

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE  
MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

October 1, 1998 through September 30, 2000

## EXECUTIVE DIGEST

# MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

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INTRODUCTION	This report contains the results of our financial audit*, including the provisions of the Single Audit* Act, of the Michigan Department of Career Development (MDCD) for the period October 1, 1998 through September 30, 2000.
AUDIT PURPOSE	This financial audit of MDCD 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, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> .
BACKGROUND	<p>Effective April 5, 1999, Executive Order No. 1999-1 created MDCD. MDCD's mission* is to develop a system that produces a workforce with the required skills to maintain and enhance the Michigan economy.</p> <p>Executive Order No. 1999-1 also transferred the Michigan Strategic Fund (MSF), which included numerous economic development related programs previously administered by the Michigan Jobs Commission, to the Department of Management and Budget as an autonomous agency. Subsequently, in accordance with Executive Order No. 1999-1, MSF created the Michigan Economic</p>

\* See glossary at end of report for definition.

Development Corporation to administer many of these economic development programs.

Executive Order No. 1999-12, effective January 1, 2000, transferred State and federal adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD.

As of September 30, 2000, MDCD had 11 organizational units. Administrative Services was responsible for maintaining MDCD'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.

MDCD's major funding sources were the State's General Fund; the U.S. Departments of Agriculture, Labor, Education, and Health and Human Services; and the Corporation for National and Community Service. MDCD had General Fund net expenditures and operating transfers out totaling approximately \$336 million and \$459 million for fiscal years 1999-2000 and 1998-1999, respectively. As of September 30, 2000, MDCD had 1,087 employees.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To audit MDCD's financial schedules and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to MDCD's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

**Conclusion:** We expressed an unqualified opinion\* on MDCD's financial schedules. In addition, we expressed an unqualified opinion on MDCD's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

**Audit Objective:** To assess and report on MDCD'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 could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.\* However, we identified a reportable condition\* related to cash receipting (Finding 1).

In addition, our assessment indicated that MDCD was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

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

**Conclusion:** We issued an unqualified opinion on MDCD's compliance with requirements applicable to

\* See glossary at end of report for definition.

**each major federal program except Adult Education - State Grant Program, for which we qualified our opinion.** Our assessment disclosed an instance of noncompliance related to federal Adult Basic Education (ABE) and English as a Second Language (ESL) program participation that is required to be reported under OMB Circular A-133 (Finding 2). **Also, our assessment of internal control over compliance applicable to each major federal program identified one material weakness:**

- MDCD's internal control did not ensure that federal ABE/ESL Program subrecipients\* were allocated federal funds based on actual participation in accordance with the Program's approved State Plan (Finding 2).

We also identified other reportable conditions related to earmarking requirements, federal reporting, employee payroll certification, and articulation agreements (Findings 3 through 6).

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#### AUDIT SCOPE

Our audit scope was to examine the General Fund financial and other records, including federal programs, of the Michigan Department of Career Development and the federal programs for the Employment Service Agency, which is accounted for in the Michigan Employment Security Act - Administration Fund (a special revenue fund that is audited and reported on separately), for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133,

\* See glossary at end of report for definition

*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.

Several Executive Orders have been issued which have affected MDCD's accounting and reporting requirements for certain federal programs and differences between MDCD's financial schedules and its schedule of expenditures of federal awards.

Executive Order No. 1997-18, effective November 17, 1997, transferred the Employment Service Agency (ESA) to MDCD. ESA's financial transactions are audited separately by other auditors and are reported in the Michigan Employment Security Act - Administration Fund. However, because MDCD is responsible for federal program compliance after November 16, 1997, ESA's federal expenditures are included in MDCD's schedule of expenditures of federal awards and we included the related federal programs in our consideration of programs to be tested for federal program compliance.

Executive Order No. 1999-1, effective April 5, 1999, created MDCD, abolished the Michigan Jobs Commission, and transferred the Michigan Strategic Fund to the Department of Management and Budget as an autonomous agency. Numerous economic development related programs, previously administered by the Michigan Jobs Commission, were transferred to the Department of Management and Budget. Subsequently, the Michigan Strategic Fund created the Michigan Economic Development Corporation to administer many of these economic development programs. Federal expenditures for the Community Development Block Grants/State's Program for the period October 1, 1998 through April 4, 1999 are reported in MDCD's financial schedules and

included within the financial reporting scope of this audit. However, because the Michigan Strategic Fund is responsible for federal program compliance after April 4, 1999, the Community Development Block Grants/State's Program was considered for federal program compliance testing in our separate audit of the Michigan Strategic Fund.

Executive Order No. 1999-12, effective January 1, 2000, transferred State and federal adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD. The Department of Education retained financial and reporting responsibilities for the transferred programs through September 30, 2000. Accordingly, financial transactions for these programs are not included in MDCD's basic financial schedules but will be subject to testing in our separate audit of the Department of Education. However, because MDCD is responsible for federal program compliance after December 31, 1999, federal expenditures for these programs for fiscal year 1999-2000 are included in MDCD's schedule of expenditures of federal awards, and we included these programs in our consideration of programs to be tested for federal program compliance.

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

Our audit report contains 6 findings and 6 corresponding recommendations. MDCD's corrective action plan indicates that it agrees with the 6 recommendations. Also, MDCD's corrective action plan indicates that it has complied with 1 recommendation and will comply with the other 5.

As disclosed in MDCD's summary schedule of prior audit findings, MDCD fully corrected 11 of the 15 prior Single Audit findings and did not correct or partially corrected 3 findings. One prior audit finding will be audited under another entity.

Executive Order No. 1999-12, effective January 1, 2000, transferred the State's adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD. This transfer included 4 audit findings that are included in MDCD's summary schedule of prior audit findings. In addition, Executive Order No. 1997-18, effective November 17, 1997, transferred the Employment Service Agency from the Unemployment Agency to MDCD. This transfer included 3 audit findings that are included in MDCD's summary schedule of prior audit findings.

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June 28, 2001

Dr. Barbara Bolin, Director  
Michigan Department of Career Development  
Victor Center  
Lansing, Michigan

Dear Dr. Bolin:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Career Development for the period October 1, 1998 through September 30, 2000.

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 Department of Career Development financial schedules and notes to the financial schedules, supplemental financial schedules, other schedules, and a glossary of acronyms and terms.

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

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

AUDITOR GENERAL

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## Description of Agency

Effective April 5, 1999, Executive Order No. 1999-1 created the Michigan Department of Career Development (MDCD). MDCD's mission is to develop a system that produces a workforce with the required skills to maintain and enhance the Michigan economy.

Previously, the Michigan Jobs Commission, which was established as a permanent State department on February 14, 1995, was responsible for many of MDCD's programs until Executive Order No. 1999-1 abolished it. Executive Order No. 1999-1 also transferred the Michigan Strategic Fund (MSF), which included numerous economic development related programs previously administered by the Michigan Jobs Commission, to the Department of Management and Budget as an autonomous agency. Subsequently, in accordance with Executive Order No. 1999-1, MSF created the Michigan Economic Development Corporation to administer many of these economic development programs. In addition, Executive Order No. 1999-12, effective January 1, 2000, transferred State and federal adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD.

As of September 30, 2000, MDCD had the following organizational units:

- Executive Office
- Administrative Services
- Adult Education and Spanish-Speaking Affairs
- Office of Career and Technical Preparation
- Employment Service Agency
- Marketing and Public Relations
- Michigan Community Service Commission
- Michigan Rehabilitation Services
- Policy and Planning
- Postsecondary Education
- Office of Workforce Development

Administrative Services was responsible for maintaining MDCD'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.

MDCD's major funding sources were the State's General Fund; the U.S. Departments of Agriculture, Labor, Education, and Health and Human Services; and the Corporation for National and Community Service.

MDCD had General Fund net expenditures and operating transfers out totaling approximately \$336 million and \$459 million for fiscal years 1999-2000 and 1998-1999, respectively. As of September 30, 2000, MDCD had 1,087 employees.

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 Department of Career Development (MDCD) had the following objectives:

1. To audit MDCD's financial schedules and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to MDCD's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

**Conclusion: We expressed an unqualified opinion on MDCD's financial schedules. In addition, we expressed an unqualified opinion on MDCD's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.**

2. To assess and report on MDCD'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 could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.** However, we identified a reportable condition related to cash receipting (Finding 1).

**In addition, our assessment indicated that MDCD was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

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

3. To assess and report on MDCD'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.

**Conclusion: We issued an unqualified opinion on MDCD's compliance with requirements applicable to each major federal program except Adult Education - State Grant Program, for which we qualified our opinion.** Our assessment disclosed an instance of noncompliance related to federal Adult Basic Education (ABE) and English as a Second Language (ESL) program participation that is required to be reported under OMB Circular A-133 (Finding 2). **Also, our assessment of internal control over compliance applicable to each major federal program identified one material weakness related to federal ABE/ESL program participation (Finding 2).** We also identified other reportable conditions related to earmarking requirements, federal reporting, employee payroll certification, and articulation agreements (Findings 3 through 6).

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 General Fund financial and other records, including federal programs, of the Michigan Department of Career Development and the federal programs for the Employment Service Agency, which is accounted for in the Michigan Employment Security Act - Administration Fund (a special revenue fund that is audited and reported on separately), for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

\* See glossary at end of report for definition.

Several Executive Orders have been issued which have affected MDCD's accounting and reporting requirements for certain federal programs and differences between MDCD's financial schedules and its schedule of expenditures of federal awards.

Executive Order No. 1997-18, effective November 17, 1997, transferred the Employment Service Agency (ESA) to MDCD. ESA's financial transactions are audited separately by other auditors and are reported in the Michigan Employment Security Act - Administration Fund. However, because MDCD is responsible for federal program compliance after November 16, 1997, ESA's federal expenditures are included in MDCD's schedule of expenditures of federal awards and we included the related federal programs in our consideration of programs to be tested for federal program compliance.

Executive Order No. 1999-1, effective April 5, 1999, created MDCD, abolished the Michigan Jobs Commission and transferred the Michigan Strategic Fund to the Department of Management and Budget as an autonomous agency. Numerous economic development related programs, previously administered by the Michigan Jobs Commission, were transferred to the Department of Management and Budget. Subsequently, the Michigan Strategic Fund created the Michigan Economic Development Corporation to administer many of these economic development programs. Federal expenditures for the Community Development Block Grants/State's Program for the period October 1, 1998 through April 4, 1999 are reported in MDCD's financial schedules and included within the financial reporting scope of this audit. However, because the Michigan Strategic Fund is responsible for federal program compliance after April 4, 1999, the Community Development Block Grants/State's Program was considered for federal program compliance testing in our separate audit of the Michigan Strategic Fund.

Executive Order No. 1999-12, effective January 1, 2000, transferred State and federal adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD. The Department of Education retained financial and reporting responsibilities for the transferred programs through September 30, 2000. Accordingly, financial transactions for these programs are not included in MDCD's basic financial schedules but will be subject to testing in our separate audit of the Department of Education. However, because MDCD is responsible for federal program compliance after December 31, 1999, federal expenditures for these programs for fiscal year 1999-2000 are included in MDCD's schedule of expenditures of federal awards, and we included these programs in our consideration of programs to be tested for federal program compliance.

We considered MDCD's internal control over compliance applicable to each major federal program and assessed MDCD'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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on MDCD's summary schedule of prior audit findings. MDCD'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 6 findings and 6 corresponding recommendations. MDCD's corrective action plan indicates that it agrees with the 6 recommendations. Also, MDCD's corrective action plan indicates that it has complied with 1 recommendation and will comply with the other 5.

MDCD's corrective action plan, which is included in this report, was prepared by MDCD 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 MDCD to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in MDCD's summary schedule of prior audit findings, MDCD fully corrected 11 of the 15 prior audit findings and did not correct or partially corrected 3 findings. One prior audit finding will be audited under another entity.

Executive Order No. 1999-12, effective January 1, 2000, transferred the State's adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD. This transfer included 4 audit findings that are included in MDCD's summary schedule of prior audit findings. In addition, Executive Order No. 1997-18, effective November 17, 1997, transferred the Employment Service Agency from the Unemployment Agency to MDCD. This transfer included 3 audit findings that are included in MDCD's summary schedule of prior audit findings.

# 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 condition identified that is not considered to be a material weakness? Yes

Noncompliance material to the financial schedules? No

### Federal Awards

Internal control over major programs:

Material weakness identified? Yes

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

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

Unqualified for all major programs except for the Adult Education - State Grant Program, which was qualified.

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:

<i>CFDA</i> Number	Name of Federal Program or Cluster
10.561	State Administrative Matching Grants for Food Stamp Program
17.207, 17.801, 17.804	Employment Service Cluster
17.246, 17.250	Job Training Partnership Act Cluster
17.002	Labor Force Statistics
17.245	Trade Adjustment Assistance - Workers
17.255	Workforce Investment Act
84.002	Adult Education - State Grant Program
84.048	Vocational Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.243	Tech-Prep Education
84.278	School to Work - State Implementation Grants - Extension
93.558	Temporary Assistance for Needy Families (TANF)
94.006	AmeriCorps

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

Auditee qualified as a low-risk auditee\*? No

\* See glossary at end of report for definition.

## **Section II: Findings Related to the Financial Schedules**

### **FINDING (450101)**

#### **1. Cash Receipting**

The Michigan Department of Career Development's (MDCD's) internal control did not provide for checks to be restrictively endorsed immediately upon receipt.

Department of Management and Budget Administrative Guide procedure 1270.02 requires that all checks be restrictively endorsed immediately upon receipt.

MDCD's mailroom opened most of the mail and recorded any checks received on a cash receipts log. The rest of MDCD's mail, which sometimes contained checks, was opened in MDCD's operating units. MDCD did not restrictively endorse checks received through either the mailroom or the operating units until after the checks were forwarded to the Cashier's Office, generally one to two days after the checks were received.

Not restrictively endorsing checks results in the increased risk that cash receipts could be lost or misappropriated.

A similar finding was reported in our prior audit. In response, MDCD stated that it was undertaking efforts to identify the best method for restrictively endorsing checks that conforms with requirements of the Michigan Department of Treasury.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT MDCD ENHANCE ITS INTERNAL CONTROL TO PROVIDE FOR CHECKS TO BE RESTRICTIVELY ENDORSED IMMEDIATELY UPON RECEIPT.

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

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

### **FINDING (450102)**

#### 2. Federal Adult Basic Education (ABE) and English as a Second Language (ESL) Program Participation

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: V002A70023 V002A980023 V002A990023 V002A000022	Award Period: 7/1/97 - 9/30/98 7/1/98 - 9/30/99 7/1/99 - 9/30/00 7/1/00 - 9/30/01
	Questioned Costs: \$892,320 and Other Not Determinable Amounts

MDCD's internal control did not ensure that federal ABE/ESL Program subrecipients were allocated federal funds based on actual participation in accordance with the Program's approved State Plan. As a result, MDCD awarded \$892,320 to 136 subrecipients that was not allowable according to the Program's approved State Plan. In addition, some subrecipients received federal funds that were either greater or less than their allowable reimbursement.

The approved ABE/ESL Program State Plan provides that ABE/ESL funds are to be allocated to subrecipients based on actual participation. However, MDCD made adjustments to fiscal year 1999-2000 ABE/ESL grant awards by awarding additional funding to subrecipients as a result of student gains. The ABE student gain amount was based on the total number of federally funded students who made a .5 or more grade level gain based on any testing instrument that the subrecipients used to calculate academic gain. ESL student gains were based on the total number of federally funded students who completed at least one ESL grade level during the school year as measured by the U.S. Department of Education National Reporting System ESL Guidelines. MDCD awarded an additional \$78 for each of the 11,440 students who met the gain requirement which resulted in payments of \$892,320 to subrecipients.

Also, MDCD did not complete necessary reconciliations of the estimated amount paid to school districts to the actual amount of participation in the ABE/ESL Program. Initially, MDCD allocates ABE/ESL funds to subrecipients based on estimated participation. Subsequently, payments are to be adjusted from estimated to actual based on reported counts of full-time equivalent (FTE) student participation in five categories. Eligible students include: (1) persons functioning below the ninth grade level who have not graduated, (2) persons enrolled in ESL, (3) persons functioning below the ninth grade level who have graduated, (4) persons who are institutionalized, and (5) persons who cannot be counted for State school aid.

In fiscal year 1999-2000, MDCD enhanced its FTE reporting methodology and implemented an FTE verification process. This verification process required all subrecipients to submit an explanation and/or documentation to reconcile variances between reported federal ABE/ESL participation and audited State school aid membership count. Even though State school aid membership participation is often greater than ABE/ESL participation, based on broader eligibility standards, audited school aid membership data is a key internal control element in the reconciliation process to determine actual federal ABE/ESL participation.

We determined that MDCD sent out 111 forms to reconcile federal FTE students with State aid FTE students and received responses from 93 ABE/ESL subrecipients but did not complete a review of the forms. As a result, MDCD did not make any necessary adjusting payments based on the actual to estimated ABE/ESL FTE participation. Our review of 10 randomly selected subrecipients disclosed:

- a. Six subrecipients reported actual federal ABE/ESL participation and audited State school aid membership participation amounts that were each within 0.5 FTE students. However, 3 of the 6 subrecipients received payments based on estimated participation that was 36.5 FTE students greater than actual FTE reported students. Also, 3 of the 6 subrecipients received payments based on estimated participation that was 22.7 FTE students less than actual FTE students. Individually, the variance between reported and estimated participation for these subrecipients was 0.5%, 10%, 21%, 23%, 45%, and 69%. As a result of our review, we estimate that MDCD may have made

overpayments and underpayments to the subrecipients of \$19,005 and \$11,809, respectively.

- b. Four subrecipients reported variances of at least 3.75 FTE students between actual federal ABE/ESL participation and audited State school aid membership participation amounts. Based on these larger variances, we did not review MDCD's forms to reconcile federal FTE students with State aid FTE students.

Because MDCD had not performed a follow-up of these variances, the questioned costs related to these 10 subrecipients were not determinable.

**RECOMMENDATION**

We recommend that MDCD enhance its internal control to help ensure that federal ABE/ESL Program subrecipients are allocated federal funds based on actual participation in accordance with the Program's approved State Plan.

**FINDING (450103)**

3. Earmarking Requirements

U.S. Department of Labor	CFDA: 17.207 Employment Service
Award Number: 91557 91558	Award Period: 7/1/97 - 6/30/00 7/1/98 - 6/30/01
	Questioned Costs: \$0

MDCD's internal control did not ensure that federal grant money expended to meet Wagner-Peyser Act 7(b) earmarking requirements was properly accounted for and recorded in the accounting records of the Employment Service Program.

Section 7(b) of the Wagner-Peyser Act requires that 10% of the amount awarded be reserved for performance incentives for public employment service offices and programs, services for groups with special needs, and the extra costs of exemplary models for delivering services of the types described in subsection (a) of the Act. Although required, MDCD's policies and procedures did not provide for the identification and recording of all expenditures eligible to meet these earmarking requirements in the State's accounting system. Therefore, MDCD only accounted for and recorded expenditures of \$1,137,154 (4.68% of the total \$24,322,001) and

\$2,242,841 (9.17% of the total \$24,465,828) that met Section 7(b) earmarking requirements for grants awarded in fiscal year 1998-99 and fiscal year 1997-98 and expended in fiscal years 1999-2000 and 1998-99, respectively. As a result, based on its accounting records, MDCD did not meet the earmarking requirements by \$1,295,046 and \$203,742 for the two fiscal years, respectively.

As a result of our audit, MDCD reviewed its Employment Services Program expenditures and determined that it had not identified and recorded all eligible Section 7(b) expenditures in its accounting records. Subsequently, MDCD adjusted its accounting records to document that it had met the earmarking requirements.

**RECOMMENDATION**

We recommend that MDCD enhance its internal control to ensure that federal grant money expended to meet Wagner-Peyser Act Section 7(b) earmarking requirements is properly accounted for and recorded in the accounting records of the Employment Service Program.

**FINDING (450104)**

**4. Federal Reporting**

U.S. Department of Labor	CFDA: 17.002 Labor Force Statistics
Award Number: 091219, 091229, 091239, 091249, 091259, 091419 091369 091310 001210, 001220, 001230, 001240, 001250	Award Period:  10/1/98 - 9/30/99 7/1/99 - 9/30/00 10/1/99 - 9/30/01 10/1/99 - 9/30/00
	Questioned Costs: \$0

U.S. Department of Labor	CFDA: 17.245 Trade Adjustment Assistance - Workers
Award Number: 916100A, 916400A, 917000A, 917400A 916199, 916499, 917099, 917399, 917499, 917599, 921099, 922699	Award Period:  10/01/99 - 09/30/00 10/01/98 - 09/30/99
	Questioned Costs: \$0

U.S. Department of Labor	Employment Service Cluster: CFDA: 17.207 Employment Service CFDA: 17.801 Disabled Veterans' Outreach Program CFDA: 17.804 Local Veterans' Employment Representative Program
Award Number: 91637 91557 92157, 92167 92058 92168, 91558, 92158 91619, 91649 92059, 92159, 92169 01610, 01640 E-9-5-5-5065 E-9-5-5-5065	Award Period: 10/01/96 - 09/30/99 07/01/97 - 06/30/00 07/01/97 - 06/30/00 07/01/98 - 06/30/99 07/01/98 - 06/30/01 10/01/98 - 09/30/01 07/01/99 - 06/30/02 10/01/99 - 09/30/02 10/01/98 - 09/30/99 10/01/99 - 09/30/00
	Questioned Costs: \$0

The MDCD Employment Service Agency's internal control did not ensure that required monthly and quarterly financial status reports were submitted to the federal award agency on a timely basis.

Title 29, Part 97, Section 41 of the *Code of Federal Regulations (CFR)* and the grant agreements for the Employment Service Agency's federal grants, including the Labor Force Statistics, Trade Adjustment Assistance - Workers, and Employment Service Cluster Programs, require MDCD to submit quarterly and/or monthly federal financial reports. The federal regulations and grant agreements require that these reports be submitted within 30 days after the end of each reporting period. Our review of the federal program financial reporting compliance requirements disclosed:

- a. MDCD submitted 3 (38%) of the 8 Labor Force Statistics Program's quarterly financial status reports (Cost Accounting System [CAS] report 61 and CAS report 94B) for fiscal years 1999-2000 and 1998-99 from 15 to 104 days late, an average of 45 days after they were due. Also, MDCD submitted 12 (50%) of the 24 monthly financial status reports (CAS report 65) from 17 to 112 days late, an average of 64 days after they were due.

- b. MDCD submitted 6 (75%) of the 8 Trade Adjustment Assistance - Workers Program's quarterly financial status report/request for funds report (ETA 9023) for fiscal years 1999-2000 and 1998-99 from 12 to 102 days late, an average of 41 days after they were due. Also, MDCD submitted 6 (75%) of the 8 quarterly determination, allowance activities, and reemployment services under the trade act reports (ETS 563) from 12 to 123 days late, an average of 47 days after they were due.
  
- c. MDCD was not timely in its submission of reports for the Employment Service Cluster Programs:
  - (1) Fifty (77%) of 65 of the Employment Service Program's quarterly financial status reports (SF-269) for fiscal years 1999-2000 and 1998-99 were submitted from 14 to 126 days late, an average of 49 days after they were due.
  
  - (2) Three (38%) of the 8 Disabled Veterans' Outreach Program's quarterly cost accounting reports (VETS-300) for fiscal years 1999-2000 and 1998-99 were submitted from 6 to 88 days late, an average of 46 days after they were due.
  
  - (3) Two (25%) of the 8 Local Veterans' Employment Representative Program's quarterly cost accounting reports (VETS-300) for fiscal years 1999-2000 and 1998-99 were submitted 44 and 88 days late, an average of 66 days after they were due.

In September 2000, MDCD requested permission to submit the required quarterly reports 60 days after the end of the quarter. MDCD also requested permission to submit the monthly financial reports required for the Labor Force Statistics Program for each of the three months of the quarter 60 days after the end of the quarter.

### **RECOMMENDATION**

We recommend that MDCD enhance its internal control to help ensure that required monthly and quarterly financial status reports are submitted to the federal award agency on a timely basis.

## **FINDING (450105)**

### **5. Employee Payroll Certification**

U.S. Department of Labor	CFDA: 17.002 Labor Force Statistics
Award Number: 091219, 091229, 091239, 091249, 091259, 091419 091369 091310 001210, 001220, 001230, 001240, 001250	Award Period: 10/1/98 - 9/30/99 7/1/99 - 9/30/00 10/1/99 - 9/30/01 10/1/99 - 9/30/00
	Questioned Costs: \$0

U.S. Department of Labor	CFDA: 17.207 Employment Service
Award Number: 91637 91557 92157, 92167 92058 92168, 91558, 92158 91619, 91649 92059, 92159, 92169 01610, 01640 20500	Award Period: 10/01/96 - 09/30/99 07/01/97 - 06/30/00 07/01/97 - 06/30/00 07/01/98 - 06/30/99 07/01/98 - 06/30/01 10/01/98 - 09/30/01 07/01/99 - 06/30/02 10/01/99 - 09/30/02 07/01/00 - 06/30/03
	Questioned Costs: \$0

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

OMB Circular A-87, Attachment B, Part 11h, requires employees' salaries and wages that are chargeable to more than one grant program or other cost objectives to be supported by appropriate time distribution records. OMB Circular A-87 also requires employees charged 100% to a single grant program or cost objective to certify, at least semi-annually, that the employee worked solely on a single grant program or cost objective.

Our review of employees working solely on federal programs disclosed the following:

- a. Employees working solely on the Labor Force Statistics Program did not certify their time semi-annually.
- b. Employees working solely on the Employment Service Program did not certify their time semi-annually.

Program staff informed us that they were unaware of the certification requirement. However, we noted that their cost allocation plan submitted to the federal awarding agency contained a provision for semi-annual certification for employees charged 100% to a single grant program or cost objective.

**RECOMMENDATION**

We recommend that MDCD enhance its internal control to help ensure that personnel-payroll cost distributions to certain federal programs are properly documented in accordance with federal requirements.

**FINDING (450106)**

**6. Articulation Agreements**

U.S. Department of Education	CFDA: 84.243 Tech-Prep Education
Award Number: V243A70093	Award Period: 7/1/97 - 9/30/98
V243A980093	7/1/98 - 9/30/99
V243A990093	7/1/99 - 9/30/00
	Questioned Costs: \$0

MDCD's internal control did not ensure that consortia applying for Tech-Prep Education Program grants had articulation agreements.

Federal regulation 34 *CFR* 406.32(b)(1) requires a Tech-Prep Education Program application to contain an articulation agreement between all participants in a consortium. This agreement is to help ensure that students are provided a nonduplicative sequence of progressive achievement leading to competencies in a Tech-Prep Education Program.

The Office of Career and Technical Preparation did not require consortia to submit articulation agreements with their applications. Instead, the Office required the consortia to sign an assurance within their grant application that articulation agreements were maintained on file and were available upon request. However, the Office did not verify that agreements were on file when conducting field visits.

MDCD could not produce articulation agreements for 16 (100%) of the 16 randomly selected consortia to determine compliance with federal regulations. During our audit period, 39 consortia received grants during the fiscal year.

In response to the prior Department of Education Single Audit, MDCD stated that, by June 30, 2001, it would require that each Tech-Prep Education Program consortium submit a sample articulation agreement with its application for funding and a list of articulated programs. Also, each consortium would be asked to keep copies of all articulation agreements in its files and MDCD would verify that agreements were on file when field visits were conducted.

### **RECOMMENDATION**

We recommend that MDCD enhance its internal control to help ensure that consortia applying for Tech-Prep Education Program grants have articulation agreements.

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

Independent Auditor's Report on  
the Financial Schedules

April 6, 2001

Dr. Barbara Bolin, Director  
Michigan Department of Career Development  
Victor Center  
Lansing, Michigan

Dear Dr. Bolin:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Michigan Department of Career Development for the fiscal years ended September 30, 2000 and September 30, 1999. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Michigan Department of Career Development'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 Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Michigan Department of Career Development for the fiscal years ended September 30, 2000 and September 30, 1999, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 6, 2001 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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, consisting of the schedule of certain General Fund assets and the schedule of certain General Fund liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

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

April 6, 2001

Dr. Barbara Bolin, Director  
Michigan Department of Career Development  
Victor Center  
Lansing, Michigan

Dear Dr. Bolin:

We have audited the General Fund financial schedules of the Michigan Department of Career Development for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our report thereon dated April 6, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Department'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 Department's ability to record, process, summarize, and report financial data consistent with the assertions

of management in the financial schedules. A reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

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 caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 the reportable condition described in the previous paragraph is not a material weakness.

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

AUDITOR GENERAL

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

April 6, 2001

Dr. Barbara Bolin, Director  
Michigan Department of Career Development  
Victor Center  
Lansing, Michigan

Dear Dr. Bolin:

Compliance

We have audited the compliance of the Michigan Department of Career Development with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the 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 Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Finding 2 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable activities that are applicable to its Adult Education - State Grant Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the previous paragraph, the Michigan Department of Career Development complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Department'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 2 through 6.

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 assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the previous paragraph, we consider Finding 2 to be a material weakness.

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

AUDITOR GENERAL



**MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT**  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	<u>2000</u>	<u>1999</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 41,639,200	\$ 109,609,800
Budgetary transfers in (Out)	1,083,373	621,609
Balances carried forward	1,901,998	41,227,501
Restricted financing sources	304,058,803	311,417,298
Less: Intrafund expenditure reimbursements	<u>(1,046,580)</u>	<u>(1,083,997)</u>
 Total	 <u>\$ 347,636,794</u>	 <u>\$ 461,792,211</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and operating transfers out	\$ 337,359,175	\$ 460,392,777
Less: Intrafund expenditure reimbursements	<u>(1,046,580)</u>	<u>(1,083,997)</u>
Net expenditures and operating transfers out	<u>\$ 336,312,595</u>	<u>\$ 459,308,780</u>
Balances carried forward:		
Multi-year projects	\$ 10,235,375	\$ 95,500
Encumbrances	678,681	1,806,498
Restricted revenue - not authorized	<u>9,111</u>	<u>9,111</u>
Total balances carried forward	<u>\$ 10,914,056</u>	<u>\$ 1,911,110</u>
 Balances lapsed	 <u>\$ 410,143</u>	 <u>\$ 572,322</u>
 Total	 <u>\$ 347,636,794</u>	 <u>\$ 461,792,211</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 Department of Career Development (MDCD), for the fiscal years ended September 30, 2000 and September 30, 1999. The financial transactions of MDCD are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to MDCD. 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 MDCD in the accompanying financial schedules, the Employment Service Agency, which is accounted for in a special revenue fund and an expendable trust fund group, has been excluded from MDCD's reporting entity. Separately audited financial statements are issued annually. Also, financial transactions for selected federal programs (adult education, vocational education, and vocational-technical education) are accounted for in the Department of Education, in accordance with Executive Order No. 1999-12, and are audited and reported on separately. Related federal expenditures for these programs for fiscal year 1999-2000 are included in the accompanying schedule of expenditures of federal awards. Further, in accordance with Executive Order No. 1999-1, federal expenditures for the Community Development Block Grants/State's Program for the period October 1, 1998 through April 4, 1999 are reported in MDCD's financial schedules and included within the financial reporting scope of this audit. However, because the Michigan Strategic Fund is responsible for federal program compliance after April 4, 1999, this Program was considered for federal program compliance testing in a separate audit of the Michigan Strategic Fund.

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 accounting principles generally accepted in the United States of America 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 operating transfers and the sources and disposition of authorizations for MDCD's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either MDCD or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

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 appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. 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.

- d. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. An example of a significant program is the Transportation to Work Program funded by the Michigan Department of Transportation.
- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. An example of a significant carry-forward of this type is the New Initiative project funded by the Tobacco Settlement Trust Fund.
- g. 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.
- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

# SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT  
Schedule of Certain General Fund Assets  
As of September 30

	<u>2000</u>	<u>1999</u>
ASSETS		
Due from federal agencies for:		
Job Training Partnership Act Program	\$ 5,134,798	\$ 12,237,094
Rehabilitation Services - Vocational Rehabilitation		
Grants to States Program	6,283,825	7,434,874
School to Work - State Implementation Grants Program	687,718	1,414,260
Supplemental Security Income		1,185,836
Other federal programs	<u>2,370,650</u>	<u>2,033,224</u>
Total due from federal agencies	\$ 14,476,991	\$ 24,305,288
Due from local agencies	\$ 6,498,932	\$ 12,163,768
Other current assets	\$ 119,925	\$ 422,459
Other noncurrent assets		\$ 103,594

This schedule of certain General Fund assets is not a balance sheet and is not intended to report financial condition. The amounts presented include only those assets for which the Michigan Department of Career Development is directly responsible. The schedule does not include other assets, such as equity in Common Cash and cash in transit, which are accounted for centrally by the State.

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT  
Schedule of Certain General Fund Liabilities  
As of September 30

	2000	1999
LIABILITIES		
Accounts payable under grants and awards:		
Temporary Assistance for Needy Families Program	\$ 5,521,366	\$ 6,157,297
Job Training Partnership Act Program	2,992,637	6,611,174
Community Development Block Grant Program		2,146,990
Rehabilitation Services Demonstration and Training		
- Special Demonstration Programs	1,703,425	2,025,852
School to Work - State Implementation Grants Program	202,648	1,161,945
Other federal programs	1,107,667	1,441,684
Total accounts payable under grants and awards	\$ 11,527,744	\$ 19,544,942
Accounts payable - nonfederal		\$ 1,644,487
Amounts due to component units		\$ 71,599,351
Deferred revenue	\$ 5,096,387	\$ 6,148,452
Due to other funds		\$ 9,862

This schedule of certain General Fund liabilities is not a balance sheet and is not intended to report financial condition. The amounts presented include only those liabilities for which the Michigan Department of Career Development is directly responsible. The schedule does not include other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1998 through September 30, 2000

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 1999			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b>U.S. Department of Agriculture</b>					
Pass-Through Program:					
Family Independence Agency					
State Administrative Matching Grants for Food Stamp Program	10.561	4F8100	\$ 110,099	\$ 2,984,009	\$ 3,094,108
<b>Total U.S. Department of Agriculture</b>			<b>\$ 110,099</b>	<b>\$ 2,984,009</b>	<b>\$ 3,094,108</b>
<b>U.S. Department of Housing and Urban Development</b>					
Direct Program:					
Community Development Block Grants/State's Program	14.228 (3)		\$ 898,505	\$ 15,211,127	\$ 16,109,632
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 898,505</b>	<b>\$ 15,211,127</b>	<b>\$ 16,109,632</b>
<b>U.S. Department of Labor</b>					
Employment Service Cluster (4a):					
Direct Programs:					
Employment Service	17.207		\$ 11,000,326	\$ 13,778,465	\$ 24,778,791
Disabled Veterans' Outreach Program (DVOP)	17.801		3,361,458		3,361,458
Local Veterans' Employment Representative Program	17.804		3,079,007		3,079,007
Total Employment Service Cluster			\$ 17,440,791	\$ 13,778,465	\$ 31,219,256
Job Training Partnership Act Cluster:					
Direct Programs:					
Employment and Training Assistance - Dislocated Workers	17.246		\$ 977,280	\$ 21,972,126	\$ 22,949,406
Job Training Partnership Act (JTPA)	17.250		1,828,238	51,429,235	53,257,473
Total Job Training Partnership Act Cluster			\$ 2,805,518	\$ 73,401,361	\$ 76,206,879
Direct Programs:					
Labor Force Statistics (4a)	17.002		\$ 2,518,778		\$ 2,518,778
Trade Adjustment Assistance - Workers (4a)	17.245		704,241	2,286,649	2,990,890
Employment Services and Job Training - Pilots and Demonstration Programs (4a)	17.249				0
Workforce Investment Act	17.255				0
Total Direct Programs			\$ 3,223,019	\$ 2,286,649	\$ 5,509,668
Pass-Through Program:					
Unemployment Agency					
Unemployment Insurance (4a)	17.225		\$ 789,715		\$ 789,715
<b>Total U.S. Department of Labor</b>			<b>\$ 24,259,043</b>	<b>\$ 89,466,475</b>	<b>\$ 113,725,518</b>
<b>U.S. Department of Education</b>					
Direct Programs:					
Adult Education - State Grant Program (4b)	84.002		\$	\$	\$ 0
Federal Supplemental Educational Opportunity Grants	84.007		34,497		34,497
Vocational Education - Basic Grants to States (4b)	84.048				0
Federal Pell Grant Program	84.063		394,416		394,416
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		64,698,634	4,449,878	69,148,512
Rehabilitation Long-Term Training	84.129		3,523		3,523
Secondary Education and Transitional Services for Youth With Disabilities	84.158			67,993	67,993
Rehabilitation Services - Client Assistance Program	84.161			315,577	315,577
Independent Living - State Grants	84.169			387,749	387,749
Supported Employment Services for Individuals With Severe Disabilities	84.187		1,135,219		1,135,219
Assistive Technology	84.224		15,206	914,387	929,593

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2000				Total Expended and Distributed
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	for the Two-Year Period
4F8100	\$ 157,466	\$ 5,765,426	\$ 5,922,892	\$ 9,017,000
	<b>\$ 157,466</b>	<b>\$ 5,765,426</b>	<b>\$ 5,922,892</b>	<b>\$ 9,017,000</b>
	\$ _____	\$ _____	\$ 0	\$ 16,109,632
	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 16,109,632</b>
	\$ 9,560,832	\$ 19,108,001	\$ 28,668,833	\$ 53,447,624
	3,104,000		3,104,000	6,465,458
	2,970,000		2,970,000	6,049,007
	<u>\$ 15,634,832</u>	<u>\$ 19,108,001</u>	<u>\$ 34,742,833</u>	<u>\$ 65,962,089</u>
	\$ 980,256	\$ 14,635,136	\$ 15,615,392	\$ 38,564,798
	1,479,714	24,629,024	26,108,738	79,366,211
	<u>\$ 2,459,970</u>	<u>\$ 39,264,160</u>	<u>\$ 41,724,130</u>	<u>\$ 117,931,009</u>
	\$ 2,344,628	\$ _____	\$ 2,344,628	\$ 4,863,406
	198,882	3,914,267	4,113,149	7,104,039
	249,406	1,591,177	1,840,583	1,840,583
	<u>870,359</u>	<u>11,669,105</u>	<u>12,539,464</u>	<u>12,539,464</u>
	<u>\$ 3,663,275</u>	<u>\$ 17,174,549</u>	<u>\$ 20,837,824</u>	<u>\$ 26,347,492</u>
	\$ 896,086	\$ 29,179	\$ 925,265	\$ 1,714,980
	<b>\$ 22,654,163</b>	<b>\$ 75,575,889</b>	<b>\$ 98,230,052</b>	<b>\$ 211,955,570</b>
	\$ 664,729	\$ 11,684,361	\$ 12,349,090	\$ 12,349,090
	30,187		30,187	64,684
	2,607,059	32,875,760	35,482,819	35,482,819
	493,616		493,616	888,032
	60,978,858	7,151,531	68,130,389	137,278,901
	115,440		115,440	118,963
			0	67,993
		375,600	375,600	691,177
		388,093	388,093	775,842
	1,195,459		1,195,459	2,330,678
	16,035	1,053,786	1,069,821	1,999,414

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1998 through September 30, 2000  
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	For the Fiscal Year Ended September 30, 1999			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Rehabilitation Services Demonstration and Training - Special Demonstration Programs	84.235		\$ 7	\$ 218,397	\$ 218,404
Tech-Prep Education (4b)	84.243				0
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		310,161		310,161
School to Work - State Implementation Grants - Extension	84.278		588,433	6,515,791	7,104,224
Occupational and Employment Information State Grants	84.346				0
<b>Total U.S. Department of Education</b>			<b>\$ 67,180,096</b>	<b>\$ 12,869,772</b>	<b>\$ 80,049,868</b>
<b>U.S. Department of Health and Human Services</b>					
Direct Program:					
NOICC - Basic Assistance Grant	93.9483925 (5)		\$ 99,555	\$	\$ 99,555
Pass-Through Program:					
Family Independence Agency Temporary Assistance for Needy Families (TANF)	93.558	G9901MITANF	3,960,561	116,648,000	120,608,561
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 4,060,116</b>	<b>\$ 116,648,000</b>	<b>\$ 120,708,116</b>
<b>Corporation for National and Community Service</b>					
Direct Programs:					
State Commissions	94.003		\$ 409,304	\$	\$ 409,304
Learn and Serve America - School and Community Based Programs	94.004		14,560	125,592	140,152
AmeriCorps	94.006			2,866,937	2,866,937
Planning and Program Development Grants	94.007			84,953	84,953
Training and Technical Assistance	94.009		139,971		139,971
<b>Total Corporation for National and Community Service</b>			<b>\$ 563,835</b>	<b>\$ 3,077,482</b>	<b>\$ 3,641,317</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 97,071,694</b>	<b>\$ 240,256,865</b>	<b>\$ 337,328,559</b>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Michigan Department of Career Development 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 A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. In certain programs, financed entirely by the federal government, expenditures and related revenue are recognized only to the extent of billings received by fiscal year-end. This treatment understates assets and liabilities and expenditures and revenues; however, there is no impact on the fund balance of the State's General Fund.

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

(3) As described in the audit scope and Note 1 to the financial schedules, this schedule includes federal expenditures and related awards for the Community Development Block Grants/State's Program that are included in the financial schedules of the Michigan Department of Career Development for the period October 1, 1998 through April 4, 1999. However, because the Michigan Strategic Fund is responsible for federal program compliance after April 4, 1999, this Program was considered for federal program compliance testing in a separate audit of the Michigan Strategic Fund.

(4) As described in the audit scope and Note 1 to the financial schedules, this schedule includes federal expenditures and related awards for the following programs that are not included in the financial schedules of the Michigan Department of Career Development:

- a. U.S. Department of Labor - Employment Service Cluster, Labor Force Statistics, Trade Adjustment Assistance - Workers, Employment Services and Job Training - Pilots and Demonstration Programs, and Unemployment Insurance.
- b. U.S. Department of Education - For fiscal year 1999-2000, Adult Education - State Grant Program, Vocational Education - Basic Grants to States, and Tech-Prep Education.

(5) CFDA number not available. Number derived from federal agency number and contract number.

<u>For the Fiscal Year Ended September 30, 2000</u>				<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
	\$	\$ 220,490	\$ 220,490	\$ 438,894
	142,997	3,798,306	3,941,303	3,941,303
	214,800		214,800	524,961
	100,995	1,339,611	1,440,606	8,544,830
	22,307		22,307	22,307
	<b>\$ 66,582,482</b>	<b>\$ 58,887,538</b>	<b>\$ 125,470,020</b>	<b>\$ 205,519,888</b>
	\$ 9,671	\$	\$ 9,671	\$ 109,226
G970MITANF	<u>4,100,312</u>	<u>145,011,278</u>	<u>149,111,590</u>	<u>269,720,151</u>
	<b>\$ 4,109,983</b>	<b>\$ 145,011,278</b>	<b>\$ 149,121,261</b>	<b>\$ 269,829,377</b>
	\$ 440,225	\$	\$ 440,225	\$ 849,529
	17,678	150,950	168,628	308,780
		3,636,057	3,636,057	6,502,994
	4,822	119,840	124,662	209,615
	127,925	39,966	167,891	307,862
	<b>\$ 590,650</b>	<b>\$ 3,946,813</b>	<b>\$ 4,537,463</b>	<b>\$ 8,178,780</b>
	<u>\$ 94,094,744</u>	<u>\$ 289,186,944</u>	<u>\$ 383,281,688</u>	<u>\$ 720,610,247</u>

# OTHER SCHEDULES

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT  
Summary Schedule of Prior Audit Findings  
As of September 30, 2000

Background on Prior Single Audits

The primary prior Single audit was of the Michigan Jobs Commission (MJC). Per provisions of Executive Order No. 1999-1, MJC was abolished and its programs were split between the new Michigan Department of Career Development (MDCD) and the Michigan Economic Development Corporation. Prior Finding 459903 pertained to activities now within the Corporation and, consequently, is not covered in this schedule.

Also, effective January 1, 2000, Executive Order No. 1999-12 transferred the adult education, vocational education, and vocational-technical education programs to MDCD from the Department of Education. The prior Single Audit findings on these programs are Findings 310007 through 310010.

In addition, compliance reviews of grants administered by the Employment Service Agency occurred as part of Single Audits of the Unemployment Agency through the fiscal year ended September 30, 1998. Per provisions of Executive Order Nos. 1997-12 and 1997-18, the previous Michigan Employment Services Agency was split into the Unemployment Agency and the Employment Service Agency. The findings identifiable with the Employment Service Agency's programs are Findings 98-1, 98-3, and 98-6.

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Number:** 459901  
**Finding Title:** Controls Over Access to MAIN  
**Finding:** 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

\* See glossary at end of report for definition.

compatible with assigned job responsibilities. Also, MJC sometimes did not obtain signed security agreements prior to granting or modifying MAIN user capabilities.

**Comments:** The Office of Financial Services (OFS) has reviewed the user classes cited in the audit report and reduced authorizations to only staff who need such capabilities. Also, signed security request forms have been obtained from all staff who have access to MAIN. The current policy is to require that all security request forms be signed prior to submission to the Department of Management and Budget.

**Audit Period:** October 1, 1996 through September 30, 1998

**Finding Number:** 459902

**Finding Title:** MAIN Reconciliation Procedures

**Finding:** 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.

**Comments:** 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.

**Audit Period:** October 1, 1996 through September 30, 1998

**Finding Number:** 459905

**Finding Title:** Equipment Inventory Controls and Financial Reporting

**Finding:** 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.

**Comments:** MDCD has implemented the \$5,000 threshold for reporting equipment purchases, which has significantly reduced the number of items subject to recordkeeping and annual reporting. For the most recent annual report filed with the Department of Management and Budget (December 2000), many items, excluding items with a high risk of theft or conversion to personal use, that cost less than \$5,000 were identified and deleted. Also, related to the impending implementation of Governmental Accounting Standards Board Statement No. 34 by the State of Michigan,

MDCD is researching methods to further improve its records for fixed assets.

#### Audit Findings Not Corrected or Partially Corrected

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Number:** 459904  
**Finding Title:** Mail Opening and Cash Receipts  
**Finding:** MJC did not maintain adequate internal control over mail opening and processing of cash receipts.  
**Comments:** Analysis showed that the volume of receipts at the program units is generally not sufficient to warrant a formal mail opening process at each location. Accordingly, corrective actions have emphasized steps to ensure that all cash items are received directly by the central mailroom. The units have been instructed to send receipts via the United States Postal Service instead of interdepartmental mail to ensure that such items are opened and recorded by the mailroom. For items received by program units, the procedures require that a preparer and designated verifier properly complete cash receipts logs. Also, regarding the prompt restrictive endorsement of checks, efforts are continuing to identify the best method that conforms with requirements of the Department of Treasury.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

#### Audit Findings That Have Been Fully Corrected

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Number:** 459906  
**Finding Title:** Timely Federal Reporting  
**Finding:** MJC's internal control did not ensure that required federal financial status, program progress, and program performance reports were submitted on a timely basis.  
**Comments:** OFS implemented a tracking system to monitor due dates and, as a result, most reports are now filed in a timely manner. When delays

occur because of unusual conditions, OFS notifies the grantor agency in writing of the reason for the delay and the anticipated date that the report will be submitted. Also, one of the program units cited in the finding has implemented web-based reporting for its grants and, as a result, obtaining the needed information from subrecipients should be timelier.

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Number:** 459907  
**Finding Title:** Subrecipient Monitoring - Rehabilitation Services  
**Finding:** 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.  
**Comments:** MRS has implemented a system to monitor subrecipients throughout the subgrant process, from the time of grant applications to closeout. This monitoring includes obtaining limited scope audits from subrecipients with grants below the Single Audit threshold. Also, MRS has developed appropriate resources so that the review and follow-up of the audit reports are now performed on a timely basis.

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Number:** 459908  
**Finding Title:** Subrecipient Monitoring - Office of Workplace Development (OWD)  
**Finding:** 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.  
**Comments:** OWD is now providing *CFDA* numbers in the grant and contract notices for the federal funds awarded to subrecipients. Also, the Reporting and Monitoring Division now reviews the subrecipient audit reports to ensure that all federal funds awarded by OWD were included in the scope of the audit and that the reported *CFDA* numbers were accurate.

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Number:** 459909  
**Finding Title:** Controls Over Access to MAIN  
**Finding:** See Finding 459901 with the findings related to the financial schedules.

**Audit Period:** October 1, 1996 through September 30, 1998  
**Finding Title:** MAIN Reconciliation Procedures  
**Finding Number:** 459910  
**Finding:** See Finding 459902 with the findings related to the financial schedules.

**Audit Period:** October 1, 1997 through September 30, 1999  
**Finding Number:** 310008  
**Finding Title:** Vocational Education Maintenance of Effort  
**Finding:** The Department's internal control did not monitor compliance with the Vocational Education - Basic Grants to States Program administrative maintenance of efforts requirements.  
**Comments:** MDCD has added the maintenance of efforts requirements to the spreadsheet that is used to record the spending plan for the Vocational Education grant. This change will include an edit to detect whenever the required amount has not been met.

**Audit Period:** October 1, 1997 through September 30, 1999  
**Finding Number:** 310010  
**Finding Title:** Federal Program Performance Reports  
**Finding:** The Department's internal control did not ensure that required federal program performance reports were submitted on a timely basis. (This finding covered the grants for Vocational Education - Basic Grants to States and for Tech-Prep Education.)  
**Comments:** MDCD has implemented procedures to ensure the timely submission of federal performance reports. Program staff are piloting a project with the U.S. Department of Education for electronic submission of the reports. In addition, procedures have been rewritten to assign specific tasks for completing the reports.

**Audit Period:** October 1, 1997 through September 30, 1998  
**Finding Number:** 98-1  
**Finding:** The agency did not document whether contractors receiving individual awards of \$100,000 or more are certified for not being suspended or debarred.  
**Comments:** MDCD has basic procedures to maintain documentation of applicable certification for contract awards exceeding \$100,000 that the vendor is not suspended or debarred.

**Audit Period:** October 1, 1997 through September 30, 1998  
**Finding Number:** 98-3  
**Finding:** Underlying detail should support federal reports, and the reports should agree to the schedule of expenditures of federal awards.  
**Comments:** MDCD now maintains information for the federal reports in the Michigan Administrative Information Network (MAIN). Starting with the fiscal year ended September 30, 2000, OFS became the fiscal administrator for all of the Employment Service Agency's federal programs. In its response to the audit report, the Unemployment Agency indicated that the cost accounting system had been retired on September 30, 1998 and replaced with similar corrective actions.

**Audit Period:** October 1, 1997 through September 30, 1998  
**Finding Number:** 98-6  
**Finding:** The agency did not maintain documentation for the Employment Service Cluster programs to show compliance with the requirement to reserve at least 10% of the federal grants for services and activities authorized by section 7(b) of the Workforce Investment Act.  
**Comments:** OFS has established an account coding structure to monitor the expenditures that qualify as eligible costs to meet the requirements of section 7(b).

Audit Findings Not Corrected or Partially Corrected

**Audit Period:** October 1, 1997 through September 30, 1999  
**Finding Number:** 310007

**Finding Title:** Federal Adult Basic Education and English as a Second Language (ABE/ESL) Program Participation

**Finding:** The Department's internal control did not ensure that federal ABE/ESL Program subrecipients were allocated federal funds based on actual participation in accordance with the Program's State Plan.

**Comments:** During fiscal year 1999-2000, program staff started a more detailed process for all subrecipients to provide information on a formal reconciliation form. This form allows subrecipients to identify differences between federal and State counts of full-time equivalent (FTE) students. These reports will be reviewed and, as appropriate, program staff will follow up undocumented explanations.

Further, MDCD has started implementation of a major revision in the federal ABE/ESL Program under which reimbursements to subrecipients will be based on meeting performance measures. The revision of the State Plan was approved by the U.S. Department of Education in October 2000. Consequently, payments will not be based on FTE data for all program operations after February 1, 2001.

**Audit Period:** October 1, 1997 through September 30, 1999

**Finding Number:** 310009

**Finding Title:** Tech - Prep Education Articulation Agreements

**Finding:** The Department's internal control did not ensure that consortia applying for Tech-Prep Education Program grants had articulation agreements.

**Comments:** MDCD now requires that each Tech - Prep consortium submit a sample articulation agreement with its application for funding and then periodically a list of articulated programs. The consortia will keep the copies of all articulation agreements in their respective files. Program staff will verify that the agreements are on file during the routine site visits.

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

Corrective Action Plan

As of May 21, 2001

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 450101  
**Finding Title:** Cash Receipting  
**Management Views:** We agree with this recommendation and will comply.  
**Corrective Action:** Department of Treasury procedures had required the segregation of deposits by agency. For the Michigan Department of Career Development (MDCD), this policy meant that receipts for the Employment Service Agency (ESA) needed to be endorsed with a different agency number from other units. To ensure accuracy, the endorsement process was handled by the Office of Financial Services (OFS) cashier unit rather than by the mailroom. Through communications with the Department of Treasury, which is converting the processing of agency deposits to commercial banks, MDCD will implement an endorsement stamp that can be used for all agencies.

**Anticipated Completion Date:** June 30, 2001  
**Responsible Individual:** Melvin Farmer, Director, Office Services  
Telephone Number (517) 241-0493  
Shirley Callahan, Director, Office of Financial Services  
Telephone Number (517) 335-5800

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**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 450102  
**Finding Title:** Federal Adult Basic Education (ABE) and English as a Second Language (ESL) Program Participation  
**Management Views:** We generally agree with this recommendation and are in process of implementing corrective actions.

**Corrective Action:**

For fiscal year 1999-2000, program staff instigated a more detailed process and requested that all subrecipients provide information on a formal full-time equivalent (FTE) reconciliation form. This form allows subrecipients to identify differences between federal and State FTE counts, including reasons to explain both positive and negative variances. As a condition of eligibility for subsequent grants, subrecipients were required to submit all overdue reports by March 16, 2001. These reports will be reviewed and unexplained variances will receive appropriate follow-up.

During fiscal year 2000-01, MDCD is implementing a major revision in the administration of the federal program under which the reimbursements to subrecipients will be based on meeting performance measures. These measures will be documented through the electronic per-pupil National Reporting System based on federal reporting requirements. This change was approved by the U.S. Department of Education in the revised State Plan in October 2000. For future periods, with the funding based on performance measures, program staff will have the essential per-pupil documentation needed to ensure the accuracy of reported data.

With respect to the portion of the finding involving reallocation of \$892,320 for the 1999-2000 program year, communications are in process with the federal grantor agency to resolve this matter. In prior years, the reallocation of unobligated funds had been based on the difference between the estimated and actual FTE counts reported by subrecipients. For the reallocation cited in the finding, consistent with the new impending policy change of using performance measures, the reallocation was based on student gains.

**Anticipated Completion Date:** September 30, 2001. The various reconciliations of payments to reported actual student FTEs will be completed by the end of the current fiscal year.

**Responsible Individual:** Donna Miller, Business Manager, Adult Education and Spanish Speaking Affairs  
Telephone Number (517) 373-8439

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**Finding Number:** 450103  
**Finding Title:** Earmarking Requirements  
**Management Views:** We agree with this recommendation and have complied. Although OFS had established a coding structure in the accounting system to track costs for section 7(b) expenditures, this condition resulted in part from uncertainty about the balances carried forward at the time of the organizational transfer of ESA from the Unemployment Agency.

**Corrective Action:** ESA has identified eligible staff costs to meet the earmarking requirements. As indicated in the audit finding, OFS has recorded these transactions in the accounting system. Also, as part of recent implementation of web-based reporting, the federal grantor agency now provides reporting of amounts of section 7(b) expenditures. The format of the reports during the audit period did not require such details.

**Anticipated Completion Date:** April 30, 2001  
**Responsible Individual:** Shirley Callahan, Director, Office of Financial Services  
Telephone (517) 335-5800

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**Finding Number:** 450104  
**Finding Title:** Federal Reporting  
**Management Views:** We agree with this recommendation and will comply.  
**Corrective Action:** OFS has changed its methodology for compiling financial data for the ESA grants and will submit reports to ESA 30 days after each quarter and 90 days after year-end. The timeliness of reporting should also be improved with the conversion by the Employment

and Training Administration, U.S. Department of Labor, to Internet-based reporting.

In addition, OFS has communicated with ESA to explore the feasibility of submitting the monthly reports as a batch 30 days after each quarter.

**Anticipated Completion Date:** September 30, 2001  
**Responsible Individual:** Shirley Callahan, Director, Office of Financial Services  
Telephone (517) 335-5800

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**Finding Number:** 450105  
**Finding Title:** Employee Payroll Certification  
**Management Views:** We agree with this recommendation and will comply.  
**Corrective Action:** ESA has implemented procedures to require that all staff complete semi-annual certifications by July 1st and January 1st of each year. These certifications will be linked to the start of the program year when changes in assignments are most likely to occur.

**Anticipated Completion Date:** June 30, 2001  
**Responsible Individual:** Linda Woods, Acting Director, Employment Service Agency  
Telephone Number (517) 241-2751

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**Finding Number:** 450106  
**Finding Title:** Articulation Agreements  
**Management Views:** We agree with this recommendation and will comply.  
**Corrective Action:** MDCD will require that each Tech-Prep consortium submit a sample articulation agreement with its application for funding. In addition, consortiums must submit a list of articulated programs and keep copies in its files. Program staff will verify that those agreements are on file when we conduct field visits.

**Anticipated Completion Date:** June 30, 2001. With the applications for fiscal year 2001-02, the above-mentioned documentation will be collected and kept in the grant file.

**Responsible Individual:** Patty Cantu, Supervisor, Office of Career and  
Technical Preparation Planning, Evaluation and  
Finance Unit  
Telephone Number (517) 335-0361

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## Glossary of Acronyms and Terms

ABE	Adult Basic Education.
CAS	Cost Accounting System.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
ESL	English as a Second Language.
ESA	Employment Service Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FTE	full-time equivalent.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement 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 caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements 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.
MDCD	Michigan Department of Career Development.
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 that the agency was established.
MJC	Michigan Jobs Commission.
MRS	Michigan Rehabilitation Services.

NOICC	National Occupational Information Coordinating Committee.
OFS	Office of Financial Services.
OMB	U.S. Office of Management and Budget.
OWD	Office of Workforce Development.
questioned costs	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in

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

*SOMCAFR*

*State of Michigan Comprehensive Annual Financial Report.*

subrecipient

A nonfederal entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.