



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
641-0100-07

Department of Labor and Economic Growth

October 1, 2004 through September 30, 2006

Released:
June 2007

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

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

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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**Noncompliance and Other Matters
Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 11 programs as major programs and reported known questioned costs of approximately \$2.0 million and known and likely questioned costs totaling \$2.0 million. DLEG expended \$905.9 million in federal awards during the two-year period ended September 30, 2006. We issued 10 unqualified opinions and 1 qualified opinion. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 1 through 10). We consider Finding 1 to be a material weakness.

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 1 through 10).

~ ~ ~ ~ ~

Systems of Accounting and Internal Control:

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

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
17.002	Labor Force Statistics	Qualified
17.245	Trade Adjustment Assistance	Unqualified
17.258, 17.259, and 17.260	Workforce Investment Act (WIA) Cluster	Unqualified
17.504	Consultation Agreements	Unqualified
81.041	State Energy Program	Unqualified
84.002	Adult Education - State Grant Program	Unqualified
84.048	Vocational Education - Basic Grants to States	Unqualified
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Unqualified
84.187	Supported Employment Services for Individuals with Severe Disabilities	Unqualified
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Unqualified
94.006	AmeriCorps	Unqualified

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



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

June 22, 2007

Mr. Keith W. Cooley, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Cooley:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Labor and Economic Growth (DLEG) for the period October 1, 2004 through September 30, 2006.

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

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

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Schedules

Mr. Keith W. Cooley, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Cooley:

We have audited the accompanying financial schedules of the Department of Labor and Economic Growth for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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

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

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Department of Labor and Economic Growth for the fiscal years ended September 30, 2006 and September 30, 2005 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

AUDITOR GENERAL

March 30, 2007

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

	<u>2006</u>	<u>2005</u>
REVENUES		
Taxes:		
Beer and wine	\$ 51,216,591	\$ 50,959,136
Insurance company premium tax	13,879,199	15,773,423
Liquor tax	34,907,602	33,638,501
Total taxes	<u>\$ 100,003,392</u>	<u>\$ 100,371,059</u>
From federal agencies	466,285,993	424,274,501
From local agencies	8,898,899	8,592,554
From services	3,694,023	2,874,456
From licenses and permits	133,359,375	124,687,882
Miscellaneous	79,834,116	54,947,804
Total revenues	<u>\$ 792,075,799</u>	<u>\$ 715,748,257</u>
OTHER FINANCING SOURCES (Note 2)		
Transfers from Liquor Purchase Revolving Fund	\$ 152,253,037	\$ 145,906,895
Other transfers	5,738,548	26,210,181
Total other financing sources	<u>\$ 157,991,586</u>	<u>\$ 172,117,076</u>
Total revenues and other financing sources	<u>\$ 950,067,384</u>	<u>\$ 887,865,333</u>

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

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

	<u>2006</u>	<u>2005</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 41,754,900	\$ 46,411,200
Budgetary adjustments		2,652,332
Balances carried forward	121,889,647	131,961,866
Restricted financing sources	668,452,058	628,557,054
Less: Intrafund expenditure reimbursements	<u>(10,510,044)</u>	<u>(1,682,142)</u>
Total	<u><u>\$ 821,586,561</u></u>	<u><u>\$ 807,900,311</u></u>
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers out	\$ 770,267,970	\$ 687,647,480
Less: Intrafund expenditure reimbursements	<u>(10,510,044)</u>	<u>(1,682,142)</u>
Net expenditures and transfers out	<u>\$ 759,757,926</u>	<u>\$ 685,965,338</u>
Balances carried forward:		
Multi-year projects	\$	\$ 3,700,000
Encumbrances	1,064	181,333
Restricted revenues - authorized	404,770	263,369
Restricted revenues - not authorized or used	61,400,280	117,744,945
Total balances carried forward	<u>\$ 61,806,114</u>	<u>\$ 121,889,647</u>
Balances lapsed	<u>\$ 22,521</u>	<u>\$ 45,326</u>
Total	<u><u>\$ 821,586,561</u></u>	<u><u>\$ 807,900,311</u></u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Labor and Economic Growth (DLEG) for the fiscal years ended September 30, 2006 and September 30, 2005. The financial transactions of DLEG are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

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

- (1) Liquor Purchase Revolving Fund. This Fund accounts for the proprietary operations of the Michigan Liquor Control Commission. The Commission issues annual financial statements and obtains a periodic financial audit.
- (2) Michigan State Housing Development Authority (MSHDA), including federal financial assistance. MSHDA issues annual audited financial statements and obtains a biennial Single Audit*.
- (3) Michigan Unemployment Compensation Fund, including federal financial assistance; the Michigan Employment Security Act - Administration Fund, including federal financial assistance; and the Michigan Employment Security Act Contingent Fund. The Michigan

* See glossary at end of report for definition.

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

- (4) Michigan Economic Development Corporation (MEDC) and Michigan Strategic Fund (MSF), including federal financial assistance. MEDC and MSF receive separate annual financial audits and a biennial Single Audit. Effective November 21, 2005, MEDC and MSF were transferred to the Department of Treasury by Act 225, P.A. 2005.
- (5) Michigan Broadband Development Authority (MBDA). MBDA issues annual financial statements and obtains an annual financial audit.
- (6) Various funds, including the Gifts, Bequests, and Deposits Investment Fund; Safety Education and Training Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Logging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; and Insurance Carrier Deposits Fund. These funds receive no federal assistance and receive periodic financial audits.

Effective March 27, 2005, the Governor issued Executive Order* No. 2005-1, which created the State Office of Administrative Hearings and Rules as an agency within DLEG. As a result, many staff were transferred to DLEG from other departments to centralize the hearings process.

Also, effective October 22, 2006, the Governor issued Executive Order No. 2006-18, which transferred the Michigan Community Service Commission to the Department of Human Services.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual

* See glossary at end of report for definition.

basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for DLEG's General Fund accounts for the fiscal years ended September 30, 2006 and September 30, 2005. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of DLEG or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Other Financing Sources

The transfers from the Liquor Purchase Revolving Fund for fiscal years 2005-06 and 2004-05 were statutory transfers of fund profits to finance general operations (\$148.5 million and \$142.2 million, respectively) and grants to cities, villages, and townships with State-owned facilities for fire protection services (\$3.7 million and \$3.7 million, respectively).

Also, DLEG received transfers of \$2.1 million and \$22.7 million for fiscal years 2005-06 and 2004-05, respectively, from the Michigan Unemployment Compensation Fund to provide federal Reed Act funding for the Unemployment Insurance Program. Reed Act funds were distributed to Michigan Works! Agencies to support job search and job readiness activities. In addition, DLEG received transfers of \$2.5 million and \$2.6 million for fiscal years 2005-06 and 2004-05, respectively, from the Michigan Employment Security Act Contingent Fund to finance a portion of the Employment Services Program.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Budgetary adjustments: Adjustments for write-off of accounts receivable, deferrals, and prior year obligations in excess of prior appropriations.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized or used. DLEG's significant balances carried forward into fiscal year 2005-06 included \$30.7 million for the Low Income/Energy Efficiency Fund, \$21.5 million for remonumentation fees (during the fiscal year, \$15.0 million was unrestricted and lapsed to the General Fund in accordance with Act 76, P.A. 2006), \$32.8 million in insurance and consumer fees (during the fiscal year, \$14.9 million was unrestricted and lapsed to the General Fund), and \$6.4 million for corporation fees. DLEG's significant balances carried forward into fiscal year 2004-05 included \$36.9 million for the Low Income/Energy Efficiency Fund, \$22.0 million for remonumentation fees, \$32.0 million in insurance and consumer fees, \$6.0 for licensing and regulation fees, and \$5.2 million for corporation fees.
- d. Restricted financing sources: Collections of restricted revenues and restricted transfers, net of restricted intrafund expenditure reimbursements, to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either

restricted revenues - authorized or restricted revenues - not authorized or used. DLEG's significant sources in fiscal year 2005-06 included \$471.3 million from federal agencies, \$56.8 million from the Low Income/Energy Efficiency Fund, \$20.1 million from corporation fees, and \$18.6 million from public utility assessments. DLEG's significant sources in fiscal year 2004-05 included \$444.5 million from federal agencies, \$39.9 million from the Low Income/Energy Efficiency Fund, \$18.5 million from insurance and consumer fees, \$16.9 million from corporation fees, and \$16.0 million from public utility assessments.

- 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. DLEG's significant reimbursements in fiscal year 2005-06 included \$9.3 million in reimbursements for hearings paid by other State of Michigan departments to the State Office of Administrative Hearings and Rules, created within DLEG in accordance with Executive Order No. 2005-1 effective March 27, 2005.
- f. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. DLEG may not expend the revenue without additional legislative authorization. DLEG's significant restricted revenues - not authorized or used in fiscal year 2005-06 include \$18.1 million in insurance and consumer fees, \$7.8 million in remonumentation fees, and \$7.1 million in corporation fees. DLEG's significant restricted revenues - not authorized or used in fiscal year 2004-05 include \$32.8 million in insurance and consumer fees, \$30.7 million from the Low Income/Energy Efficiency Fund, \$21.5 million in remonumentation fees, and \$6.4 million in corporation fees.
- g. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006

			For the Fiscal Year Ended September 30, 2005		
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Pass-Through Program:					
Michigan Department of Human Services					
State Administrative Matching Grants for Food Stamp Program	10.561	2MI420122	\$ 64,847	\$ 3,755,958	\$ 3,820,805
Total U.S. Department of Agriculture			\$ 64,847	\$ 3,755,958	\$ 3,820,805
<u>U.S. Department of Housing and Urban Development</u>					
Direct Program:					
Manufactured Home Construction and Safety Standards	14.171		\$ 128,977	\$	\$ 128,977
Total U.S. Department of Housing and Urban Development			\$ 128,977	\$ 0	\$ 128,977
<u>U.S. Department of Labor</u>					
Employment Service Cluster:					
Direct Programs:					
Employment Service/Wagner-Peyser Funded Activities	17.207		\$ 9,735,172	\$ 17,922,936	\$ 27,658,108
Disabled Veterans' Outreach Program (DVOP)	17.801		2,278,955		2,278,955
Local Veterans' Employment Representative Program	17.804		3,198,083		3,198,083
Total Employment Service Cluster			\$ 15,212,210	\$ 17,922,936	\$ 33,135,146
Workforce Investment Act (WIA) Cluster:					
Direct Programs:					
WIA Adult Program	17.258		\$ 1,531,362	\$ 36,526,261	\$ 38,057,623
WIA Youth Activities	17.259		1,679,193	37,521,078	39,200,271
WIA Dislocated Workers	17.260		2,959,372	43,929,135	46,888,507
Total Workforce Investment Act (WIA) Cluster			\$ 6,169,927	\$ 117,976,474	\$ 124,146,401
Direct Programs:					
Labor Force Statistics	17.002		\$ 2,800,448	\$	\$ 2,800,448
Compensation and Working Conditions	17.005		164,816		164,816
Trade Adjustment Assistance	17.245		393,565	9,196,519	9,590,084
WIA Pilots, Demonstrations, and Research Projects	17.261			373,829	373,829
Work Incentive Grants	17.266		31,891	196,146	228,037
Incentive Grants - WIA Section 503	17.267			200,882	200,882
Occupational Safety and Health - State Program	17.503		9,880,000		9,880,000
Consultation Agreements	17.504		1,677,297		1,677,297
Total Direct Programs			\$ 14,948,017	\$ 9,967,376	\$ 24,915,393
Pass-Through Program:					
Michigan Unemployment Insurance Agency					
Unemployment Insurance	17.225	SOM-DLEG	\$ (14,464)	\$ 14,373,165	\$ 14,358,701
Total U.S. Department of Labor			\$ 36,315,690	\$ 160,239,951	\$ 196,555,641
<u>U.S. Department of Transportation</u>					
Direct Program:					
Pipeline Safety	20.700		\$ 314,190	\$ 32,851	\$ 347,041
Pass-Through Program:					
Michigan Department of State Police					
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEMI4018120, HMEMI5018130	46,986	\$	46,986
Total U.S. Department of Transportation			\$ 361,176	\$ 32,851	\$ 394,027
<u>U.S. Department of Veterans Affairs</u>					
Direct Program:					
Veterans Information and Assistance	64.115		\$ 299,370	\$	\$ 299,370
Total U.S. Department of Veterans Affairs			\$ 299,370	\$ 0	\$ 299,370
<u>U.S. Department of Energy</u>					
Direct Programs:					
National Energy Information Center	81.039		\$ 7,031	\$	\$ 7,031
State Energy Program	81.041		838,045	832,387	1,670,432
Regional Biomass Energy Programs	81.079		13,622		13,622

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2006			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 202,860	\$ 3,746,739	\$ 3,949,599	\$ 7,770,404
\$ 202,860	\$ 3,746,739	\$ 3,949,599	\$ 7,770,404
\$	\$	\$ 0	\$ 128,977
\$ 0	\$ 0	\$ 0	\$ 128,977
\$ 9,892,336	\$ 17,921,861	\$ 27,814,197	\$ 55,472,305
2,489,045		2,489,045	4,768,000
3,142,325		3,142,325	6,340,408
\$ 15,523,706	\$ 17,921,861	\$ 33,445,567	\$ 66,580,713
\$ 1,428,041	\$ 41,803,614	\$ 43,231,655	\$ 81,289,278
1,567,284	39,199,006	\$ 40,766,290	79,966,561
2,847,792	53,176,976	56,024,768	102,913,275
\$ 5,843,117	\$ 134,179,596	\$ 140,022,713	\$ 264,169,114
\$ 2,756,849	\$	\$ 2,756,849	\$ 5,557,297
213,000		213,000	377,816
120,134	14,302,957	14,423,091	24,013,175
	1,504,952	1,504,952	1,878,781
15,045	166,810	181,855	409,892
343,218	1,132,789	1,476,007	1,676,889
9,925,575		9,925,575	19,805,575
1,690,498		1,690,498	3,367,795
\$ 15,064,319	\$ 17,107,508	\$ 32,171,827	\$ 57,087,220
\$ 252,600	\$ 1,859,648	\$ 2,112,248	\$ 16,470,949
\$ 36,683,742	\$ 171,068,613	\$ 207,752,355	\$ 404,307,996
\$ 332,108	\$	\$ 332,108	\$ 679,149
30,913	\$	30,913	77,899
\$ 363,021	\$ 0	\$ 363,021	\$ 757,048
\$ 364,676	\$	\$ 364,676	\$ 664,046
\$ 364,676	\$ 0	\$ 364,676	\$ 664,046
\$ 1,711	\$	\$ 1,711	\$ 8,742
916,117	1,160,960	2,077,077	3,747,509
21,588		21,588	35,210

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006
(continued)

			For the Fiscal Year Ended September 30, 2005		
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Conservation Research and Development	81.086		\$	\$ 204,287	\$ 204,287
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105			33,149	33,149
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117			25,086	25,086
State Energy Program Special Projects	81.119			800,169	800,169
Total U.S. Department of Energy			\$ 858,698	\$ 1,895,078	\$ 2,753,776
<u>U.S. Department of Education</u>					
Student Financial Assistance Cluster:					
Direct Programs:					
Federal Supplemental Educational Opportunity Grants	84.007		\$ 28,834	\$	\$ 28,834
Federal Pell Grant Program	84.063		106,152		106,152
Total Student Financial Assistance Cluster			\$ 134,986	\$ 0	\$ 134,986
Direct Programs:					
Adult Education - State Grant Program	84.002		\$ 1,821,212	\$ 16,028,995	\$ 17,850,207
Vocational Education - Basic Grants to States	84.048		2,767,982	38,262,836	41,030,818
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		81,615,919	5,584,728	87,200,647
Independent Living - State Grants	84.169		81,874	500,520	582,394
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		1,159,538		1,159,538
Supported Employment Services for Individuals with Severe Disabilities	84.187		1,340,482	7,477	1,347,959
Assistive Technology	84.224		1,965	1,080,656	1,082,621
Rehabilitation Services Demonstration and Training Programs	84.235			235,603	235,603
Tech-Prep Education	84.243		140,256	3,290,325	3,430,581
Rehabilitation Training - State Vocational Rehabilitation Unit					
In-Service Training	84.265		131,513	54,287	185,800
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		1,437,210	984,078	2,421,288
Vocational Education - Occupational and Employment Information State Grants	84.346		103,115	35,262	138,377
Total Direct Programs			\$ 90,601,066	\$ 66,064,767	\$ 156,665,833
Total U.S. Department of Education			\$ 90,736,052	\$ 66,064,767	\$ 156,800,819
<u>U.S. Department of Health and Human Services</u>					
Medicaid Cluster					
Pass-Through Programs:					
Michigan Department of Community Health					
State Survey and Certification of Health Care Providers and Suppliers	93.777	05-0505-MI-5000, 06-05-MI-5000	\$ 375,869	\$	\$ 375,869
Medical Assistance Program	93.778	05-0505-MI-5001, 06-05-MI-5001	238,709		238,709
Total Medicaid Cluster			\$ 614,578	\$ 0	\$ 614,578
Direct Programs:					
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children	93.197		\$ 90	\$ 22,654	\$ 22,744
Occupational Safety and Health Program	93.262		86,509	506,600	593,109
Total Direct Programs			\$ 86,599	\$ 529,254	\$ 615,853
Pass-Through Programs:					
Michigan Department of Human Services					
Temporary Assistance for Needy Families	93.558	G0501MITANF, G0602MITANF	\$ 2,623,836	\$ 68,163,516	\$ 70,787,352
Chafee Foster Care Independence Program	93.674	G-0501MI1420			0
Total Pass-Through Programs			2,623,836	68,163,516	70,787,352
Total U.S. Department of Health and Human Services			\$ 3,325,013	\$ 68,692,770	\$ 72,017,783

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2006

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$	\$ 91,770	\$ 91,770	\$ 296,057
		0	33,149
	26,941	26,941	52,027
	461,939	461,939	1,262,108
\$ 939,416	\$ 1,741,610	\$ 2,681,026	\$ 5,434,802

\$ 25,948	\$	\$ 25,948	\$ 54,782
436,748	92,461	529,209	635,361
\$ 462,696	\$ 92,461	\$ 555,157	\$ 690,143

\$ 1,924,115	\$ 14,134,804	\$ 16,058,919	\$ 33,909,126
2,977,147	36,816,288	39,793,435	80,824,253
87,413,140	6,618,178	94,031,318	181,231,965
200,432	372,232	572,664	1,155,058
950,164	394,652	1,344,816	2,504,354
975,947	4,975	980,922	2,328,881
11,899	930,147	942,046	2,024,667
770	174,832	175,602	411,205
136,777	3,605,291	3,742,068	7,172,649
108,568		108,568	294,368
1,757,842	751,705	2,509,547	4,930,835
257,627	48,000	305,627	444,004
\$ 96,714,428	\$ 63,851,104	\$ 160,565,532	\$ 317,231,365
\$ 97,177,124	\$ 63,943,565	\$ 161,120,689	\$ 317,921,508

\$ 384,326	\$	\$ 384,326	\$ 760,195
255,168		255,168	493,877
\$ 639,494	\$ 0	\$ 639,494	\$ 1,254,072

\$	\$	\$ 0	\$ 22,744
2,991	100,565	103,556	696,665
\$ 2,991	\$ 100,565	\$ 103,556	\$ 719,409

\$ 1,853,685	\$ 82,834,282	\$ 84,687,967	\$ 155,475,319
	199,141	199,141	199,141
1,853,685	83,033,423	84,887,108	155,674,460
\$ 2,496,170	\$ 83,133,988	\$ 85,630,158	\$ 157,647,941

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006
(continued)

			For the Fiscal Year Ended September 30, 2005		
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Corporation for National and Community Service</u>					
Direct Programs:					
State Commissions	94.003		\$ 430,889	\$ 34	\$ 430,923
Learn and Serve America - School and Community Based Programs	94.004		2,146	66,357	68,503
AmeriCorps	94.006			3,907,714	3,907,714
Planning and Program Development Grants	94.007		13,939	24,439	38,378
Training and Technical Assistance	94.009		125,834		125,834
Total Direct Programs			\$ 572,808	\$ 3,998,544	\$ 4,571,352
Pass-Through Program:					
Michigan Department of Education					
Learn and Serve America - School and Community Based Programs	94.004	03KCNM1001	32,742	(29,853)	2,889
Total Corporation for National and Community Service			\$ 605,550	\$ 3,968,691	\$ 4,574,241
<u>Social Security Administration</u>					
Direct Program:					
Social Security - Disability Insurance	96.001		\$ 562,347	\$	\$ 562,347
Total Social Security Administration			\$ 562,347	\$ 0	\$ 562,347
<u>U.S. Department of Homeland Security</u>					
Direct Programs:					
State Domestic Preparedness Equipment Support Program	97.004		\$		\$ 0
State Fire Training Systems Grants	97.043		186		186
Total U.S. Department of Homeland Security			\$ 186	\$ 0	\$ 186
Total Expenditures of Federal Awards			\$ 133,257,906	\$304,650,066	\$437,907,972

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Labor and Economic Growth on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

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

For the Fiscal Year Ended September 30, 2006

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 294,367	\$	\$ 294,367	\$ 725,290
171,793	612,323	784,116	852,619
	4,637,439	4,637,439	8,545,153
38,294	30,486	68,780	107,158
131,195	(160)	131,035	256,869
\$ 635,649	\$ 5,280,088	\$ 5,915,737	\$ 10,487,089
22,709	160,407	183,116	186,005
\$ 658,358	\$ 5,440,495	\$ 6,098,853	\$ 10,673,094
\$	\$	\$ 0	\$ 562,347
\$ 0	\$ 0	\$ 0	\$ 562,347
\$ 23	\$	\$ 23	\$ 23
30,195		30,195	30,381
\$ 30,218	\$ 0	\$ 30,218	\$ 30,404
<u>\$138,915,585</u>	<u>\$329,075,010</u>	<u>\$467,990,595</u>	<u>\$905,898,567</u>

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

Mr. Keith W. Cooley, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Cooley:

We have audited the financial schedules of the Department of Labor and Economic Growth for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents, and have issued our report thereon dated March 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

AUDITOR GENERAL

March 30, 2007



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

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

Mr. Keith W. Cooley, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Cooley:

Compliance

We have audited the compliance of the Department of Labor and Economic Growth with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2006. 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 1 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles that are applicable to its Labor Force Statistics 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 Department of Labor and Economic Growth complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2 through 10.

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. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Finding 1 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

March 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance or other matters material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses 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 Labor Force Statistics, which is 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
17.002	Labor Force Statistics
17.245	Trade Adjustment Assistance
17.258, 17.259, and 17.260	Workforce Investment Act (WIA) Cluster

* See glossary at end of report for definition.

17.504	Consultation Agreements
81.041	State Energy Program
84.002	Adult Education - State Grant Program
84.048	Vocational Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.187	Supported Employment Services for Individuals with Severe Disabilities
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
94.006	AmeriCorps

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

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

We did not report any findings related to the financial schedules.

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.

* See glossary at end of report for definition.

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

FINDING (6410701)

1. Labor Force Statistics, CFDA 17.002

U.S. Department of Labor	CFDA 17.002: Labor Force Statistics
Award Number: W9J58026 W9J68026	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$1,109,350

The Department of Labor and Economic Growth's (DLEG's) internal control did not ensure that the Labor Force Statistics Program complied with federal laws and regulations regarding allowable costs/cost principles. As a result, we questioned costs in the amount of \$1,109,350. We consider this condition to be a material weakness, which resulted in material noncompliance* and the issuance of a qualified opinion for the Labor Force Statistics Program.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Labor Force Statistics Program awards.

Labor Force Statistics Program expenditures totaled approximately \$5.6 million for the two-year period ended September 30, 2006.

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

Our review of time and activity reports for the two-year period ended September 30, 2006 identified 6 employees who charged 100% of their time to the Labor Force Statistics Program but did not complete the required semiannual certification.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the Labor Force Statistics Program complies with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6410702)

2. Trade Adjustment Assistance (TAA), CFDA 17.245

U.S. Department of Labor	CFDA 17.245: Trade Adjustment Assistance
Award Number: TA-15309-06-55	Award Period: 10/01/2005 - 09/30/2008
	Questioned Costs: \$0

DLEG's internal control did not ensure that the TAA Program complied with federal laws and regulations regarding reporting.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of TAA Program awards.

TAA Program expenditures totaled approximately \$24.0 million for the two-year period ended September 30, 2006.

DLEG's fiscal year 2005-06 grant agreement with the U.S. Department of Labor requires the reporting of program expenditures on the accrual basis of accounting, when the liability for payment has been incurred.

DLEG requires subrecipients* to submit monthly expenditure reports and estimates of program expenditures through September 30 which have not yet been reported on the year-end expenditure reports. DLEG records the estimated expenditures in the State's accounting records as expenditures and accounts payable. However, DLEG did not include the estimated program expenditures in the financial status reports (FSRs). As a result, DLEG understated expenditures by \$1,508,224 on the September 30, 2006 financial status report.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the TAA Program complies with federal laws and regulations regarding reporting.

FINDING (6410703)

3. Consultation Agreements, CFDA 17.504

U.S. Department of Labor	CFDA 17.504: Consultation Agreements
Award Number: E9F5-3752 E9F6-3752	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006
	Questioned Costs: \$52,061

DLEG's internal control did not ensure that the Consultation Agreements Program complied with federal laws and regulations regarding allowable costs/cost principles. As a result, we questioned costs in the amount of \$52,061.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Consultation Agreements Program awards.

Consultation Agreements Program expenditures totaled approximately \$3.4 million for the two-year period ended September 30, 2006.

We reviewed 34 nonpayroll expenditure transactions and personnel activity reports for 10 employees for compliance with federal laws and regulations regarding allowable costs/cost principles.

Our audit disclosed the following exceptions:

- a. DLEG did not maintain supporting documentation for all nonpayroll expenditures.

Appendix A, subsections C.1.j and C.3.c of federal regulation 2 *CFR* 225 state that costs must be adequately documented and any cost allocable to a particular federal award may not be charged to the federal award to overcome fund deficiencies or to avoid restrictions imposed by law or terms of the federal award.

Prior to the close of fiscal year 2005-06, DLEG determined that it had not spent all its Consultation Agreements Program grant funds. To overcome a fund deficiency in another grant, DLEG transferred \$23,179 of Occupational Safety and Health - State Program (CFDA 17.503) procurement card* transactions to the Consultation Agreements Program. Of the 34 nonpayroll expenditure transactions reviewed, DLEG could not provide supporting documentation that 1 (3%) transaction was for an allowable cost of the Consultation Agreements Program.

- b. DLEG did not ensure that personnel-payroll cost distributions to the Consultation Agreements Program were properly supported by personnel activity reports.

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

DLEG did not document actual hours worked on each federal program for 3 (30%) of the 10 employees reviewed. For these 3 employees, DLEG did not ensure that the predetermined distribution rate accurately reflected actual activity of the employees. As a result, we questioned costs totaling \$25,635.

Also, we identified one additional employee who did not work on this program but charged personnel-payroll costs to the program for one two-week period. As a result, we questioned costs in the amount of \$3,247.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the Consultation Agreements Program complies with federal laws and regulations regarding allowable costs/cost principles.

* See glossary at end of report for definition.

FINDING (6410704)

4. State Energy Program, CFDA 81.041

U.S. Department of Energy	CFDA 81.041: State Energy Program
Grant Number: DE-FG45-02R530544	Award Period: 10/01/2002 - 09/30/2007
	Questioned Costs: \$0

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

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of State Energy Program awards.

State Energy Program expenditures totaled approximately \$3.7 million for the two-year period ended September 30, 2006. DLEG distributed approximately \$1.2 million and \$0.8 million of total program expenditures to 61 and 59 subrecipients for fiscal years 2005-06 and 2004-05, respectively. Program subrecipients included institutions of higher education, local educational agencies, local municipalities, nonprofit organizations, and private companies.

OMB Circular A-133, Section 400(d), requires DLEG to ensure that subrecipients expending \$500,000 or more in federal awards in a fiscal year have met the audit requirements for that fiscal year.

DLEG did not determine if 5 (71%) of 7 fiscal year 2004-05 subrecipients that we reviewed met or exceeded the \$500,000 federal award threshold requiring a Single Audit. For the 5 fiscal year 2004-05 subrecipients, we reviewed the Federal Audit Clearinghouse and the Michigan Department of Treasury's Web site and noted:

- a. The State Energy Program grant was not identified in the audit report for 2 (40%) subrecipients.
- b. The State Energy Program grant was listed under an incorrect *CFDA* number for 1 (20%) subrecipient.
- c. The State Energy Program grant was properly identified and the audit reports contained no audit findings for the State Energy Program grant for the remaining 2 subrecipients.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the State Energy Program complies with federal laws and regulations regarding subrecipient monitoring.

FINDING (6410705)

5. Adult Education - State Grant Program, CFDA 84.002

U.S. Department of Education	CFDA 84.002: Adult Education - State Grant Program
Award Number: V002A030022 V002A040022 V002A050022	Award Period: 07/01/2003 - 09/30/2005 07/01/2004 - 09/30/2006 07/01/2005 - 09/30/2007
	Questioned Costs: \$0

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

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Adult Education Program awards.

Adult Education Program expenditures totaled approximately \$33.9 million for the two-year period ended September 30, 2006. DLEG distributed approximately \$14.1 million and \$16.0 million of the Adult Education Program expenditures to 99 subrecipients in fiscal years 2005-06 and 2004-05, respectively. Program subrecipients included primarily local educational agencies, nonprofit organizations, and two State agencies.

Our exceptions, by compliance area, are as follows:

a. Matching, Level of Effort, and Earmarking

DLEG did not consistently include in-kind contributions* as program effort. As a result, DLEG understated total program effort and corresponding level of effort shortfalls for the Adult Education Program.

* See glossary at end of report for definition.

Section 241(b) of Title II of the Workforce Investment Act states that an agency may receive funds for any fiscal year if the fiscal effort per student or the aggregate expenditures for adult education and literacy activities in the second preceding fiscal year were not less than 90% of the fiscal effort per student or the aggregate expenditures in the third preceding fiscal year.

Prior to fiscal year 2004-05, Adult Education Program subrecipients provided in-kind contributions, but DLEG did not report these contributions as program effort because DLEG met level of effort requirements based on aggregate Adult Education Program expenditures. As a result, these in-kind contributions were not included in any fiscal effort per student or aggregate expenditure calculations to accurately determine if DLEG met the 90% minimum level of effort requirements.

The U.S. Department of Education (USDOE) identified an initial level of effort shortfall for DLEG's fiscal year 2004-05 Adult Education Program of approximately \$12.7 million based on USDOE's fiscal effort per student calculation. USDOE then reduced DLEG's level of effort shortfall to approximately \$3.7 million after considering the effects of decreases in Adult Education Program federal awards. However, additional shortfalls in level of effort may have occurred based on DLEG's exclusion of in-kind contributions from total Adult Education Program level of effort.

Significant decreases in State-funded Adult Education programs have contributed to DLEG's difficulty in meeting level of effort requirements. Although not finalized as of the completion of our audit, preliminary calculations indicate that DLEG will again use in-kind contributions to meet level of effort requirements in fiscal year 2005-06.

b. Subrecipient Monitoring

DLEG's internal control did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3), and federal regulation 34 *CFR* 80.40. If DLEG does not sufficiently monitor the activities of subrecipients, DLEG lacks assurance that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.

Our review of DLEG's subrecipient monitoring activities for the Adult Education Program determined that DLEG reviewed subrecipient program budgets for allowable activities and costs, provided training, and performed a total of 27 on-site compliance reviews in fiscal years 2005-06 and 2004-05. However, we identified the following weaknesses:

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

Federal regulation 34 *CFR* 80.40 states that grantees are responsible for monitoring grant and subgrant supported activities to ensure compliance with applicable federal requirements. OMB Circular A-133, Section 400(d), requires that pass-through entities monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

USDOE conducted an on-site monitoring and review of the State Adult Education Program in May 2004 citing deficiencies in its subrecipient monitoring. In its corrective action plan to USDOE, DLEG stated that it would conduct on-site monitoring visits to at least 24% of the local programs on an annual basis. DLEG also included the 24% on-site monitoring visit stipulation in its corrective action plan from the prior Single Audit (Finding 640507). However, our review noted that DLEG completed on-site monitoring for 6 (6%) of 99 subrecipients in fiscal year 2005-06 and for 21 (21%) of 99 subrecipients in fiscal year 2004-05.

DLEG noted that in lieu of on-site monitoring visits, it developed a more in-depth desk review intended to address many of the same issues included in the on-site monitoring reviews. However, DLEG had not conducted any of these in-depth desk reviews during the two-year period ended September 30, 2006.

- (2) DLEG did not obtain for review the corrective action plans resulting from Adult Education Program on-site monitoring visits. We reviewed the files for 8 on-site monitoring visits conducted during the two-year period ended September 30, 2006 and noted that 5 (63%) files did not contain

corrective action plans from the subrecipients. The review of corrective action plans helps ensure that subrecipients initiate appropriate corrective action for weaknesses identified during on-site monitoring visits and helps ensure future subrecipient compliance with federal laws and regulations.

- (3) DLEG did not document its review of program expenditures during on-site monitoring visits. Our review of the files for 8 on-site monitoring visits conducted during the two-year period ended September 30, 2006 disclosed that all monitoring reports included a financial component with positive and/or negative comments. However, DLEG's monitoring files did not include supporting documentation for the review of program expenditures for any of the 8 monitoring visits.
- (4) DLEG did not include the *CFDA* title, federal grant award number, or federal awarding agency for grant award notices it issued to subrecipients during the two-year period ended September 30, 2006.

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

- (5) DLEG did not ensure that Adult Education Program subrecipients complied with federal laws and regulations regarding eligibility. Section 203 of Title II of the Workforce Investment Act identifies eligible individuals as those (a) who have attained 16 years of age, (b) who are not enrolled or required to be enrolled in secondary school under state law, and (c) who lack sufficient mastery of basic educational skills to function effectively in society; do not have a secondary school diploma or its recognized equivalent; or are unable to speak, read, or write the English language.

DLEG conducts a desk audit of Adult Education Program subrecipients on an annual basis. However, this desk audit does not address eligibility at the subrecipient level. Conducting on-site monitoring visits for only 6 (6%) of 99 subrecipients during fiscal year 2005-06 was not sufficient to ensure that Adult Education Program subrecipients complied with eligibility requirements.

c. Reporting

DLEG did not verify the accuracy of data entered into its Web-based reporting system by subrecipients. As a result, DLEG may report inaccurate performance data to USDOE and risk a reduction in future Adult Education Program funding.

Section 212(c) of Title II of the Workforce Investment Act states that each eligible agency receiving a grant shall annually prepare and submit to USDOE a report on the progress of the eligible agency in achieving performance measures, including information on the levels of performance achieved by the eligible agency with respect to the core indicators of performance.

As discussed in more detail in the Subrecipient Monitoring section (item b. (1)) of this finding, DLEG's on-site monitoring of just 6 (6%) of 99 subrecipients in fiscal year 2005-06, which included reviews and verifications of selected performance data, was not sufficient to ensure the accuracy of subrecipient performance data.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the Adult Education Program complies with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and reporting.

FINDING (6410706)

6. Vocational Education - Basic Grants to States, CFDA 84.048

U.S. Department of Education	CFDA 84.048: Vocational Education - Basic Grants to States
Award Number: V048A040022A V048A050022A	Award Period: 07/01/2004 - 09/30/2006 07/01/2005 - 09/30/2007
	Questioned Costs: \$592,319

DLEG's internal control did not ensure that Vocational Education - Basic Grants to States (Vocational Education Program) complied with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and subrecipient monitoring. As a result, we questioned costs in the amount of \$592,319.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Vocational Education Program awards.

Vocational Education Program expenditures totaled approximately \$80.8 million for the two-year period ended September 30, 2006. DLEG distributed approximately \$36.8 million and \$38.3 million of Vocational Education Program expenditures to 59 subrecipients in fiscal years 2005-06 and 2004-05, respectively. Program subrecipients included secondary educational institutions, postsecondary educational institutions, and two State agencies.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

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

Sections 124 and 135 of the Carl D. Perkins Vocational and Technical Education Act of 1998 identify the specific activities allowable for the use of State leadership funds and subrecipients' use of funds for the Vocational Education Program.

DLEG program staff did not document their approval of subrecipient grant applications prior to issuing subrecipient grant awards for 10 (43%) of the 23 subrecipient grant files we tested. Documentation supporting the approval of grant applications helps ensure that subrecipients design their programs to provide services for allowable activities. Our review of the 10 grant applications did not identify any unallowable activities.

b. Allowable Costs/Cost Principles

DLEG did not ensure that required employees completed periodic certifications of personnel costs. As a result, we questioned costs totaling \$592,319.

Appendix B, subsection 8.h.(3) of federal regulation 2 *CFR* 225 requires employees who work solely on a single federal award to support salary and wage charges with at least semiannual certifications that the employees worked solely on that program for the period covered by the certification.

Our review of time and activity reports for 10 employees disclosed that 1 employee in fiscal year 2004-05 charged 100% of her time to the Vocational Education Program and did not complete the required semiannual certification. We expanded our review and noted 4 additional employees who charged 100% of their time to the Vocational Education Program in fiscal years 2005-06 and 2004-05 and did not complete the required semiannual certifications.

Near the end of our audit fieldwork (March 2007), DLEG created semiannual certifications for the 5 employees in question for the two-year period ended September 30, 2006.

c. Subrecipient Monitoring

DLEG's internal control did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d), and federal regulation 34 *CFR* 80.40. If DLEG does not sufficiently monitor the activities of subrecipients, DLEG lacks assurance that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved.

Our review of DLEG's subrecipient monitoring activities determined that DLEG reviewed subrecipient program budgets for allowable activities and costs, provided training, appropriately identified federal award information to its subrecipients, and performed 26 on-site compliance reviews. However, we identified the following weaknesses:

- (1) DLEG did not consistently document the justification for significant deviations between budgeted and actual expenditures for subrecipients. In 2 (9%) of the 23 subrecipient grant files we reviewed, DLEG did not document its follow-up with the subrecipients to justify deviations between budgeted and actual expenditures as reported on end-of-year expenditure reports. Follow-up to justify significant expenditure deviations helps ensure that subrecipients used Vocational Education Program funds for allowable activities in accordance with their grant applications and the Carl D. Perkins Vocational and Technical Education Act of 1998.
- (2) DLEG did not consistently verify the accuracy of student enrollment and performance data for subrecipients. In on-site visits for 2 (50%) of the

4 subrecipients we reviewed, DLEG did not verify the accuracy of reported student enrollment and performance data. The 2 exceptions were isolated to postsecondary educational institutions. Subrecipient student enrollment and performance data is reported to USDOE in the Carl D. Perkins Consolidated Annual Report and is used to determine if DLEG met the negotiated level for the 13 core performance indicators. Failure to meet negotiated levels for the 13 core performance indicators could negatively impact future Vocational Education Program funding.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the Vocational Education Program complies with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and subrecipient monitoring.

FINDING (6410707)

7. Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126

U.S. Department of Education	CFDA 84.126: Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H126A050030 (various suffixes) H126A060030 (various suffixes)	Award Period: 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007
	Questioned Costs: \$16,392

DLEG's internal control did not ensure that the Rehabilitation Services - Vocational Rehabilitation Grants to States (Rehabilitation Services Program) complied with federal laws and regulations regarding allowable costs/cost principles. As a result, we questioned costs in the amount of \$16,392.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Rehabilitation Services Program awards.

Rehabilitation Services Program expenditures totaled approximately \$181.2 million for the two-year period ended September 30, 2006.

DLEG informed us that a Michigan Rehabilitation Services employee used a State vehicle for non-State related activities and falsified travel vouchers and time and

attendance reports. Based on these activities, DLEG identified improper charges to the State of \$24,180, including \$20,467 for the personal use of a State vehicle, \$3,331 from falsified work hours, and \$382 for inappropriate travel expenses. Of the \$24,180, \$16,392 was charged to the Rehabilitation Services Program. DLEG anticipates that final resolution, including a final questioned cost determination, of this incident will not occur until summer 2007.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the Rehabilitation Services Program complies with federal laws and regulations regarding allowable costs/cost principles.

FINDING (6410708)

8. Supported Employment Services for Individuals with Severe Disabilities, CFDA 84.187

U.S. Department of Education	CFDA 84.187: Supported Employment Services for Individuals with Severe Disabilities
Award Number: H187A050031A H187A050032A H187A060031A H187A060032A	Award Period: 10/01/2004 - 09/30/2006 10/01/2004 - 09/30/2006 10/01/2005 - 09/30/2007 10/01/2005 - 09/30/2007
	Questioned Costs: \$63,811

DLEG's internal control did not ensure that the Supported Employment Services for Individuals with Severe Disabilities (Supported Employment Program) complied with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we identified known questioned costs of \$63,811 and known and likely questioned costs of \$106,776.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Supported Employment Program awards.

Supported Employment Program expenditures totaled approximately \$2.3 million for the two-year period ended September 30, 2006.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DLEG did not ensure that program coding changes and adjusting entries resulted in allowable Supported Employment Program expenditures. As a result, we identified known questioned costs totaling \$63,620 and known and likely questioned costs totaling \$65,048. This entire amount is also questioned in the Eligibility section (item c.) of this finding.

Federal regulation 34 *CFR* 363.4 states that funds may be used for any particularized assessment needed to supplement the original comprehensive assessment completed after the development of the individualized plan for employment, development of and placement in jobs for individuals with the most severe disabilities, and supported employment services to support individuals with the most severe disabilities in employment.

We identified payments of \$63,461 to colleges and universities for higher education for 18 customers. These payments were not in compliance with the preceding federal regulation.

Michigan Commission for the Blind's Supported Employment Program transactions are entered first into the Client Records System (System 6) and then entered into the State's accounting system. The payments to colleges and universities for the 18 individuals were correctly coded to the Rehabilitation Services Program in System 6; however, DLEG staff changed the coding when the transaction was entered into the State's accounting system. DLEG could not explain how this coding change resulted in allowable Supported Employment Program expenditures.

Also, we identified an adjusting entry transferring funds from another federal program to the Supported Employment Program. DLEG typically performs adjusting entries at year-end in order to maximize available funding. During our review, we identified one individual who did not meet the eligibility requirements for the Supported Employment Program. This resulted in an additional \$159 of known questioned costs and an additional \$1,587 of known and likely questioned costs.

b. Allowable Costs/Cost Principles

DLEG did not maintain documentation for Supported Employment Program expenditures. As a result, we identified known questioned costs totaling \$191 and known and likely questioned costs totaling \$41,728.

Appendix A, subsection C.1.j of federal regulation 2 *CFR* 225 requires costs charged to the federal programs to be adequately documented. Michigan Rehabilitation Services policy and procedures require an invoice or a report as supporting documentation for services rendered.

DLEG paid a vendor for the remaining balance of an approved service authorization when the final invoice did not document that all authorized services were provided for 1 (2%) of 50 Supported Employment Program expenditures.

c. Eligibility

DLEG provided Supported Employment Program assistance to ineligible customers. As a result, we identified known questioned costs totaling \$63,620 and known and likely questioned costs totaling \$65,048, of which the entire amount is also questioned in the Activities Allowed or Unallowed section (item a.) of this finding.

Federal regulation 34 *CFR* 363.3 states that supported employment individuals must also be eligible for vocational rehabilitation services, have severe disabilities, and have supported employment identified as the appropriate rehabilitation objective based on the comprehensive assessment of rehabilitation needs.

We reviewed the case files for 19 customers (item a.) and determined that these individuals were not eligible to receive Supported Employment Program funds.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the Supported Employment Program complies with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

FINDING (6410709)

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

U.S. Department of Education	CFDA 84.334: Gaining Early Awareness and Readiness for Undergraduate Programs
Grant Number: P334S010013	Award Period: 08/15/2001 - 08/14/2006
	Questioned Costs: \$116,679

DLEG's internal control did not ensure that GEAR-UP complied with federal laws and regulations regarding allowable costs/cost principles. As a result, we questioned costs in the amount of \$116,679.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of GEAR-UP awards.

GEAR-UP expenditures totaled approximately \$4.9 million for the two-year period ended September 30, 2006.

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

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

We reviewed the personnel activity reports for the 3 employees who worked on multiple activities, including GEAR-UP, and noted that 2 employees had manually entered hours on their personnel activity reports to mirror their budgeted activities. The personnel activity reports did not reflect an after-the-fact distribution of the actual activity of each employee.

We reported on these deficiencies in our prior Single Audit. DLEG's summary schedule of prior audit findings in this report indicates that GEAR-UP staff received immediate instruction in the proper use of the timekeeping system, which allows the recording of time based on activity performed. However, our review

determined that DLEG's internal control still did not ensure compliance with the allowable costs/cost principles requirement.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DLEG IMPROVE ITS INTERNAL CONTROL TO ENSURE THAT GEAR-UP COMPLIES WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES.

FINDING (6410710)

10. AmeriCorps, CFDA 94.006

Corporation for National and Community Service	CFDA 94.006: AmeriCorps
Award Number: 03ACHMI001 03AFHMI002 00ASCMIO23 00ASFMI023	Award Period: 08/22/2003 - 08/31/2007 09/01/2003 - 08/31/2007 08/01/2000 - 03/31/2005 09/01/2000 - 03/31/2005
	Questioned Costs:\$0

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

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of AmeriCorps Program awards.

AmeriCorps Program expenditures totaled approximately \$8.5 million for the two-year period ended September 30, 2006. DLEG distributed approximately \$4.6 million and \$3.9 million of the AmeriCorps Program expenditures to 19 and 23 subrecipients in fiscal years 2005-06 and 2004-05, respectively. Program subrecipients included institutions of higher education, school districts, a State agency, and nonprofit organizations.

DLEG established semiannual subrecipient FSR due dates two weeks prior to DLEG's semiannual FSR due date to help ensure complete and accurate FSR submissions.

However, DLEG did not establish internal control to ensure the timely submission of subrecipients' FSRs. Because DLEG distributes 100% of AmeriCorps Program

funding to subrecipients, DLEG's semiannual FSR reporting consists solely of the subrecipients' FSR reporting. Our review determined that subrecipients did not submit 70 (45%) of 156 semiannual FSRs by the subrecipients' due date. Also, 12 (17%) of the 70 delinquent subrecipient FSRs resulted in incomplete program financial data in DLEG's semiannual FSRs. In addition, DLEG's subsequent semiannual FSRs included the delinquent subrecipient FSRs from the prior period, thus reflecting inaccurate data for the current semiannual reporting period.

RECOMMENDATION

We recommend that DLEG improve its internal control to ensure that the AmeriCorps Program complies with federal laws and regulations regarding subrecipient monitoring.

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

OTHER SCHEDULES

DEPARTMENT OF LABOR AND ECONOMIC GROWTH
Summary Schedule of Prior Audit Findings
As of March 30, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640501
Finding Title: Separation of Duties in the Procurement Card Function

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

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

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640502
Finding Title: Controls Over Procurement Cards

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

Comments: DLEG's Finance and Administrative Services (FAS) redistributed the procurement card policy to all department users and will ensure compliance by monitoring transactions more closely.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640503
Finding Title: Encumbrances

Finding: DLEG recorded encumbrances that did not meet the definition of an encumbrance as established by the State of Michigan's Financial Management Guide.

Comments: DLEG implemented steps to ensure that the proper accrual methodology is used in future years for these grants. These steps include verifying the accuracy of transactions and ensuring that all contracts are properly dated. In addition, grants issued after October 1, 2005 have been given an expiration date of August 31 so that they can be closed out at year-end, thus reducing the likelihood of payments being made in the new fiscal year and thereby alleviating the encumbrance issue. If a grant is extended beyond the original expiration date, a payable will be set up by FAS.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640504
Finding Title: Indirect Cost Recovery

Finding: DLEG's methodology for calculating federal indirect costs was not in compliance with State laws and regulations.

Comments: DLEG recalculated the indirect costs by applying the rate to the actual salaries and drawing the funds.

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

Finding: The Michigan Department of Career Development (MDCD) did not have controls to compensate for the assignment of incompatible duties to the procurement card administrator.

Comments: DLEG established separation of duties by assigning responsibility to the backup procurement card administrator for receiving the issued cards from the credit card company, notifying the cardholder of recipient of the card, and delivering the card to the cardholder.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 640505

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

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

Comments: All grant action notices for the Employment Service Cluster now include the *CFDA* title, *CFDA* number, and the federal awarding agency name.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 640506

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

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

Comments: Six data elements for the TAA report are still compiled manually because the data originates with TAA petition documents that are

manually received from companies involved and are not reported by the Michigan Works! Agencies. Currently, 50 of the 56 data elements required for the federal report are done electronically through the Management Information System, thus reducing the opportunity for human error in the compilation of the reported data. During the audit, there were 56 data elements reported manually from the Michigan Works! Agencies and then compiled manually into the federal report.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 640507

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

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

Comments: The Office of Adult Education (OAE) has developed and begun using a new evaluation tool, the desk audit review form, to evaluate all adult education programs receiving federal funds annually. This was completed in March 2006.

OAE performed on-site monitoring visits for 21% of its federally funded programs for program year 2004-05. This was completed in August 2005. OAE continues to perform on-site visits; however, staffing constraints have limited the number of visits that it conducted for program year 2005-06. Consequently, OAE has revised its monitoring system and will now strive to meet the 24% goal through a combination of on-site visits and targeted desk reviews. Under this plan, in lieu of an on-site visit, selected providers will complete and return desk review packets and provide a copy of their summary year-end expenditure reports related to their federal grants. The criteria to be used for identifying providers eligible for desk reviews will be based on past performance, reporting, and size of the award.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640508
Finding Title: Vocational Education - Basic Grants to States (Vocational Education Program), *CFDA* 84.048

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

Comments: For item a., the Vocational Education Program will request verification at the end of the fiscal year from the State departments that contribute to the match stating that the funds were expended and that they were not used to match any other federal program. For item b., the Vocational Education Program has adjusted the process for completing the financial status report to ensure that period of availability errors will not occur in the future. For item c., the Vocational Education Program has reviewed the language in the contracts and grants to ensure that all grantees meet this requirement. For item d., the Vocational Education Program now codes the funds separately.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640509
Finding Title: Rehabilitation Services - Vocational Rehabilitation Grants to States (Rehabilitation Services Program), *CFDA* 84.126

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

Comments: Michigan Rehabilitation Services sends out clarification to all staff reminding them that substantive changes in service provided requires individualized plan for employment (IPE) amendments. Also, Michigan Rehabilitation Services will confirm that this

information is discussed during new counselor training. The following time line identifies action taken:

- Training on IPE conducted in 2004.
- Agency-wide memorandum identifying issues, including IPE, distributed May 20, 2005.
- A Statewide conference call on May 25, 2005 discussed audit findings.
- New counselor training that included clarification on this issue was initiated in July 2005.
- An agency-wide telephone conference call to identify the problem and ask for attention and correction was held on February 8, 2006.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 640511
Finding Title: AmeriCorps, *CFDA* 94.006

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

Comments: The match issue is now reviewed each month during the grantee's program year as part of the payment processing.

Also, the AmeriCorps Program hired a second officer, which allowed for an increase in the number of visits to all programs.

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

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

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

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 6405010
Finding Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *CFDA* 84.334

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

Comments: For item a., program staff received immediate instruction in the proper use of the timekeeping system, which allows the recording of time based on activity performed. This was complete at the time of the audit.

For item b., DLEG has and will continue to include the *CFDA* number and name of the federal awarding agency in all future grant award notifications. Grant award notices issued for the

period August 15, 2005 through August 14, 2006 included the *CFDA* number as will all subsequent notices. Also, DLEG has informed the school district cited in item b.(2) and the Michigan Department of Education of the omission of GEAR-UP from the school district's audits in fiscal years 2003-04 and 2002-03. Both entities have been informed of the need to include the program in future audit reports. This was completed by May 13, 2005.

- * On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed the Department of Consumer and Industry Services as the Department of Labor and Economic Growth (DLEG). The Executive Order, effective December 7, 2003, also transferred the Michigan Department of Career Development (MDCD) to DLEG. As a result, DLEG is responsible for the prior audit findings related to MDCD (finding numbers beginning with "45").

DEPARTMENT OF LABOR AND ECONOMIC GROWTH

Corrective Action Plan

As of June 6, 2007

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2005-06 and 2004-05.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 6410701

Finding Title: Labor Force Statistics, *CFDA* 17.002

Management Views: The Department of Labor and Economic Growth (DLEG) agrees with this finding. DLEG acknowledges that the program did not collect semiannual certifications for six employees for the two fiscal years noted.

Corrective Action: DLEG will require staff who are 100% assigned to a single federal program to complete semiannual certifications in addition to biweekly time and effort reporting and forward a copy of the certification to the Financial Services Division (FSD) within DLEG's Finance and Administrative Services (FAS) no later than March 31 and September 30 to be filed and available for the next audit cycle.

Anticipated Completion Date: October 1, 2007

Responsible Individuals: Rick Waclawek, Director, Labor Market Information & Strategic Initiatives
Shirley Callahan, FSD

Finding Number: 6410702
Finding Title: Trade Adjustment Assistance, *CFDA* 17.245
Management Views: DLEG agrees with this finding and has complied.
Corrective Action: The issue has been corrected through staff training and is now resolved.
Anticipated Completion Date: Completed. DLEG has reported all accrued expenditures in subsequent quarterly reports.
Responsible Individual: Shirley Callahan, FSD

Finding Number: 6410703
Finding Title: Consultation Agreements, *CFDA* 17.504
Management Views:
a. DLEG agrees with this finding.
b. DLEG agrees with this finding.
Corrective Action:
a. The Michigan Occupational Safety and Health Administration (MIOSHA) will maintain documentation to support that all nonpayroll expenditures are allowable.
b. MIOSHA will keep track of employee time to ensure that the distribution rate accurately reflects actual activity. Also, timekeeping procedures have been reviewed with MIOSHA's Consultation, Education and Training Division timekeepers. The Division's certifier will request a printout every six months detailing how payroll is being charged in order to verify the accuracy of charges and make any necessary reconciliation.
Anticipated Completion Date: December 31, 2007
Responsible Individual: Doug Kalinowski, Director, MIOSHA

Finding Number: 6410704
Finding Title: State Energy Program, *CFDA* 81.041

Management Views: DLEG agrees with this finding and will comply with the recommendation.

Corrective Action: The Energy Office will take actions to bring the State Energy Program into compliance with monitoring subrecipients and Single Audit requirements. This will include Energy Office staff giving higher priority to Single Audit monitoring tasks and reviewing existing procedures to identify more efficient ways to ensure compliance. An annual report will be prepared and forwarded to FSD detailing efforts made in the previous 12 months no later than October 31.

Anticipated Completion Date: July 1, 2008

Responsible Individuals: Jan Patrick and John Sarver, Section Supervisors
Energy Office
Shirley Callahan, FSD

Finding Number: 6410705
Finding Title: Adult Education - State Grant Program, *CFDA* 84.002

Management Views: a. DLEG agrees with this finding. When a shortfall was identified in fiscal year 2004-05, the U.S. Department of Education suggested to DLEG that in-kind contributions could be used to meet the maintenance of effort requirement. However, the U.S. Department of Education did not clarify that the use of in-kind contributions was contingent upon the amount of in-kind contributions received in this year exceeding the amount of in-kind contributions received in prior fiscal years. DLEG experienced difficulties retroactively calculating the amounts of in-kind contributions received in

prior years. Consequently, DLEG only included in-kind contributions for fiscal year 2004-05.

- b.(1) DLEG agrees that it did not conduct the number of on-site monitoring visits originally proposed in the corrective action plan.
- b.(2) DLEG agrees that the corrective action plans were not in the files when the auditor reviewed the files.
- b.(3) DLEG agrees with this finding.
- b.(4) DLEG agrees with this finding.
- b.(5) DLEG agrees and concurs that additional efforts are needed to ensure that Adult Education - State Grant Program subrecipients comply with eligibility requirements.
- c. DLEG disagrees with this finding. DLEG's Office of Adult Education (OAE) utilizes management reports and reviews Single Record Student Database student data, Michigan Adult Education Reporting System (MAERS) data, 10% performance reports, data downloads, and batch transfer data in addition to student file sampling to monitor and ensure the accuracy of data in MAERS.

Corrective Action:

- a. DLEG will track all future in-kind contributions and will incorporate these amounts into calculations for determining compliance with maintenance of effort requirements.
- b.(1) DLEG will conduct on-site monitoring visits of 10% of the subrecipients in accordance with the

amended State Plan and will complement these efforts with its new in-depth desk reviews.

b.(2) OAE management has instructed staff to promptly return corrective action plans or make multiple copies of them (if necessary) to ensure that at least one copy remains in the subrecipient files.

b.(3) DLEG will ensure that supporting documentation is placed in the monitoring files when subrecipients' program expenditures are reviewed.

b.(4) DLEG has informed staff of the correct information that must be included in the grant award notice to subrecipients.

b.(5) DLEG will conduct periodic visits to some of the subrecipients selected for in-depth desk reviews for participant eligibility verification purposes. The subrecipients that will be visited under this process will be randomly selected and few in number.

c. No corrective action is needed.

Anticipated Completion Date: July 1, 2008

Responsible Individual: Dianne Duthie, Director, OAE

Finding Number: 6410706

Finding Title: Vocational Education - Basic Grants to States,
CFDA 84.048

Management Views:

- a. DLEG agrees with this finding and will attempt to improve internal control by centralizing records documenting approvals.
- b. DLEG agrees and acknowledges that it did not collect semiannual certifications in a timely manner. However, DLEG did maintain time and effort documentation during the period.
- c.(1) DLEG agrees with this finding.
- c.(2) DLEG agrees with this finding.

Corrective Action:

- a. DLEG will continue to document the approval of subrecipient grant applications.
- b. DLEG will require staff who are 100% assigned to a single federal program to complete semiannual certifications in addition to biweekly time and effort reporting and forward a copy of the certification to FSD within DLEG's FAS no later than March 31 and September 30 to be filed and available for the next audit cycle.
- c.(1) DLEG will contact the developers of the on-line grant management system to see if they can incorporate a system flag that would indicate when expenditures exceed the budget amount in excess of a predefined percentage. In the meantime, procedures will be put in place manually to prevent this from occurring in the future.
- c.(2) DLEG will verify the accuracy of student enrollment and performance data based upon data received electronically from colleges as well as conduct on-site visits.

Anticipated Completion Date: October 1, 2008

Responsible Individuals: James Folkening, Director, Office of Postsecondary Services
Patty Cantu, Director, Office of Career and Technical Preparation

Finding Number: 6410707

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

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

Corrective Action: DLEG will attempt to collect any and all disallowed amounts and will ensure that they are reapplied to the Rehabilitation Services - Vocational Rehabilitation Grants to States.

All Michigan Rehabilitation Services managers and administrative support staff have received mandatory training in the Department of Management and Budget's travel rules and regulations. Significant detail is now required on all vouchers and State car logs. FSD will provide a second, detailed review of travel records. Supplemental employment procedures have been reviewed and have several new levels of review and approval, including DLEG's Office of Human Services.

Anticipated Completion Date: July 1, 2008

Responsible Individuals: Jaye Shamsiddeen, Director, Michigan Rehabilitation Services
Lori Shader-Patterson, Division Director, Michigan Rehabilitation Services

Finding Number: 6410708
Finding Title: Supported Employment Services for Individuals with Severe Disabilities, *CFDA* 84.187

Management Views:

- a. DLEG agrees with this finding.
- b. DLEG agrees with this finding. The exception noted was an isolated incident involving a deceased individual for whom the associated Michigan Rehabilitation Services case file could not be located.
- c. DLEG agrees with this finding.

Corrective Action:

- a. and b. Michigan Rehabilitation Services will train staff on the importance of maintaining complete case file documentation to support authorization for customer services and will do follow-up reviews to ensure compliance.
- c. The Michigan Commission for the Blind will modify its procedures and instruct staff to ensure that eligibility requirements for Supported Employment Services for Individuals with Severe Disabilities are noted in all customer files.

Anticipated Completion Date: July 1, 2008

Responsible Individuals: Jaye Shamsiddeen, Director, Michigan Rehabilitation Services
Joseph Swanson, Acting Deputy Director, Michigan Rehabilitation Services
Cheryl Heibeck, Administrative Services Manager, Michigan Commission for the Blind

Finding Number: 6410709
Finding Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *CFDA* 84.334

Management Views: DLEG agrees in part with this finding. DLEG contends that costs were distributed based on personnel activities, for which DLEG later inadvertently failed to reconcile and adjust budgeted to actual costs. DLEG's subsequent cost reconciliation disclosed that only a slight variance existed between the actual amount charged and what should have been charged to GEAR-UP.

Corrective Action: DLEG will implement a procedure whereby distributed personnel-payroll costs (based upon budgeted amounts) are reconciled to actual costs at least on a semiannual basis.

Anticipated Completion Date: July 1, 2007

Responsible Individuals: James Folkening, Director, Office of Postsecondary Services
Shirley Callahan, FSD

Finding Number: 6410710
Finding Title: AmeriCorps, *CFDA* 94.006

Management Views: DLEG agrees with this finding.

Corrective Action: The Michigan Community Service Commission has already begun working with subgrantees to streamline the financial status report (FSR) submission process in order to significantly improve timeliness. Specific actions include moving the subgrantees' FSR due date closer to the end of the month; allowing subgrantees more time to complete and submit FSRs; and utilizing an electronic reporting system that allows FSRs to be

input, reviewed, and approved in a matter of minutes. These actions will reduce the time needed for DLEG to prepare and submit its report.

Anticipated Completion Date: July 1, 2008

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

GLOSSARY

Glossary of Acronyms and Terms

Adult Education Program	Adult Education - State Grant Program.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
DLEG	Department of Labor and Economic Growth.
executive order	An official pronouncement of the Governor provided for in Article V, Section 2 of the Michigan Constitution.
FAS	Finance and Administrative Services.
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.
FSD	Financial Services Division.
FSR	financial status report.
GEAR-UP	Gaining Early Awareness and Readiness for Undergraduate Programs.
in-kind contributions	The value of noncash contributions by nonfederal third parties without charge to the grantee or a cost-type contractor of supplies, equipment, goods, property, and services, directly benefiting and specifically identifiable to a federal program.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial

reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

IPE

individualized plan for employment.

low-risk auditee

As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

MAERS

Michigan Adult Education Reporting System.

material misstatement

A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.

material
noncompliance

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

material weakness

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

MBDA

Michigan Broadband Development Authority.

MDCD	Michigan Department of Career Development.
MEDC	Michigan Economic Development Corporation.
MIOSHA	Michigan Occupational Safety and Health Administration.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
OAE	Office of Adult Education.
OMB	U.S. Office of Management and Budget.
OMB Circular A-87	Guidance regarding "Cost Principles for State, Local, and Indian Tribal Governments," which has been incorporated into the <i>Code of Federal Regulations</i> as Title 2, Part 225 (i.e., federal regulation 2 <i>CFR</i> 225).
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <ol style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion

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

- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Rehabilitation Services
Program

Rehabilitation Services - Vocational Rehabilitation Grants to States.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report

financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

subrecipient

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

System 6

Client Records System.

TAA

Trade Adjustment Assistance.

unqualified opinion

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

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

USDOE

U.S. Department of Education.

Vocational Education
Program

Vocational Education - Basic Grants to States.

WIA

Workforce Investment Act.

