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STATE OF MICHIGAN  
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH  
LANSING

STANLEY "SKIP" PRUSS  
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emailed 1/11/10 (ael)

January 11, 2010

Mr. Doug Ringler, Director  
Office of Internal Audit Services  
Department of Management & Budget  
Romney Building – Seventh Floor  
111 S. Capitol, P.O. Box 30026  
Lansing, Michigan 48909

Dear Mr. Ringler:

Per State Administrative Guide to State Government, Part VII Chapter 4, Section 100, we are enclosing our response to comments made in the Office of the Auditor General's Financial Audit Including the Provisions of the Single Audit Act for the Department of Energy, Labor and Economic Growth for the period October 1, 2006 through September 30, 2008.

If you have any questions regarding this report, please feel free to call me at 636-0287.

Sincerely,

**(SIGNED)**

Allen Williams, Director  
Office of Audit & Financial Compliance

Enclosure

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## **AUDIT RESPONSE SUMMARY**

### **Financial Audit Including the Provisions of the Single Audit Act Michigan Department of Labor and Economic Growth (October 1, 2006 through September 30, 2008)**

I. Citations complied with:

# 2  
# 4  
# 5  
# 7  
# 8  
# 11  
# 12  
# 13

II. Citations to be complied with:

# 1 – Expected date of compliance is April 1, 2010  
# 6 – Expected date of compliance is April 1, 2010  
# 9 – Expected date of compliance is April 1, 2010  
#10 – Expected date of compliance is April 1, 2010

III. Citations agency disagrees with:

# 3

**Financial Audit Including the Provisions of the Single Audit Act  
Michigan Department of Labor and Economic Growth  
(October 1, 2006 through September 30, 2008)  
Agency Response**

1. Internal Control over Processing of Payroll Transactions

- a. DLEG did not minimize incompatible capabilities in the assignment of roles and functions within the Data Collection and Distribution System (DCDS).*
- b. DLEG did not ensure that its Department Security Administrators (DSAs) had no human resource responsibility.*
- c. DLEG did not always document the approval of additional roles within DCDS.*

**Updated Agency Response:** DELEG agrees in part with the finding and will comply where appropriate.

- a. DELEG's internal auditors have just completed a review of the department's assignment of roles and functions within DCDS. The results of this review revealed that some of the roles and functions cited in the Single Audit report as "incompatible" were in fact not. Specifically, the review concluded:
  - i. The DCDS system does not allow an employee to approve their own timesheet – even if they have been set up with supervisor level security for their own timekeeping unit (TKU) and reside on their own approval path.
  - ii. An employee (who has a timekeeper or certifier role for their own TKU) is not auditing or certifying their own time without it being independently reviewed and approved by their supervisor prior to audit and certification.
  - iii. An employee who is a certifier or a timekeeper on their own TKU could modify their own previously approved timesheet after the audit and certification, but with the proper e-mail notifications in place, an e-mail would be sent to the employee and/or supervisor to tell them that a modification of the timesheet has taken place.
  - iv. All of the employees cited in the report as having approved their own time really only modified some of their own timesheets at the TKU Processing stage. The DCDS system coded these modification transactions as approval actions under the employee's user ID, making it look like the employee approved their own timesheet when in fact they didn't.

DELEG will continue to ensure that non-compatible timekeeping roles and functions are avoided.

- b. DELEG is working with Department of Civil Service (DCS) and Office of Human Resources to explore the possibility of either assigning the DSA duties to DELEG staff or limiting and separating incompatible functions and capabilities of DCS and DELEG Human Resource staff functioning as DSAs. It should be noted that

the Single Audit report stated, "... a DSA that also performed human resources duties would have the ability to create fictitious employees with DCDS", we believe there are too many different and unrelated steps in the HRMN and DCDS system as well as ancillary processes that would prevent this from occurring. In order to start a new employee on the DCDS system, one would first have to add him/her on the HRMN system. New employees on the HRMN system are required to complete a variety of detailed information that feeds into several other processes. In addition to the name (that has to be entered as it shows on an employee's social security card), address, phone number, race, social security number, date of birth, etc.; supervisors need to be attached, financial coding needs to be identified and organizations need to include all employees in various unrelated systems. This process is closely and routinely monitored using various ad hoc reports, yearly performance reviews, random social security number and name audits, financial reports, budget reviews and program reviews. Accordingly, we disagree with the auditor's premise concerning the likelihood of creating a fictitious employee.

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

The expected date of full compliance is April 1, 2010.

## 2. Food Stamp Cluster, CFDA 10.561

*DELEG's internal control over the Food Stamp Cluster did not ensure that subrecipients were informed of the CFDA title and federal grant award number.*

**Agency Response:** DELEG agrees with the finding and has complied.

In July 2009 DELEG implemented the Management of Awards to Recipients System (MARS). The MARS system now includes the federal award number as a data field on all Grant Action Notice (GAN) documents as applicable.

### 3. Labor Force Statistics

*DLEG did not ensure that Labor Force Statistics Program employees completed the required semiannual payroll certifications. As a result, the Program was in material noncompliance with federal laws and regulations regarding allowable costs/cost principles.*

**Agency Response:** DELEG disagrees with this finding.

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

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

DELEG did not receive any comment or response to the letter from the Auditor General. Accordingly, we consider this issue to be closed.

### 4. Employment Service Cluster, CFDA 17.207, 17.801, 17.804

- a. DLEG did not obtain required semi-annual certifications for employees who work solely on one program (i.e. one CFDA number) within the Employment Service Cluster.*
- b. DLEG's internal control did not ensure that subrecipients were informed of the federal grant award numbers for the Employment Service Cluster.*

**Updated Agency Response:** DELEG agrees (in part) and has complied.

- a. DELEG began collecting semiannual certifications for employees who work solely on one program within the Employment Service Cluster starting with period ended March 31, 2008. However, as stated in our response for Finding 3, DELEG disputes the validity of this finding because the DELEG employees in question completed and signed bi-weekly timesheets which identified and assigned their charges entirely to a single federal project code.
- b. In July 2009 DELEG complied with this finding by implementing the Management of Awards to Recipients System (MARS). This system ensures the inclusion of applicable federal grant award numbers.

5. Trade Adjustment Assistance (TAA), CFDA 17.245

*DLEG's internal control did not ensure that TAA Program subrecipients were informed of the CFDA number and title, federal grant award number, and federal awarding agency.*

**Agency Response:** DELEG agrees and has complied.

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

6. H-1B Job Training Grants, CFDA 17.268

*DLEG's internal control over the H-1B Job Training Grants (Workforce Innovation in Regional Economic Development – WIRED) did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring. Specifically:*

- a. DLEG did not require subrecipients to submit quarterly performance reports.*
- b. DLEG did not monitor its subrecipients' compliance with federal regulations by:*
  - 1. Conducting on-site visits and/or other monitoring activities.*
  - 2. Ensuring subrecipients obtain Single Audits and take necessary corrective action.*

**Updated Agency Response:** DELEG agrees with the finding and will comply.

- a. DELEG Office of Audit & Financial Compliance (AFC) currently obtains and reviews quarterly performance reports submitted by all three (3) subrecipients. We have caught up on past due audit resolutions and have reminded subrecipients of all upcoming reporting due dates.
- b. DELEG-AFC has also begun obtaining and reviewing subrecipients' Single Audits and ensuring that corrective action is being taken. DELEG staff has also worked extensively with subrecipients related to resolving recent monitoring findings cited by USDOL. More in-depth monitoring activities (including on-site visits) are scheduled for January 2010. Subrecipients have been reminded of their duties and responsibilities for obtaining Single Audits from their subgrantees.

Estimated date of full compliance is April 1, 2010.

7. Occupational Safety and Health – State Program, CFDA 17.503

*DLEG's internal control over the Occupational Safety and Health – State Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable cost/cost principles.*

- a. DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports.*
- b1. DLEG did not obtain required semiannual certifications for employees who worked solely on the Program.*

- b2. DLEG did not obtain signed timesheets from General Industry Division (GI) field staff during fiscal year 2007-08.*
- b3. DLEG did not maintain signed timesheets for GI field staff during fiscal year 2006-07.*
- b4. DLEG staff payroll charges did not always agree with employee-prepared detailed activity reports.*
- b5. DLEG did not obtain supervisor approval of payroll transactions for all staff charging time to the Program.*
- b6. DLEG did not require appropriate separation of duties for payroll costs charged to the Program.*
- b7. DLEG improperly charged time to the Consultation Agreements Program, but the employee actually worked for the Occupational Safety and Health – State Program.*
- b8. DLEG improperly charged vehicle usage expenditures from the Occupational Safety and Health – State Program to the Consultation Agreements Program.*

**Agency Response:** DELEG agrees and has complied.

- a1. DELEG has made the necessary correction in its timekeeping system and will explore utilizing a standard distribution methodology for entering time.
- a2. DELEG performs additional review to ensure that correct index codes are listed.
- b1. DELEG has created an employee certification form for use by employees who work 100% of their time in the program area. This form has been distributed to employees starting with the period October 1, 2008 through March 31, 2009 and will continue to obtain employees signatures (where applicable) on a semiannual basis.
- b2. DELEG has made the necessary changes to allow field staff direct access to the State of Michigan's timekeeping system from most any location. On occasions when individuals have lost access and must submit time via a non-direct means, DELEG will continue to retain their time as submitted for signature by them.
- b3. DELEG will continue to review the records retention and disposal schedule and train staff on the schedule requirements for all time reporting submitted via non-direct means.
- b4. DELEG has made the necessary correction to the timekeeping system and will explore utilizing a standard distribution methodology for entering time.
- b5. DELEG has provided additional training to ensure that all supervisors properly approve biweekly entries of staff time in the State's timekeeping system.
- b6. DELEG has adjusted timekeeping units to prevent the possible reoccurrence of the internal timekeeper having the capability of potentially submitting, auditing and certifying his or her own time.
- b7. DELEG has implemented additional review to ensure that correct index codes are listed.
- b8. Beginning with fiscal year 2008-09, DELEG assigned an analyst to monitor vehicle responsibilities. The analyst reviews monthly reports to ensure that they accurately reflect the employees assigned to state vehicles and the use of appropriate index codes.

8. Consultation Agreements, CFDA 17.504

*DLEG's internal control over the Consultation Agreements Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable cost/cost principles.*

**Agency Response:** DELEG agrees and has complied.

- a1. DELEG has made the necessary corrections in its timekeeping system and will explore utilizing a standard distribution methodology for entering time.
- a2. DELEG now ensures that additional review is provided to ensure that the correct index code is listed in the future.
- b1. DELEG has created an employee certification form for use by employees who work 100% of their time in the program area. The form will be distributed to employees to cover the period October 1, 2008 through March 31, 2009 and provided to employees for their signature on a semiannual basis.
- b2. DELEG has made the necessary corrections in its timekeeping system and will explore utilizing a standard distribution methodology for entering time.
- b3. DELEG will continue to notify the Occupational Safety and Health Administration prior to any future computer purchases.
- b4. DELEG now performs additional review to ensure that the correct index code is listed in the future.
- b5. Beginning in fiscal year 2008-09, DELEG assigned an analyst to monitor vehicle responsibilities. The analyst reviews monthly reports to ensure that they accurately reflect the employees assigned to State vehicles and the use of approximate index codes.

9. Adult Education – Basic Grants to States, CFDA 84.002

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

- a. *DLEG's internal control did not ensure that the Adult Education Program recorded expenditures within the Program's period of availability.*
- b. *DLEG did not ensure the accuracy of federal financial reports.*
- c. *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 by:*
  1. *Conducting the level of on-site monitoring and in-depth desk reviews of subrecipients for fiscal years 2006-07 and 2007-08 that it committed to in its State plan.*
  2. *Obtaining corrective action plans resulting from Adult Education Program on-site monitoring visits and in-depth desk reviews in a timely manner.*
  3. *Documenting its reviews of program expenditures during on-site monitoring visits.*
  4. *Ensuring that it recovered unallowable costs from subrecipients.*

**Agency Response:** DELEG agrees and will comply.

- a. DELEG has increased supervisory review to ensure that established procedures are followed.
- b. DELEG has implemented tracking systems to ensure that it obtains supporting documentation more timely.
- c1. DELEG has begun setting more realistic targets for on-site monitoring reviews to supplement its desk review monitoring of state and federal grant recipients.
- c2. DELEG has implemented a procedure to remind all subrecipients who fail to submit their corrective action plan (CAP) within the 45 day stipulated time period and will penalize those that fail to submit the CAP 30 days after the due date.
- c3. DELEG now maintains sufficient documentation (in addition to the completed financial review form) to support the review.
- c4. DELEG will reassess the questioned costs cited and will initiate collection efforts where it is deemed appropriate.

10. Career and Technical Education – Basic Grants to States, CFDA 84.048

- a. *DLEG did not comply with maintenance of effort (MOE) requirements for fiscal year 2006-07.*
- b. *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.*

**Agency Response:** DELEG agrees and will comply.

- a. Michigan Department of Education and DELEG have begun efforts to obtain proper approval for an alternate MOE calculation methodology.
- b. DELEG has begun conducting monitoring activities as outlined in the interagency agreement.

The expected date of full compliance is April 1, 2010

11. Rehabilitation Services – Vocational Rehabilitation Grants to States, CFDA 84.126

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

**Agency Response:** DELEG agrees and has complied.

DELEG has implemented semiannual certifications for employees who work solely on the Rehabilitation Services – Vocational Rehabilitation Grants to States Program for 2009. DELEG has (retroactively) prepared certifications for 2008. In addition, DELEG has adjusted its timekeeping methodology and procedures to ensure accurate time distribution.

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

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

**Agency Response:** DELEG agrees and has complied.

DELEG has resumed conducting on-site monitoring visits.

13. Temporary Assistance for Needy Families (TANF), CFDA 93.558

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

**Agency Response:** DELEG agrees and has complied.

In July 2009 DELEG implemented the Management of Awards to Recipients System (MARS). This system ensures the inclusion of the CFDA number and title, federal grant award number, and federal awarding agency as data fields on all Grant Action Notice documents (as applicable).