



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:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Report on the Provisions of the Single Audit Act

Report Number:
 271-0405-11

Michigan Economic Development Corporation

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2008 through September 30, 2010

Released:
 May 2011

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

Financial Statements:

We have audited the basic financial statements of the Michigan Economic Development Corporation (MEDC) for the fiscal years ended September 30, 2010 and September 30, 2009 and have issued an unqualified opinion dated January 28, 2011.

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Auditor's Report Issued

We issued an unqualified opinion on MEDC's schedule of expenditures of federal awards in relation to the basic financial statements taken as a whole.

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Internal Control Over Financial Reporting

We have also issued an independent auditor's report on internal control over financial reporting and on compliance and other matters thereon dated January 28, 2011. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify a significant deficiency (Finding 1).

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

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

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 2 programs as major programs and issued 2 qualified opinions. MEDC expended a total of \$1.1 million in federal awards during the two-year period ended September 30, 2010. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified material weaknesses in internal control over federal program compliance (Findings 2 and 3). We also identified significant deficiencies in internal control over federal programs (Findings 2 and 3).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 2 and 3).

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
81.079	Regional Biomass Energy Programs	Qualified
81.087	Renewable Energy Research and Development	Qualified

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>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

May 10, 2011

Mr. Michael Finney, President and Chief Executive Officer
and
Mr. Doug Rothwell, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Dear Mr. Finney and Mr. Rothwell:

This is our report on the provisions of the Single Audit Act as applicable to the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan, for the period October 1, 2008 through September 30, 2010. We have also audited MEDC's financial statements for the fiscal years ended September 30, 2010 and September 30, 2009 and have issued a separate report thereon dated January 28, 2011.

This report contains our report summary; our independent auditor's report on compliance with requirements that could have a direct and material effect on each major program, on internal control over compliance, and on the schedule of expenditures of federal awards in accordance with U.S. Office of Management and Budget Circular A-133; MEDC's schedule of expenditures of federal awards; and our schedule of findings and questioned costs. In addition, the report contains MEDC's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary response is contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE,
INTERNAL CONTROL OVER COMPLIANCE,
AND THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS



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AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program, on Internal Control Over Compliance,
and on the Schedule of Expenditures of Federal Awards in
Accordance With OMB Circular A-133

Mr. Michael Finney, President and Chief Executive Officer
and
Mr. Doug Rothwell, Executive Committee Chair
300 North Washington Square
Lansing, Michigan

Dear Mr. Finney and Mr. Rothwell:

Compliance

We have audited the Michigan Economic Development Corporation's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Michigan Economic Development Corporation's major federal programs for the two-year period ended September 30, 2010. The Michigan Economic Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Michigan Economic Development Corporation's management. Our responsibility is to express an opinion on the Michigan Economic Development Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the preceding paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Michigan Economic Development Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Michigan Economic Development Corporation's compliance with those requirements.

As described in Findings 2 and 3 in the accompanying schedule of findings and questioned costs, the Michigan Economic Development Corporation did not comply with requirements regarding procurement and suspension and debarment and reporting that are applicable to its Regional Biomass Energy Programs and Renewable Energy Research and Development Program. Compliance with such requirements is necessary, in our opinion, for the Michigan Economic Development Corporation to comply with the requirements applicable to those programs.

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

Internal Control Over Compliance

Management of the Michigan Economic Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Michigan Economic Development Corporation's internal control over compliance with the requirements that could have a direct and material effect on a

major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Michigan Economic Development Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2 and 3 to contain material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2 and 3 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Michigan Economic Development Corporation as of and for the fiscal years ended September 30, 2010 and September 30, 2009 and have issued our report thereon dated January 28, 2011. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the Michigan Economic Development Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Michigan Economic Development Corporation's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Economic Development Corporation Executive Committee, management, others within the entity, and federal awarding agencies 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

April 4, 2011 - As pertaining to Compliance and
Internal Control Over Compliance

January 28, 2011 - As pertaining to the Schedule of
Expenditures of Federal Awards

FINANCIAL SCHEDULE

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010

Federal Agency/Program	CFDA (2) Number	Distributed to Subrecipients for the Fiscal Year Ended September 30		Total Distributed for the Two-Year Period
		2009	2010	
<u>U.S. Department of Energy</u>				
Direct Programs:				
Regional Biomass Energy Programs	81.079	\$	\$ 587,442	\$ 587,442
Renewable Energy Research and Development	81.087		\$ 489,928	\$ 489,928
Total U.S. Department of Energy		\$ 0	\$ 1,077,370	\$ 1,077,370
Total Expenditures of Federal Awards (3)		<u>\$ 0</u>	<u>\$ 1,077,370</u>	<u>\$ 1,077,370</u>

- (1) Basis of Presentation: This schedule presents the federal grant activity of the Michigan Economic Development Corporation (MEDC) on the full accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) During fiscal year 2008-09, MEDC received federal revenue of \$1,270,377 from the Michigan Department of Energy, Labor & Economic Growth (DELEG) relating to the Workforce Investment Act. Because MEDC has a vendor relationship with DELEG, these revenues are not considered to be federal assistance and are not reported on MEDC's schedule of expenditures of federal awards (SEFA). As a result, the amounts reported on MEDC's SEFA do not agree with the amounts reported as federal revenue on MEDC's financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Significant deficiencies* identified?	Yes
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes
Type of auditor's report issued on compliance for major programs:	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</u>
81.079	Regional Biomass Energy Programs
81.087	Renewable Energy Research and Development

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Statements

FINDING (2711101MEDC)

1. Payroll Controls

Please see Finding 1 on page 39 of our financial audit of the Michigan Economic Development Corporation for the period October 1, 2008 through September 30, 2010 (271-0406-11).

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

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

FINDING (2711102MEDC)

2. Regional Biomass Energy Programs, CFDA 81.079

U.S. Department of Energy	CFDA 81.079: Regional Biomass Energy Programs
Award Number: DE-EE0000280	Award Period: 02/01/2010 - 01/31/2012
	Known Questioned Costs: \$0

The Michigan Economic Development Corporation's (MEDC's) internal control over the Regional Biomass Energy Programs did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient* monitoring. Our review disclosed material weaknesses in internal control and material noncompliance related to procurement and suspension and debarment and reporting.

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

* See glossary at end of report for definition.

Federal expenditures for the Regional Biomass Energy Programs totaled \$587,422 for the two-year period ended September 30, 2010.

Our exceptions, by compliance area, are as follows:

a. Matching, Level of Effort, and Earmarking

MEDC's internal control did not ensure compliance with federal matching, level of effort, and earmarking requirements.

MEDC reported State payroll related expenditures totaling \$29,456 to the U.S. Department of Energy (DOE) as matching expenditures for the Regional Biomass Energy Programs. However, because these expenditures did not meet federal allowable cost requirements, they did not qualify to be used to match federal program funds.

Appendix B, section 8.h.(7) of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations [CFR]*), requires payroll costs used to meet matching requirements of federal awards to be supported in the same manner as those claimed under federal awards. Appendix B, section 8.h.(4) requires that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. The personnel activity report or equivalent documentation is required to reflect an after-the-fact distribution of the actual activity of each employee and must account for the total activity for which the employee is compensated.

MEDC's payroll records included time sheets, calendar notations, and a spreadsheet used to track total MEDC matching expenditures. However, the employee time sheets did not reflect a distribution of the employee's time between the federal award and nonfederal activities. In addition, the calendar notations and the spreadsheet did not account for the total activity of the employee.

b. Procurement and Suspension and Debarment

MEDC had not established an internal control process to ensure that it made grant awards to parties that had not been suspended or debarred. We consider this to be a material weakness in internal control.

We reviewed the federal Excluded Parties List System and verified that neither of MEDC's subrecipients for the Regional Biomass Energy Programs were suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs for this item.

Federal regulation 2 *CFR* 901.30 requires MEDC to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, collecting a certification from that entity, or adding a clause or condition to the covered transaction with that entity.

c. Reporting

MEDC's internal control did not ensure that its federal reports were accurate and supported by its accounting records. MEDC's key internal control to ensure the accuracy of the federal reports is program management's review of the reports. This control was implemented but did not operate effectively in all instances because of the lack of a clear understanding of what should be included in the reports. Further, the established process did not require the reconciliation of the reports to the financial records. We consider these to be material weaknesses in internal control.

In our comparison of the information in the federal program financial and progress reports to the audited financial information, we identified material errors in the amounts reported on the federal reports:

- (1) Our review of the federal financial reports for the three-month periods ended June 30, 2010 and September 30, 2010 disclosed that MEDC:
 - (a) Overstated the federal share of expenditures by \$80,871 in its June 30, 2010 report.

- (b) Understated the federal share of unliquidated obligations by \$1,157,665 and \$839,808 in its June 30, 2010 and September 30, 2010 reports, respectively.
- (2) Our review of the progress reports for the three-month periods ended June 30, 2010 and September 30, 2010 disclosed that MEDC overstated the funds expended to date - DOE amount and understated the estimated future spend plan - DOE amount by \$350,456 and \$354,085 in its June 30, 2010 and September 30, 2010 reports, respectively.

The progress report instructions provided by DOE state that financial information reported in MEDC's quarterly progress reports should be consistent with the information provided in its quarterly financial reports.

d. Subrecipient Monitoring

MEDC's internal control did not ensure that it satisfied the pass-through entity* responsibilities as established by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OMB Circular A-133 establishes the responsibilities for pass-through entities that provide federal funds to subrecipients to carry out federal programs. MEDC distributed \$587,442 to subrecipients of the Regional Biomass Energy Programs in fiscal year 2009-10.

Our review disclosed that MEDC did not have a process in place to ensure that its subrecipients obtained single audits, to review subrecipient single audits, and to issue management decisions when applicable.

Section 400(d) of OMB Circular A-133 requires that MEDC ensure that each subrecipient expending \$500,000 or more in federal awards during the subrecipient's fiscal year obtains a single audit. In addition, MEDC is required to issue a management decision on its subrecipient single audit findings within six months after receipt of the subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that MEDC improve its internal control over the Regional Biomass Energy Programs to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient monitoring.

FINDING (2711103MEDC)

3. Renewable Energy Research and Development, CFDA 81.087

U.S. Department of Energy	CFDA 81.087: Renewable Energy Research and Development
Award Number: DE-EE0000617	Award Period: 12/31/2009 - 06/30/2011
	Known Questioned Costs: \$0

MEDC's internal control over the Renewable Energy Research and Development Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance related to procurement and suspension and debarment and reporting.

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

Federal expenditures for the Renewable Energy Research and Development Program totaled \$489,928 for the two-year period ended September 30, 2010.

Our exceptions, by compliance area, are as follows:

a. Matching, Level of Effort, and Earmarking

MEDC's internal control did not ensure compliance with federal matching, level of effort, and earmarking requirements.

MEDC's internal control did not ensure that matching expenditures met allowable cost requirements. Some of the matching expenditures for the

Renewable Energy Research and Development Program were payroll, fringe benefits, and travel expenditures for an MEDC employee. Our review disclosed:

- (1) MEDC reported State payroll related expenditures totaling \$14,035 to DOE as matching expenditures for the Renewable Energy Research and Development Program. However, because these expenditures did not meet federal allowable cost requirements that must also be met for matching expenditures, they did not qualify to be used to match federal program funds.

Appendix B, section 8.h.(7) of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires payroll costs used to meet matching requirements of federal awards to be supported in the same manner as those claimed under federal awards. Appendix B, section 8.h.(4) requires that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. The personnel activity report or equivalent documentation is required to reflect an after-the-fact distribution of the actual activity of each employee and must account for the total activity for which the employee is compensated.

MEDC's payroll records included time sheets, calendar notations, and a spreadsheet used to track total MEDC matching expenditures. However, the employee time sheets did not reflect a distribution of the employee's time between the federal award and the nonfederal activities. In addition, the calendar notations and spreadsheet did not account for the total activity of the employee.

- (2) MEDC did not support travel related expenditures with an approved employee travel voucher for 1 (25%) of 4 travel expenditures. OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that to be allowable under federal awards, costs must be adequately documented. MEDC records travel expenditures in a spreadsheet which is used to track total MEDC matching expenditures and approved employee travel vouchers.

- (3) MEDC did not consistently require its subrecipient to submit supporting documentation of matching expenditures used to satisfy the Renewable Energy Research and Development Program matching requirements.

MEDC did not obtain detailed documentation to adequately support matching expenditures reported in subrecipient financial reports and to verify allowability of costs. These matching expenditures included laboratory costs and personnel costs. MEDC informed us that it had requested additional documentation from the subrecipient at the time of our review.

Federal regulation 10 *CFR* 600.224(b)(6) requires that costs and third party in-kind contributions* counting toward satisfying a cost-sharing or matching requirement must be verifiable from the records of grantees and subgrantees or cost-type contractors. In addition, the special terms and conditions of the grant agreement require MEDC to maintain records of all project costs considered for cost sharing.

b. Procurement and Suspension and Debarment

MEDC had not established an internal control process to ensure that it made grant awards to parties that had not been suspended or debarred. We consider this to be a material weakness in internal control.

We reviewed the federal Excluded Parties List System and verified that MEDC's subrecipient for the Renewable Energy Research and Development Program was not suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs for this item.

Federal regulation 2 *CFR* 901.30 requires MEDC to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, collecting a certification from that entity, or adding a clause or condition to the covered transaction with that entity.

* See glossary at end of report for definition.

c. Reporting

MEDC's internal control did not ensure that its federal reports were accurate and supported by its accounting records. MEDC's key internal control to ensure the accuracy of the federal reports is program management's review of the reports. This control was implemented but did not operate effectively in all instances because of the lack of a clear understanding of what should be included in the reports. Further, the established process did not require the reconciliation of the reports to the financial records. We consider these to be material weaknesses in internal control.

In our comparison of the information in the federal program financial and progress reports to the audited financial information, we identified material errors in the amounts reported on the federal reports:

- (1) Our review of the federal financial reports for the three-month periods ended June 30, 2010 and September 30, 2010 disclosed that MEDC:
 - (a) Overstated the federal share of expenditures by \$459,573 and \$360,529 in its June 30, 2010 and September 30, 2010 reports, respectively.
 - (b) Understated the federal share of unliquidated obligations by \$687,706 and \$442,015 in its June 30, 2010 and September 30, 2010 reports, respectively.
- (2) Our review of the progress reports for the three-month periods ended June 30, 2010 and September 30, 2010 disclosed that MEDC:
 - (a) Understated the estimated future spend plan - DOE amount by \$810,399 in its June 30, 2010 report.
 - (b) Overstated the estimated future spend plan - DOE amount by \$489,929 in its September 30, 2010 report.
 - (c) Understated the funds expended to date - DOE amount by \$348,827 in its September 30, 2010 report.

The progress report instructions provided by DOE state that financial information reported in MEDC's quarterly progress reports should be consistent with the information provided in its quarterly financial reports.

d. Subrecipient Monitoring

MEDC's internal control did not ensure that it satisfied the pass-through entity responsibilities as established by OMB Circular A-133.

OMB Circular A-133 establishes the responsibilities for pass-through entities that provide federal funds to subrecipients to carry out federal programs. MEDC distributed \$489,928 to its Renewable Energy Research and Development Program subrecipient in fiscal year 2009-10.

Our review disclosed:

- (1) MEDC did not inform its subrecipient of the *CFDA* title and number for the federal funds passed through to the subrecipient.

OMB Circular A-133 requires pass-through entities to identify federal awards by informing each subrecipient of the *CFDA* title and number, the award name and number, the award year, and the name of the federal awarding agency and if the award is for research and development.

- (2) MEDC did not have a process in place to ensure that its subrecipient obtained single audits, to review subrecipient single audits, and to issue management decisions when applicable.

Section 400(d) of OMB Circular A-133 requires that MEDC ensure that each subrecipient expending \$500,000 or more in federal awards during the subrecipient's fiscal year obtains a single audit. In addition, MEDC is required to issue a management decision on its subrecipient single audit findings within six months after receipt of the subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

RECOMMENDATION

We recommend that MEDC improve its internal control over the Renewable Energy Research and Development Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient monitoring.

OTHER SCHEDULES

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Summary Schedule of Prior Audit Findings

As of April 4, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Audit Findings Not Corrected or Partially Corrected:

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

Finding Number: 2710901

Finding Title: Payroll Controls

Finding: The Michigan Economic Development Corporation's (MEDC's) internal control did not ensure that supervisors approved employee time sheets.

Agency Comments: MEDC agreed with the finding and recommendation. MEDC has instituted training and a policy requiring all managers to approve time in the Data Collection and Distribution System (DCDS) on a biweekly basis.

The audit finding was corrected except for the employees working in the Welcome Centers.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards in the prior single audit.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Corrective Action Plan

As of April 26, 2011

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Office of the Auditor General has audited the financial statements of the Michigan Economic Development Corporation (MEDC) for the fiscal years ended September 30, 2010 and September 30, 2009 and has issued a separate report thereon dated January 28, 2011.

Finding Number: 2711101MEDC

Finding Title: Payroll Controls

Management Views: MEDC agrees with the finding.

Planned Corrective Action: MEDC does have procedures in place to ensure that supervisors approve time entered in the Data Collection and Distribution System (DCDS) for all business units. This finding was limited to the Welcome Center business unit, which has been transferred back to the Michigan Department of Transportation as of October 1, 2010.

Anticipated Completion Date: October 1, 2010

Responsible Individual: Heather Lockhart, Director of Human Resources

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 2711102MEDC

Finding Title: Regional Biomass Energy Programs, *CFDA* 81.079

Management Views:

MEDC agrees with the finding.

Planned Corrective Action:

- a. MEDC's New Markets division will work with the Human Resources office to develop and implement a process to ensure that staff time spent on federal programs is certified by managers on a biweekly basis prior to the approval of payroll. This process will account for the total activity of the employee, including travel time and related federal grant expenditures.
- b. MEDC's Legal division will establish a process that will ensure that entities pursuing grant awards from MEDC in the future have not been suspended or debarred. This will be verified prior to MEDC granting awards to subcontractors, but MEDC wishes to state that, in this case, the universities (subgrantees) are currently engaged in other federal research contracts so MEDC assumed them to be eligible and thus did not verify suspension and debarment.
- c.(1) Overstatement of the federal share of expenditures for the June 30, 2010 report was a result of MEDC inadvertently including the July 2, 2010 expense transaction in the June 30 report. MEDC will correct the financial reports and resubmit to the U.S. Department of Energy (DOE).
- c.(2) MEDC will resubmit corrected progress reports for the periods ended June 30, 2010 and September 30, 2010.

However, these two findings do not impact MEDC's financial statements or the reimbursement received from DOE.

- d. MEDC will establish and implement a process to obtain subrecipient single audit reports when applicable and review subrecipient single audits.

Anticipated Completion Date: July 31, 2011

Responsible Individual: Michael Psarouthakis, Vice President, Business Acceleration

Finding Number: 2711103MEDC
Finding Title: Renewable Energy Research and Development, CFDA 81.087

Management Views: MEDC agrees with the finding.

- Planned Corrective Action:**
- a.(1) MEDC's New Markets division will work with the Human Resources office to develop and implement a process to document staff time spent on federal programs, which will be certified by managers. Documented time will account for the total activity of the employee, including travel time and related expenditures.
 - a.(2) MEDC will implement a process to prevent recurrence.
 - a.(3) MEDC will obtain full documentation of subrecipient personnel costs. However, MEDC did require, obtain, and monitor documentation related to subrecipient laboratory costs throughout the execution of the program.

Furthermore, all third party in-kind contributions reported satisfy the cost sharing requirement and, therefore, are allowable costs under the program.

- b. MEDC agrees with the finding regarding establishing a process but wishes to state that, in this case, the universities (subgrantees) are currently engaged in other federal research contracts so MEDC did not verify suspension and debarment. MEDC's Legal division will establish a process that will ensure that parties pursuing grant awards from MEDC have not been suspended or debarred. This will be verified prior to MEDC granting awards to subcontractors.
- c.(1) MEDC will resubmit corrected federal financial reports for the periods ended June 30, 2010 and September 30, 2010.
- c.(2) MEDC will resubmit corrected progress report for the period ended September 30, 2010.

However, these two findings do not impact MEDC's financial statements or the reimbursement received from DOE.

- d.(1) MEDC has a process in place to provide to the subrecipients the *Catalog of Federal Domestic Assistance (CFDA)* title and number, award name and number, award year, name of the federal awarding agency, and whether the award is for research and development. Notification was made to subrecipients of the award name and number, award year, and name of the federal awarding agency and that the award was

for research and development; but, in this case, the subrecipient was not notified of the *CFDA* title and number.

d.(2) MEDC will establish and implement a process to obtain subrecipient single audits when applicable and review subrecipient single audits.

Anticipated Completion Date: July 31, 2011

Responsible Individual: Michael Psarouthakis, Vice President, Business Acceleration

GLOSSARY

Glossary of Acronyms and Terms

Catalog of Federal Domestic Assistance (CFDA)

The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.

Code of Federal Regulations (CFR)

The codification of the general and permanent rules published by the departments and agencies of the federal government.

deficiency in internal control over federal program compliance

The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

deficiency in internal control over financial reporting

The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

DOE

U.S. Department of Energy.

financial audit

An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.

in-kind contribution

The value of a noncash contribution by a nonfederal third party without charge to the grantee or a cost-type contractor of supplies, equipment, goods, property, and services, directly benefiting and specifically identifiable to a federal program.

internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.

pass-through entity A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

qualified opinion An auditor's opinion in which the auditor:

- a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

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

reflect the actions a prudent person would take in the circumstances.

significant deficiency
in internal control over
federal program
compliance

A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

significant deficiency
in internal control over
financial reporting

A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

single audit

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

subrecipient

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

unqualified opinion

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

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited

agency are fairly presented in conformity with the disclosed basis of accounting; or

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

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

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

