAIN.

DMB policy requires that all State departments and agencies establish and maintain procedures that will ensure that errors in transaction processing will be promptly identified and corrected.

RECOMMENDATION

We recommend that MJC implement central procedures to reconcile interface control totals from the internal subsystem used to process payments to vendors and clients of the MRS program with batch control totals from MAIN.

FINDING (459903)

3. Encumbrances and Accounts Payable

MJC's procedures for establishing encumbrances and accounts payable at fiscal year-end were not in accordance with DMB criteria. As a result, financial reporting was inaccurate and spending authority was inappropriately carried forward to subsequent fiscal years.

DMB Administrative Guide procedure 1210.27 states that contracts with termination dates on or before the end of the fiscal year do not qualify as

encumbrances that allow spending authority to be carried forward to the next fiscal year. Instead, the estimated cost of any work performed prior to fiscal year-end must be recognized as an account payable.

During fiscal years 1996-97 and 1995-96, MJC received legislative appropriations for Economic Development Job Training (EDJT) grants that were to be expended within a two-year period. Subsequently, MJC awarded grants to EDJT subrecipients with two-year grant periods. In accordance with the grant agreements, 80% of the grant awards were due to EDJT subrecipients by the end of the grant period. The remaining 20% of the grant awards were not payable until after the grant period when EDJT subrecipients met prescribed grant performance criteria.

As of September 30, 1998 and September 30, 1997, MJC established encumbrances of approximately \$12.9 million and \$17.6 million, respectively, for EDJT funds that had been appropriated in the preceding fiscal year. Because the two-year funding period specified in MJC's appropriations acts had expired, only 20% of the original grant awards qualified as encumbrances. MJC needs to develop a reasonable estimate of the expenditures incurred by EDJT subrecipients, and record these amounts as accounts payable. Based on our review, we concluded that approximately \$6.0 million and \$10.5 million of these amounts did not qualify as encumbrances and should have been recorded as accounts payable and expenditures, as of and for the years ended September 30, 1998 and September 30, 1997, respectively. We noted corresponding overstatements of balances carried forward into fiscal years 1998-99 and 1997-98.

RECOMMENDATION

We recommend that MJC develop internal controls to ensure that encumbrances and accounts payable are properly classified at fiscal year-end in accordance with DMB criteria.

FINDING (459904)

4. Mail Opening and Cash Receipts

MJC did not maintain adequate internal control over mail opening and processing of cash receipts. These weaknesses increase the risk that cash receipts could be lost or misappropriated.

Our review of MJC's mail opening and processing of cash receipts disclosed:

- a. MJC's internal control did not ensure that all mail was centrally opened and properly sorted for receipts.

MJC's mailroom staff did not open mail addressed to the Executive Office or the Office of Human Resources and mail marked "Personal and Confidential." Also, mailroom staff often missed checks during the initial sorting of the mail. MJC staff in at least one of MJC's operating units received checks in mail that had already been opened and sorted in the mailroom.

Approximately 6.6% of MJC's cash receipts (\$795,000 and \$1,258,000 in fiscal years 1997-98 and 1996-97, respectively) were received and processed by MJC's operating units, rather than centrally by mailroom staff.

A similar finding was reported in our prior audit.

- b. MJC did not require its operating units to have two employees open the mail or to record checks received on a cash receipts log.

For example, only one employee in the MRS unit, located in the Hannah Building opened mail. Our audit disclosed that MRS received checks for as much as \$15,000.

- c. MJC's internal control did not provide for checks to be restrictively endorsed immediately upon receipt.

DMB Administrative Guide procedure 1270.02 requires that all checks be restrictively endorsed immediately upon receipt.

MJC's mailroom opened most of the mail and recorded on a cash receipts log any checks received. The rest of MJC's mail, which often contained checks, was opened in MJC's operating units. MJC did not restrictively endorse these checks until after the checks were forwarded to its Cashier's Office, which was generally 1 to 2 days after the checks were received.

MJC responded that it agreed with our prior recommendation and had implemented corrective actions for mail opening and the processing of cash receipts.

RECOMMENDATION

We recommend that MJC improve its internal control over mail opening and processing of cash receipts.

FINDING (459905)

5. Equipment Inventory Controls and Financial Reporting

MJC had not fully complied with prescribed fixed asset control and financial reporting requirements. As a result, MJC had not provided adequate safeguards and inventory control over equipment items.

In accordance with Section 18.1201 of the *Michigan Compiled Laws*, DMB has issued numerous directives to State agencies pertaining to equipment inventory controls and the recording and reporting of acquisition and disposal data for financial reporting purposes.

MJC's Office of Administrative Services was primarily responsible for MJC's equipment control and related financial functions. Our review of these functions disclosed:

- a. MJC did not conduct an annual physical inventory of equipment during fiscal year 1997-98, as required.

DMB Administrative Guide procedure 1270.05 requires that an annual physical inventory be conducted to determine that assets are functional and are in MJC's custody.

- b. MJC had not established an inventory record for its purchased equipment or equipment transferred from other agencies.

The State's General Fixed Assets Accounting Manual (GFAAM) requires each department to maintain equipment records. The minimum required data to be recorded for all equipment includes a description of the equipment, a tag number, the historical cost, location, date acquired, and the source of the funds used to purchase the equipment.

- c. MJC did not accurately report the value of its equipment included on fixed asset inventory reports submitted to DMB for fiscal years 1997-98 and 1996-97.

The GFAAM requires departments to annually submit to DMB a fixed asset inventory report that includes fixed asset inventory additions, disposals, and transfers. DMB annually distributes instructions to all departments specifying the information that is required to be reported.

MJC's ending equipment balances, reported to DMB for fiscal years 1997-98 and 1996-97, included numerous items that overstated the value of its equipment inventory. For example, MJC reported \$89,813 and \$399,143 in fiscal years 1997-98 and 1996-97, respectively, for movable partitions. In accordance with the GFAAM and DMB's annual reporting instructions, movable partitions are not to be included in a department's inventory totals. Also, MJC's annual report to DMB for fiscal year 1996-97 inappropriately included equipment totaling \$1.1 million that had been transferred to MJC from the Department of Commerce. Although MJC did not maintain an equipment inventory record (item b.), the itemized list of transferred equipment contained items totaling \$1.1 million that cost less than \$5,000. Including these low cost items was contrary to MJC policy.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT MJC COMPLY WITH PRESCRIBED FIXED ASSET CONTROL AND FINANCIAL REPORTING REQUIREMENTS BY:

- (a) CONDUCTING ANNUAL PHYSICAL INVENTORIES OF EQUIPMENT.

(b) ESTABLISHING AN INVENTORY RECORD FOR EQUIPMENT.

(c) ACCURATELY REPORTING THE VALUE OF ITS EQUIPMENT ON ANNUAL FIXED ASSET INVENTORY REPORTS.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (459906)

6. Timely Federal Reporting

U.S. Department of Labor	CFDA: 17.207 Employment Service
Award Number: A-6047-7-00-80-60	Award Period: 01/1/97 - 12/31/99
	Questioned Costs: \$0

U.S. Department of Education	CFDA: 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H126A80030 H126A70030 H126A60030	Award Period: 10/01/97 - 09/30/99 10/01/96 - 09/30/98 10/01/95 - 09/30/97
	Questioned Costs: \$0

U.S. Department of Education	CFDA: 84.278 Michigan School to Work Initiative
Award Number: V278B60002	Award Period: 10/01/95 - 09/30/99
	Questioned Costs: \$0

Corporation for National and Community Service	CFDA: 94.006 AmeriCorps
Award Number: 94ASCM1023	Award Period: 08/01/94 - 12/31/99
	Questioned Costs: \$0

MJC's internal control did not ensure that required federal financial status, program progress, and program performance reports were submitted on a timely basis. As a result, required federal reports were filed late for 4 of the 7 major federal financial assistance programs included in our review.

Our review of MJC's federal reporting practices disclosed:

- a. MJC did not submit required federal financial status reports and program progress reports for the Employment Service Program (CFDA #17.207) on a timely basis.

Title 29, Part 97, Sections 40 and 41 of the *Code of Federal Regulations (CFR)* requires MJC to submit federal financial status reports and program progress reports. The Employment Service Program grant agreement requires that these reports be submitted within 30 days after the end of each reporting period.

There were 5 reporting periods for which these reports were required during our audit period. Our review disclosed that the program progress reports due for the quarter ended June 30, 1997 had not been submitted. Our review also disclosed that the financial status and program progress reports for the quarters ended on September 30, 1997; December 31, 1997; and March 31, 1998 had been submitted 3, 6, and 15 days late, respectively. The reports for the quarter ended March 30, 1997 were submitted on time.

- b. MJC did not submit required federal financial status reports and program progress reports for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program (CFDA #84.126) on a timely basis.

Federal regulation 34 *CFR* 80.41(b) requires the State to submit financial status reports periodically. Quarterly reports are due 30 days after the end of the report period; annual reports are due within 90 days after the end of the grant period.

Our review of 13 financial status reports due for fiscal years 1996-97 and 1997-98 disclosed that 5 reports, due quarterly, were submitted from 13 to 24 days after they were due. We also noted that MJC did not document that it had requested any extensions for submission of these required reports. A similar finding was included in our prior audit.

- c. MJC did not submit required federal financial status reports and program performance reports for the Michigan School to Work Initiative Program (*CFDA* #84.278) on a timely basis.

Federal regulation 34 *CFR* 80.41(b) and the School to Work Grants Reference Guide require MJC to submit financial status reports and program performance reports on a quarterly basis. The reports are due 30 days after the end of the reporting period.

Our review disclosed that 2 of the 4 financial status reports due for fiscal years 1997-98 and 1996-97 were not submitted on a timely basis. These reports were submitted from 4 to 12 days late. Our review disclosed that 7 of the 8 quarterly program performance reports due for fiscal years 1997-98 and 1996-97 were not submitted on a timely basis. These reports were submitted from 4 to 97 days late. MJC did not document that it had requested extensions for the submission of these required reports.

- d. MJC did not submit required financial status reports for the AmeriCorps Program (*CFDA* #94.006) on a timely basis. In addition, the reports submitted did not contain information from all program subrecipients, as required by federal regulations.

Federal regulation 45 *CFR* 2543.52 and AmeriCorps Program guidance require MJC to submit financial status reports within 30 days after the end of

each quarter. AmeriCorps Program guidance also requires these reports to include certain financial information from all program subrecipients.

Our review of the 8 quarterly financial status reports due for fiscal years 1997-98 and 1996-97 disclosed that 5 of the reports were submitted 7 to 127 days late, an average of 40 days after they were due.

Our review also disclosed that for 7 of the 8 quarters in fiscal years 1997-98 and 1996-97, MJC's financial status reports did not contain required financial information from all program subrecipients. The number of program subrecipients ranged from 14 to 23 each quarter. The number of subrecipient financial status reports that were not obtained and forwarded to the federal grantor agency ranged from 2 to 10 for each quarter. MJC informed its federal grantor agency that revised financial status reports would be submitted when all subrecipient financial data was available. However, MJC was not able to document that revised financial status reports were submitted.

RECOMMENDATIONS

We recommend that MJC improve its internal control to help ensure that required federal financial status reports are submitted on a timely basis.

We also recommend that MJC improve its internal control to help ensure that required federal program progress reports and program performance reports are submitted on a timely basis.

FINDING (459907)

7. Subrecipient Monitoring - Rehabilitation Services

U.S. Department of Education	CFDA: 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H126A80030 H126A70030 H126A60030	Award Period: 10/01/97 - 09/30/99 10/01/96 - 09/30/98 10/01/95 - 09/30/97
	Questioned Costs: \$0

MJC's internal control did not always provide for the timely monitoring of the Rehabilitation Services - Vocational Rehabilitation Grants to States Program subrecipients in accordance with federal regulations.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires MJC to monitor subrecipient activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal regulations and to ensure that subrecipients take prompt corrective action on any audit findings.

MJC developed procedures for monitoring grants awarded to Program subrecipients, but MJC could not document that this monitoring had been done in compliance with federal requirements.

MJC monitoring records for 4 of 10 Program subrecipients reviewed did not document that the federal awards had been monitored on a timely basis as required by OMB Circular A-133. MJC reviewed the 4 audit reports an average of 264 days after they were received.

RECOMMENDATION

We recommend that MJC improve its internal control by developing a system to monitor Rehabilitation Services - Vocational Rehabilitation Grants to States Program subrecipients in accordance with federal regulations.

FINDING (459908)

8. Subrecipient Monitoring - Office of Workforce Development

U.S. Department of Labor	CFDA: 17.207 Employment Service
Award Number: A-6047-7-00-80-60	Award Period: 01/01/97 - 12/31/99
	Questioned Costs: \$0

U.S. Department of Labor	CFDA: 17.250 Job Training Partnership Act
Award Number: A-4602-4-00-81-50 A-5349-5-00-81-50 A-5349-5-00-81-50 A-5850-6-00-87-50 A-5850-6-00-87-50 A-6202-7-00-87-50 A-6202-7-00-87-50 A-6706-8-00-87-50	Award Period: 07/01/94 - 06/30/97 07/01/95 - 06/30/98 10/01/95 - 09/30/98 07/01/96 - 06/30/99 10/01/96 - 09/30/99 07/01/97 - 06/30/00 10/01/97 - 09/30/00 07/01/98 - 06/30/01
	Questioned Costs: \$0

U.S. Department of Education	CFDA: 84.278 Michigan School to Work Initiative
Award Number: V278B60002	Award Period: 10/01/95 - 09/30/00
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: G9701MITANF G9701MITANF G9801MITANF	Award Period: 10/01/96 - Depletion 10/01/96 - 09/30/98 10/01/97 - 09/30/99
	Questioned Costs: \$0

MJC's internal control did not ensure that required federal award information was provided to its federal program subrecipients or that MJC subrecipients accurately reported federal financial assistance in their audit reports. As a result, MJC could not ensure that federal financial assistance provided to subrecipients was administrated in accordance with federal regulations.

OMB Circular A-133 requires agencies distributing federal grant funds to subrecipients to identify certain federal award information, including the *Catalog of Federal Domestic Assistance (CFDA)* title and number, and to monitor subrecipient activities to provide reasonable assurance that subrecipients administer federal awards in compliance with federal requirements. The Circular also requires subrecipient agencies to identify all federal awards received and expended on a

schedule of expenditures of federal awards (SEFA), including the name of the pass-through agency.

MJC issued a grant award notice to inform subrecipients when federal program grants were awarded. However, the grant award notices did not include the *CFDA* numbers for the grants that were awarded.

MJC's Office of Workforce Development (OWD) was responsible for monitoring many of its federal program subrecipients. As part of its monitoring responsibilities, OWD obtained the Single Audit reports of its federal program grant subrecipients. During fiscal year 1996-97, MJC awarded federal funds to approximately 150 subrecipients for the federal programs monitored by OWD. We reviewed audit reports for 12 of these subrecipients and determined that 6 subrecipients did not accurately identify the *CFDA* numbers for the federal assistance provided by MJC. The incorrect *CFDA* numbers pertained to grants awarded to the subrecipients for the Employment Service Program (*CFDA* #17.207); the Job Training Partnership Act Program (*CFDA* #17.250); the Michigan School to Work Initiative Program (*CFDA* #84.278); and the Temporary Assistance for Needy Families Program (*CFDA* #93.558).

We also noted that the SEFA for one subrecipient had improperly combined four separate federal program awards under a single federal *CFDA* number and incorrectly identified the Michigan Department of Labor as the State pass-through department, rather than MJC. The SEFA reported expenditures of \$4,995,030 for the Job Training Partnership Act Program (*CFDA* #17.250). MJC's records indicated that this amount included approximately \$243,000 awarded for the Employment Service Program (*CFDA* #17.207), \$729,000 awarded for Michigan School to Work Initiative Program (*CFDA* #84.278), and \$1.6 million awarded for the Temporary Assistance for Needy Families Program (*CFDA* #93.558).

RECOMMENDATION

We recommend that MJC improve its internal control to help ensure that required federal award information is provided to its federal program subrecipients and that MJC subrecipients accurately report federal financial assistance in their audit reports.

FINDING (459909)

9. Controls Over Access to MAIN

Applicable to: All federal programs

This finding is included in Section II of the schedule of findings and questioned costs (459901).

FINDING (459910)

10. MAIN Reconciliation Procedures

U.S. Department of Education	CFDA: 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H126A80030 H126A70030 H126A60030	Award Period: 10/01/97 - 09/30/99 10/01/96 - 09/30/98 10/01/95 - 09/30/97
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (459902).

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Schedules

July 22, 1999

Dr. Barbara Bolin, Director
Michigan Department of Career Development
and
Mr. Doug Rothwell, Chief Executive Officer
Michigan Economic Development Corporation
Victor Center
Lansing, Michigan

Dear Dr. Bolin and Mr. Rothwell:

We have audited the accompanying schedule of General Fund revenue and the schedule of sources and disposition of General Fund authorizations of the Michigan Jobs Commission for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Michigan Jobs Commission's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Michigan Jobs Commission are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards 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 1b, the accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Michigan Jobs Commission's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Michigan Jobs Commission or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and the sources and disposition of authorizations of the Michigan Jobs Commission for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 22, 1999 on our consideration of the Michigan Jobs Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying 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*, and other supplemental financial schedules, including the schedule of certain General Fund assets and schedule of certain General Fund liabilities, are presented for the purposes of additional analysis and are not a required part of the Michigan Jobs Commission'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.

The year 2000 supplementary information on page 48 is not a required part of the basic financial schedules but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

AUDITOR GENERAL

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

July 22, 1999

Dr. Barbara Bolin, Director
Michigan Department of Career Development
and
Mr. Doug Rothwell, Chief Executive Officer
Michigan Economic Development Corporation
Victor Center
Lansing, Michigan

Dear Dr. Bolin and Mr. Rothwell:

We have audited the General Fund financial schedules of the Michigan Jobs Commission for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated July 22, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Michigan Jobs Commission's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Jobs Commission's internal control over financial reporting in order to determine our auditing procedures for

the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Michigan Jobs Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended for the information of the Michigan Jobs Commission's management, the Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

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

July 22, 1999

Dr. Barbara Bolin, Director
Michigan Department of Career Development
and
Mr. Doug Rothwell, Chief Executive Officer
Michigan Economic Development Corporation
Victor Center
Lansing, Michigan

Dear Dr. Bolin and Mr. Rothwell:

Compliance

We have audited the compliance of the Michigan Jobs Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. The Michigan Jobs Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Michigan Jobs Commission's management. Our responsibility is to express an opinion on the Michigan Jobs Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of

compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Michigan Jobs Commission'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 Michigan Jobs Commission's compliance with those requirements.

In our opinion, the Michigan Jobs Commission complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 6 through 8.

Internal Control Over Compliance

The management of the Michigan Jobs Commission 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 Michigan Jobs Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Michigan Jobs Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 6 through 10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assign functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe

that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended for the information of the Michigan Jobs Commission's management, the Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

MICHIGAN JOBS COMMISSION
Schedule of General Fund Revenue
Fiscal Years Ended September 30

	1998	1997
REVENUE		
Federal agencies:		
General purpose	\$ 3,484,437	\$ 2,328,485
Restricted	287,401,785	260,990,927
Local agencies:		
General purpose		6,104
Restricted	7,677,460	7,130,425
Services:		
General purpose	2,076	164
Restricted	1,293,691	1,068,389
Miscellaneous:		
General purpose	2,218,132	297,004
Restricted	2,941,074	5,242,699
Total Revenue	\$ 305,018,655	\$ 277,064,198

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

MICHIGAN JOBS COMMISSION
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 113,366,200	\$ 110,411,714
Balances carried forward	47,876,496	36,707,416
Restricted financing sources:		
Federal revenue	287,401,785	260,990,927
Other	<u>11,912,225</u>	<u>13,441,513</u>
 Total	 <u><u>\$ 460,556,706</u></u>	 <u><u>\$ 421,551,571</u></u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures and operating transfers out	<u>\$ 406,440,920</u>	<u>\$ 374,038,286</u>
Balances carried forward:		
Multi-year projects	\$ 1,274,171	\$ 1,939,087
Encumbrances	39,944,218	44,274,089
Restricted revenue - not authorized	<u>9,111</u>	<u>1,281,433</u>
Total balances carried forward	<u>\$ 41,227,501</u>	<u>\$ 47,494,610</u>
 Balances lapsed	 12,888,286	 1,290,996
Overexpended (Note 3)	<u> </u>	<u>(1,272,322)</u>
 Total	 <u><u>\$ 460,556,706</u></u>	 <u><u>\$ 421,551,571</u></u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Michigan Jobs Commission (MJC) for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of MJC 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 MJC. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

For purposes of presenting the governmental operations of MJC in the accompanying financial schedules, the following entities and/or funds have been excluded from MJC's reporting entity:

- (1) The proprietary operations of the Michigan Strategic Fund (an enterprise fund). The Michigan Strategic Fund issues separately audited financial statements annually.
- (2) The Employment Services Agency, which is accounted for in a special revenue fund and an expendable trust fund group. Separately audited financial statements are issued annually.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis

of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and the sources and disposition of authorizations for MJC's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either MJC or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 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 appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized 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 revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending on 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 revenue - authorized or restricted revenue - unauthorized.

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

Note 3 Overexpended Authorizations

MJC overexpended its legislative authorization for the fiscal year ended September 30, 1997 by \$1,272,322, which represents noncompliance with State budget laws. However, MJC did not over expend any of the related federal grant awards.

Note 4 Subsequent Events

Executive Order 1999-1, effective April 5, 1999, transferred the Michigan Strategic Fund to the Department of Management and Budget as an autonomous entity, created the Michigan Department of Career Development, and abolished the MJC and the Michigan Jobs Commission Board.

The Order also transferred the following economic development and other programs and functions from the Michigan Jobs Commission to the Michigan Strategic Fund: Michigan Economic Growth Authority; Plant Rehabilitation and Industrial Development Districts; State Education Tax Exclusion; Personal Property Tax Exemption; Community Development Block Grants; Economic Development Job Training; Department of Economic Expansion and the Economic Expansion Council; Michigan International Trade Authority; Michigan Enterprise Zone Authority; Neighborhood Enterprise Zones; Michigan Urban Land Assembly Act; Michigan Travel Commission; Travel Michigan; Office of the Michigan Business Ombudsman; Office of the Small Business Clean Air Ombudsman; Michigan Renaissance Zone Act; Michigan Business Incubation Act; Commercial Redevelopment Act; Economic Development Corporations Act; Office of Film and Television Services; operator and chauffeur license fees; Michigan Training Incentive Fund; Minority, Women and Small Business Services units; Capital Resources Group; Office of Business and Education Coordination; K.I. Sawyer Conversion Authority; and Wurtsmith Conversion Authority.

In addition, the Order transferred the remaining authority, powers, duties, functions, responsibilities and personnel of MJC to the Michigan Department of Career Development.

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial schedules on which the auditor's report is dated after October 31, 1998, require the Michigan Jobs Commission (MJC) to make disclosures in the notes to the financial schedules about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial schedules. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget (DMB). The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 1998.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

The Office of Information Technology within Administrative Services has overall responsibility for the implementation of Year 2000 data processing systems at MJC.

The following stages have been identified as necessary to implement a year 2000 compliant system:

1. Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
3. Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.
4. Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

MJC identified 23 computer applications that are critical to conducting its operations and that need to be year 2000 compliant. MJC has received written assurance for those critical applications being evaluated by an outside vendor. MJC is also responsible for assessing the status of computer equipment and replacing or upgrading the equipment as needed. This assessment was completed and resulted in a business continuity and contingency plan, which was approved by DMB on December 8, 1999.

MJC's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operations, including client and vendor payment systems for rehabilitation clients and federal grant-tracking. As of September 30, 1998, MJC had validated and tested 87% of the mission critical computer applications. The remaining 13% of the critical applications were in other stages of completion.

The Legislature appropriated \$55.6 million to the State Project Office to provide assistance to agencies in obtaining external resources to address year 2000 issues. As of September 30, 1998, MJC had expended \$256,200 of the Statewide appropriation. In addition, MJC has expended \$163,140 of its own appropriation toward the year 2000 remediation efforts. MJC did not have any significant contracts outstanding with vendors on September 30, 1998.

Management believes that MJC has the correct plan in place and that MJC will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that MJC is or will be year 2000 ready, that MJC's remediation efforts will be successful in whole or in part, or that parties with whom MJC does business will be year 2000 ready.

SUPPLEMENTAL
FINANCIAL SCHEDULES

MICHIGAN JOBS COMMISSION
Schedule of Certain General Fund Assets
As of September 30

	1998	1997
ASSETS		
Due from federal agencies for:		
Community Development Block Grant Program	\$ 10,307,307	\$ 7,912,242
Job Training Partnership Act Program	25,926,804	15,498,224
Rehabilitation Services-Vocational Rehabilitation Grants to States Program	8,273,033	13,125,521
School to Work Program	3,252,139	4,732,372
AmeriCorps Program	1,358,905	494,884
Employment Service Program	1,285,641	615,804
Other federal programs	2,190,150	2,397,347
Total Due From Federal Agencies	\$ 52,593,979	\$ 44,776,394
Due from local agencies	\$ 10,327,656	\$ 9,687,804
Due from component units	\$ 13,463	\$ 27,268
Due from other funds	\$ 36,641	\$
Other current assets	\$ 891,181	\$ 685,427
Other noncurrent assets	\$ 830,343	\$ 935,974

The schedule of assets is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include only those assets for which the Michigan Jobs Commission is directly responsible. The schedule excludes other assets, such as equity in Common Cash and cash in transit, which are accounted for centrally by the State.

MICHIGAN JOBS COMMISSION
Schedule of Certain General Fund Liabilities
As of September 30

	<u>1998</u>	<u>1997</u>
LIABILITIES		
Accounts payable under grants and awards:		
Community Development Block Grant Program	\$ 4,952,965	\$ 436,666
Job Training Partnership Act Program	2,737,827	4,954,390
Rehabilitation Services - Vocational Rehabilitation		
Grants to States	1,290,388	1,314,579
School to Work Program	1,158,866	2,469,926
Temporary Assistance for Needy Families Program	3,068,054	5,586,052
Other federal programs	<u>253,781</u>	<u>425,422</u>
Total Accounts Payable Under Grants and Awards	<u>\$13,461,882</u>	<u>\$ 15,187,036</u>
Other liabilities:		
Deferred revenue	\$ 3,977,912	\$ 5,628,954
Due to component units	\$ 847,721	\$ 1,727,244
Due to other funds	\$ 1,539	\$ 17,738
Other current liabilities	\$ 1,934,515	\$ 1,297,981

This schedule of liabilities is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include only those liabilities for which the Michigan Jobs Commission is directly responsible. The schedule excludes other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

MICHIGAN JOBS COMMISSION
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1996 through September 30, 1998

Federal Agency/Program	CFDA** Program Number	For the Fiscal Year Ended September 30, 1997			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Pass-Through Program					
Family Independence Agency					
State Administrative Matching Grants for Food Stamp Program	10.561		\$	\$	\$ 0
Total U.S. Department of Agriculture			\$ 0	\$ 0	\$ 0
<u>U.S. Department of Defense</u>					
Community Economic Adjustment Planning Assistance	12.607		\$ 95,975	\$	\$ 95,975
K.I. Sawyer Base Caretaker Cooperative Agreement	N/A		1,416,361		1,416,361
Total U. S. Department of Defense			\$ 1,512,336	\$ 0	\$ 1,512,336
<u>U.S. Department of Housing and Urban Development</u>					
Community Development Block Grants - State's Program	14.228		\$ 996,693	\$ 38,574,319	\$ 39,571,012
Total U.S. Department of Housing and Urban Development			\$ 996,693	\$ 38,574,319	\$ 39,571,012
<u>U.S. Department of Labor</u>					
Direct Programs					
Employment Service	17.207		\$ 119,014	\$ 1,642,928	\$ 1,761,942
Job Training Partnership Act Cluster					
Employment and Training Assistance - Dislocated Workers	17.246		\$ 876,186	\$ 27,257,662	\$ 28,133,848
Job Training Partnership Act	17.250		2,157,471	55,711,344	57,868,815
Total Job Training Partnership Act Cluster			\$ 3,033,657	\$ 82,969,006	\$ 86,002,663
Total Direct Programs			\$ 3,152,671	\$ 84,611,934	\$ 87,764,605
Pass-Through Program					
State of Illinois					
Job Training Partnership Act	17.250	91-64501, 95-64102, and 95-64109	\$	(\$ 28,411	\$ 28,411
Total U.S. Department of Labor			\$ 3,152,671	\$ 84,640,345	\$ 87,793,016
<u>U.S. Department of Education</u>					
Federal Supplemental Educational Opportunity Grants	84.007		\$ 14,310	\$	\$ 14,310
Federal Pell Grant Program	84.063		19,602		19,602

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1998				Total Expended and Distributed
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	for the Two-Year Period
4F8100	\$ 22,570	\$	\$ 22,570	\$ 22,570
	\$ 22,570	\$ 0	\$ 22,570	\$ 22,570
	\$	\$	\$	\$ 95,975
				\$ 1,416,361
	\$ 0	\$ 0	\$ 0	\$ 1,512,336
	\$ 1,387,043	\$ 47,316,026	\$ 48,703,069	\$ 88,274,081
	\$ 1,387,043	\$ 47,316,026	\$ 48,703,069	\$ 88,274,081
	\$ 31,913	\$ 2,754,415	\$ 2,786,328	\$ 4,548,270
	\$ 900,289	\$ 25,079,325	\$ 25,979,614	\$ 54,113,462
	1,880,864	56,945,695	58,826,559	116,695,374
	\$ 2,781,153	\$ 82,025,020	\$ 84,806,173	\$ 170,808,836
	\$ 2,813,066	\$ 84,779,435	\$ 87,592,501	\$ 175,357,106
91-64501, 95-64102, and 95-64109	\$	\$ 36,463	\$ 36,463	\$ 64,874
	\$ 2,813,066	\$ 84,815,898	\$ 87,628,964	\$ 175,421,980
	\$ 29,001	\$	\$ 29,001	\$ 43,311
	470,871		470,871	490,473

MICHIGAN JOBS COMMISSION
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1996 through September 30, 1998

Federal Agency/Program	CFDA** Program Number	For the Fiscal Year Ended September 30, 1997			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Rehabilitation Services - Vocational Rehabilitation					
Grants to States	84.126		66,650,597	2,910,339	69,560,936
Secondary Education and Transitional Services for Youth					
With Disabilities	84.158		24,533	591,517	616,050
Rehabilitation Services - Client Assistance Program	84.161		290,615	26,571	317,186
Independent Living - State Grants	84.169			380,427	380,427
Supported Employment Services for Individuals with					
Severe Disabilities	84.187		1,095,380		1,095,380
State Grants for Assistive Technology	84.224		170,806	572,897	743,703
Special Projects and Demonstrations for Providing Vocational					
Rehabilitation Services to Individuals With Severe Disabilities	84.235				
Rehabilitation Training - State Vocational Rehabilitation Unit					
In-Service Training	84.265		212,920		212,920
Michigan School to Work Initiative	84.278		1,047,760	11,588,262	12,636,022
Total U.S. Department of Education			\$ 69,526,523	\$ 16,070,013	\$ 85,596,536
<u>U.S. Department of Health and Human Services</u>					
Direct Program					
National Occupational Information Coordinating Committee -					
Basic Assistance Grant	N/A		\$ 98,141	\$	\$ 98,141
Pass-Through Programs					
Family Independence Agency					
Temporary Assistance for Needy Families	93.558	G9701MITANF	\$ 859,256	\$ 40,086,188	\$ 40,945,444
Job Opportunities and Basic Skills Training	93.561	GN96603MIJOBS		640,847	640,847
Total Pass-Through Programs			\$ 859,256	\$ 40,727,035	\$ 41,586,291
Total U.S. Department of Health and Human Services			\$ 957,397	\$ 40,727,035	\$ 41,684,432
<u>Corporation for National and Community Service</u>					
State Commissions	94.003		\$ 377,496	\$	\$ 377,496
Learn and Serve America - School and Community					
Based Programs	94.004		22,835	137,976	160,811
AmeriCorps	94.006			2,950,460	2,950,460
Planning and Program Development Grants	94.007			156,093	156,093
Training and Technical Assistance	94.009		79,544		79,544
Total Corporation for National and Community Service			\$ 479,875	\$ 3,244,529	\$ 3,724,404

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1998				Total Expended and Distributed
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	for the Two-Year Period
	64,336,371	2,558,442	66,894,813	136,455,749
	1,083	421,003	422,086	1,038,136
	304,849		304,849	622,035
		378,811	378,811	759,238
	1,080,140		1,080,140	2,175,520
	439	1,158,511	1,158,950	1,902,653
	182,000	33,994	215,994	215,994
	271,646		271,646	484,566
	962,827	7,847,744	8,810,571	21,446,593
	\$ 67,639,227	\$ 12,398,505	\$ 80,037,732	\$ 165,634,268
	<u>\$ 60,772</u>	<u>\$ 100,000</u>	<u>\$ 160,772</u>	<u>\$ 258,913</u>
G9701MITANF	\$ 1,722,708	\$ 66,516,282	\$ 68,238,990	\$ 109,184,434
				640,847
	<u>\$ 1,722,708</u>	<u>\$ 66,516,282</u>	<u>\$ 68,238,990</u>	<u>\$ 109,825,281</u>
	\$ 1,783,480	\$ 66,616,282	\$ 68,399,762	\$ 110,084,194
	\$ 222,332	\$	\$ 222,332	\$ 599,828
	12,080	19,629	31,709	192,520
		3,528,113	3,528,113	6,478,573
		12,800	12,800	168,893
	107,396	35,000	142,396	221,940
	<u>\$ 341,808</u>	<u>\$ 3,595,542</u>	<u>\$ 3,937,350</u>	<u>\$ 7,661,754</u>

MICHIGAN JOBS COMMISSION
 Schedule of Expenditures of Federal Awards
 For the Period October 1, 1996 through September 30, 1998

Federal Agency/Program	For the Fiscal Year Ended September 30, 1997				
	CFDA**	Pass-Through	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
	Program Number	Identification Number			
Social Security Administration					
Drug Addiction and Alcoholism Referral and Monitoring Agency	N/A		\$ 376,947	\$ 506,804	\$ 883,751
Total Social Security Administration			\$ 376,947	\$ 506,804	\$ 883,751
Total Expenditures of Federal Awards			\$ 77,002,442	\$ 183,763,045	\$ 260,765,487

* Basis of Presentation: This schedule includes the federal grant activity of the Michigan Jobs Commission and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular *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.

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

N/A = Not applicable.

For the Fiscal Year Ended September 30, 1998				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$	\$	\$	\$ 883,751
	\$ 0	\$ 0	\$ 0	\$ 883,751
	\$ 73,987,194	\$ 214,742,253	\$ 288,729,447	\$ 549,494,934

OTHER REQUIRED SCHEDULES

MICHIGAN JOBS COMMISSION
Summary Schedule of Prior Audit Findings
As of July 22, 1999

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 6

Finding: MJC did not develop and implement a proper internal control structure for Personnel-Payroll Information System for Michigan (PPRISM) functions.

Comments: The Office of Human Resources (OHR) implemented corrective actions in August 1997, including the discontinuance of transaction entry by the payroll supervisor. The conversion to the new Data Collection and Distribution System (DCDS) significantly changed the payroll procedures and also affected the related internal controls. In particular, full implementation of DCDS during 2000 will result in program staff, instead of OHR staff, entering all time and attendance data thus decentralizing the operation.

Also, the State of Michigan is in the process of implementing a new payroll system that will replace PPRISM (DCDS will be retained for entry of time and attendance data). As these changes occur, MJC will continue its efforts to maintain effective internal controls over its payroll functions.

Audit Findings Not Corrected or Partially Corrected

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 7

Finding: MJC did not maintain an adequate internal control structure over cash receipts and cash deposits.

Comments: During fiscal year 1996-97, MJC substantially improved internal controls through the implementation of revised procedures for general processing of cash receipts and for handling of cash items received by program units. Additional corrective actions are taken as needed. For example, MJC recently implemented procedures to provide for the restrictive endorsement of checks.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 8

Finding: MJC had not complied with prescribed fixed assets control and financial reporting requirements.

Comments: MJC subsequently implemented corrective actions for tagging equipment and also completed a physical inventory.

Also, as noted in the preliminary response in the prior audit report, the Department of Management and Budget (DMB) increased the capitalization limit to \$5,000, effective October 1, 1996. MJC adopted this amount for recording purchases of equipment. This action will significantly reduce the number of items subject to recordkeeping or annual reporting to DMB for financial statement purposes.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 1

Finding: MJC's internal control structure did not provide for compliance with State and federal cash management standards. With respect to the larger grants subject to the federal Cash Management Improvement Act (CMIA) of 1990, MJC had not reported the necessary information to the Michigan Department of Treasury for

settlement of interest with the U.S. Department of Treasury. Also, MJC often did not request, on a timely basis, federal funds for non-CMIA programs.

Comments: MJC has implemented procedures to process cash draws more frequently for all federal grants. In addition, approval was recently obtained for several modifications in the agreement with the U.S. Department of Treasury so that its provisions match as closely as possible with the cash draw methods, which MJC is able to implement within the accounting system used by the State of Michigan.

With respect to the settlement of interest, MJC submitted the needed data to the Michigan Department of Treasury in July, 1998. Currently, the resolution of this matter is pending negotiations with the U.S. Department of Treasury.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 4

Finding: MJC did not document the propriety of certain personnel-payroll costs charged to the Rehabilitation Services - Vocational Rehabilitation Grants to States Program as required by federal cost reimbursement standards.

Comments: Effective on October 1, 1996, Michigan Rehabilitation Services (MRS) implemented a timekeeping system to distribute employees' payroll-personnel costs to the Insurance Program in compliance with OMB Circular A-87.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 5

Finding: MJC did not comply with State purchasing requirements when acquiring services and commodities for Rehabilitation Services - Vocational Rehabilitation Grants to States Program clients. Also, MJC did not have written authorization from DMB to deviate from standard State purchasing practices.

Comments: Most of the client purchases are for medical and direct human services, for which purchasing authority is delegated to agencies per applicable provisions of the DMB Administrative Guide. With respect to commodities, in a letter dated April 1, 1998, the DMB Office of Purchasing granted a waiver for items purchased as part of a written treatment plan for each client.

Audit Findings Not Corrected or Partially Corrected

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 2

Finding: MJC's internal control structure did not ensure that required federal financial reports were submitted on a timely basis.

Comments: The Office of Financial Services implemented a tracking system during fiscal year 1996-97 to monitor due dates and to assure the timely filing of reports. This corrective action has resulted in the prompt filing of most federal financial reports.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 3

Finding: MJC's internal control structure did not provide for the monitoring of Rehabilitation Services - Vocational Rehabilitation Grants to States Program subrecipients in accordance with federal regulations.

Comments: MRS has implemented a system to monitor Program subrecipients, including obtaining limited scope audits from subrecipients that have total federal grants below the Single Audit threshold and completing desk reviews of the audit reports when received.

MICHIGAN JOBS COMMISSION*

Corrective Action Plan

As of January 13, 2000

* Note: With the subsequent reorganization per provisions of Executive Order 1999-1, most of the findings pertain to programs and administrative activities now within the Michigan Department of Career Development. However, Finding 459903 pertains to program activities now within the Michigan Strategic Fund.

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 459901
Finding Title: Controls Over Access to MAIN
Management Views: We agree with these recommendations and have complied.
Corrective Action: After review of operational needs, the use of ADPICS User Class 17 has been terminated for all but 1 staff person and the use of R*STARS User Class 80 has been reduced from 8 to 3 staff. Also, the agencies have subsequently obtained signed security request forms from all staff who have access to MAIN. The current policy is to require that security request forms be signed prior to submission to DMB.
Anticipated Completion Date: October 1, 1999
Responsible Individual: Juzer Modi, Director, Office of Financial Services

Finding Number: 459902
Finding Title: MAIN Reconciliation Procedures
Management Views: We agree with this recommendation and have complied.
Corrective Action: With the implementation of a new client payment system during the 1998-99 fiscal year, the OFS now receives MRS interface summary reports on a daily basis. This information is reconciled with the applicable information

per MAIN reports and any variances are followed up as warranted. We would like to stress that, prior to the new system, MJC did have basic procedures to verify that the daily transactions were processed and to correct any errors.

Anticipated Completion Date: October 1, 1999

Responsible Individual: Juzer Modi, Director, Office of Financial Services

Finding Number: 459903

Finding Title: Encumbrances and Accounts Payable

Management Views: We agree with this recommendation and have complied.

Corrective Action: In the event that expenditure reports from subgrantees are not available at the end of the second grant year, MSF will establish accounts payable for up to 80% of the grant award and only 20% of the award will be carried forward as an encumbrance. The accounts payable and encumbrance classifications were properly adjusted for the 1998-99 fiscal year. MSF has also requested certain changes in the legislative boilerplate language for the 2000-01 fiscal year that would enable better management of the grant process.

Anticipated Completion Date: October 1, 1999

Responsible Individual: Minesh Mody, Managing Director, Administration
Michigan Strategic Fund

Finding Number: 459904

Finding Title: Mail Opening and Cash Receipts

Management Views: We agree and will strengthen the existing controls, with emphasis on actions to maximize the direct processing of receipts by the mailroom.

Corrective Action: The volume of receipts at the operating units is generally not sufficient to warrant formal mail opening. MJC has implemented procedures to require that each location maintain cash receipts logs. To maximize the portion of receipts processed by the mailroom, the units (including

MRS district offices) have been instructed to send receipts via U.S. mail instead of interdepartmental mail. However, consistent with established policy, the mailroom will continue to not open mail addressed to certain units or marked as confidential. We are implementing procedures for the prompt restrictive endorsement of receipts by operating units. Also, to conform with Department of Treasury requirements to segregate deposits by agency, MJC is in the process of determining whether central receipts should be endorsed by the mailroom or by the OFS cashier.

Anticipated Completion Date: October 1, 2000

Responsible Individual: Melvin Farmer, Director, Office Services
Juzer Modi, Director, Office of Financial Services

Finding Number: 459905

Finding Title: Equipment Inventory Controls and Financial Reporting

Management Views: We agree with these recommendations and are continuing our efforts to implement corrective actions.

Corrective Action: As indicated in the responses to the prior audit, our intent is to fully implement the \$5,000 threshold for recording purchases of equipment, which was increased by DMB, effective October 1, 1996. This action will significantly reduce the number of items subject to recordkeeping and annual reporting. However, retroactive implementation to the inventory on hand has proved more difficult than anticipated because of a lack of adequate records for the various programs transferred to MJC in recent years. We are continuing our efforts to implement effective methods to comply with DMB requirements.

Anticipated Completion Date: December 1, 2000 (next annual report to DMB)

Responsible Individual: Melvin Farmer, Director, Office Services

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 459906
Finding Title: Timely Federal Reporting
Management Views: In response to the prior audit, OFS implemented a tracking system to monitor due dates for the various federal reports.
Corrective Action: OFS implemented a tracking system during the 1996-97 fiscal year to monitor due dates and, as a result, most reports are now filed in a timely manner. Many of the late reports cited in the current audit occurred prior to the new procedures. Also, when delays occur because of conditions, such as implementation of a new computer system, OFS notifies the grantor agency in writing of the reason for the delays and the anticipated date that the reports will be submitted.
Anticipated Completion Date: January 1, 2000
Responsible Individual: Juzer Modi, Director, Office of Financial Services

Finding Number: 459907
Finding Title: Subrecipient Monitoring - Rehabilitation Services
Management Views: In response to the prior audit, MRS implemented a system to monitor subrecipients, including obtaining limited scope audits from subrecipients with total federal grants below the Single Audit threshold.
Corrective Action: The MRS system now provides for monitoring throughout the subgrant process from grant applications to closeout. These activities, considering the low materiality of the subgrants in relation to total MRS operations, provide sufficient oversight in compliance with federal regulations. We agree that follow-up of subgrant audit reports had not been timely, in large part related to transition from the audit reviews that had been provided by the Michigan Department of Education prior to MRS's transfer to MJC on October 1, 1995. MRS has arranged for

contractual staff so that the reviews were timely by the end of fiscal year 1998-99.

Anticipated Completion Date: October 1, 1999.

Responsible Individual: Lori Shader-Patterson, Operations Unit
Michigan Rehabilitation Services

Finding Number: 459908

Finding Title: Subrecipient Monitoring - Office of Workforce Development

Management Views: The Office of Workforce Development agreed with this recommendation and has implemented corrective actions.

Corrective Action: The *CFDA* numbers are now provided in the grants and contract notices for federal funds awarded to subrecipients. Also, the Reporting and Monitoring Division now reviews the subrecipient audit reports to ensure that all awarded federal funds were included and that the reported *CFDA* numbers were accurate.

Anticipated Completion Date: October 1, 1999

Responsible Individual: Vicki Enright, Director, Office of Workforce Development

Finding Number: 459909

Finding Title: Controls Over Access to MAIN

See Finding 459901 with the findings related to the financial schedules.

Finding Number: 459910

Finding Title: MAIN Reconciliation Procedures

See Finding 459902 with the findings related to the financial schedules.

Glossary of Acronyms and Terms

ADPICS	Advanced Purchasing and Inventory Control System.
ASA	agency security administrator.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
CMIA	federal Cash Management Improvement Act.
DCDS	Data Collection and Distribution System.
DMB	Department of Management and Budget.
EDJT	Economic Development Job Training.
ESA	Employment Services Agency.
FACS	Financial Administration and Control System.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GASB	Government Accounting Standards Board.
GFAAM	General Fixed Assets Accounting Manual.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objective in the following

categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

material
noncompliance

Violations of laws and regulations that could have a direct and material effect on major federal assistance programs or on financial schedule amounts.

material weakness

A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MESA

Michigan Employment Security Agency.

MESC

Michigan Employment Security Commission.

Michigan
Administrative
Information Network
(MAIN)

A fully integrated automated financial management system for the State of Michigan.

mission

The agency's main purpose or the reason the agency was established.

MJC

Michigan Jobs Commission.

MRS

Michigan Rehabilitation Services.

MSF

Michigan Strategic Fund.

OFM	DMB Office of Financial Management.
OHR	Office of Human Resources.
OMB	U.S. Office of Management and Budget.
OWD	Office of Workforce Development.
PPRISM	Personnel-Payroll Information System for Michigan.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	Matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal control that, in the auditor's judgment, could adversely affect the Department's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial statements/scheduled or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
R*STARS	Relational Standard Accounting and Reporting System.
SEFA	schedule of expenditures of federal awards.
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 generally accepted

auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

subrecipient

A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.