

Report on Expenditures of Federal Awards

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Administration Fund

*Year Ended September 30, 2019*

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Administration Fund

Year Ended September 30, 2019

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Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

State of Michigan

Department of Labor and Economic Opportunity,  
Unemployment Insurance Agency,  
Office of the Auditor General and  
Office of Financial Management

We have audited, in accordance with the 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, the financial statements of the State of Michigan, Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Administration Fund (Fund), as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control 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. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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 statement 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Andrews Hooper Paulik PLC*

Auburn Hills, Michigan  
February 20, 2020

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

State of Michigan

Department of Labor and Economic Opportunity,  
Unemployment Insurance Agency,  
Office of the Auditor General and  
Office of Financial Management

**Report on Compliance for Each Major Federal Program**

We have audited the Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended September 30, 2019. The Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Fund's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 Fund'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

The Fund's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Fund's internal control over compliance.

*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 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiencies.

The Fund's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Fund as of and for the year ended September 30, 2019, and the related notes to the financial statements. We issued our report thereon dated February 20, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Andrews Hooper Pavlik PLC*

Auburn Hills, Michigan  
June 16, 2020

State of Michigan  
 Department of Labor and Economic Opportunity  
 Unemployment Insurance Agency –  
 Administration Fund

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

Federal Agency / Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Provided to Subrecipients	Total Federal Expenditures
Department of Labor – Employment and Training Administration:				
Work Opportunity Tax Credit Program	17.271	WT-32773-19-55-A-26	\$ -	\$ 645,927
Unemployment Insurance	17.225	UI-30224-17-60-A-26	-	31,182
Unemployment Insurance	17.225	UI-31300-18-55-A-26	294,779	27,508,487
Unemployment Insurance	17.225	UI-31736-18-60-A-26	1,652,228	1,730,813
Unemployment Insurance	17.225	UI-31300-18-55-A-26	-	1,744,051
Unemployment Insurance	17.225	UI-32606-19-55-A-26	1,167,580	91,151,864
Unemployment Insurance	17.225	UI-32846-19-60-A-26	758,118	796,844
Unemployment Insurance	17.225	UI-31300-18-55-A-26	-	50,035
Unemployment Insurance	17.225	UI-31300-18-55-A-26	-	25,327
Unemployment Insurance	17.225	UI-32606-19-55-A-26	-	31,279
Short Time Compensation Implement – Unemployment Insurance	17.225	NONE	-	74,177
Short Time Compensation Enrollment – Unemployment Insurance	17.225	NONE	-	117,179
<b>Total Federal Financial Assistance</b>			<b>\$ 3,872,705</b>	<b>\$ 123,907,165</b>

*See accompanying notes to schedule of expenditures of federal awards.*



State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Administration Fund

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

**(1) General**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of federal financial assistance programs of the Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. The operations of the Fund are recorded as described in Note 1 of the Fund's financial statements.

**(2) Basis of Accounting**

The accompanying SEFA is presented using the modified accrual basis of accounting.

**(3) Indirect Cost Rate**

The Fund has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

**Section I – Summary of Auditors’ Results**

*Financial Statements*

- (a) The type of report issued on the financial statements: **Unmodified Opinion**
- (b) Internal control over financial reporting:
  - i. Material weaknesses identified? **No**
  - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (c) Noncompliance material to financial statements noted? **No**

*Federal Awards*

- (a) Internal control over major programs:
  - i. Material weaknesses identified? **No**
  - ii. Significant deficiencies identified that are not considered material weaknesses? **Yes**
- (b) The type of report issued on compliance for major programs: **Unmodified Opinion**
- (c) Any audit findings which are required to be reported under 2 CFR 200.516(a)? **Yes**
- (d) Major program: **Unemployment Insurance/17.225**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (f) Auditee qualified as a low-risk auditee under 2 CFR 200.520? **Yes**

**Section II – Findings Relating to the Financial Statements Reported in Accordance with  
*Government Auditing Standards***

No findings to report.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

**Section III – Findings and Questioned Costs Relating to Federal Awards**

**Finding 2019-001**

***Federal Agency, Program Title and CFDA Number:*** U.S. Department of Labor, Unemployment Insurance – 17.225

***Federal Award Identification Number and Year:***

UI-31300-18-55-A-26	10/01/2017 – 12/31/2020
UI-32606-19-55-A-26	10/01/2018 – 12/31/2021
UI-30224-17-60-A-26	01/01/2017 – 12/31/2018
UI-31736-18-60-A-26	01/01/2018 – 09/30/2019
UI-32846-19-60-A-26	01/01/2019 – 06/30/2021

***Type of Finding:*** Significant Deficiency and Noncompliance

***Compliance Requirement:*** Cash Management

***Known Questioned Costs:*** None

***Repeat Finding:*** 2018-001

***Systemic or Isolated:*** Systemic

***Criteria:*** The Cash Management Improvement Act (CMIA) Agreement requires the Fund to request funds on a payroll cycle and the amount of funds requested shall be based on the amount of liabilities recorded for direct administrative costs since the last request for funds.

***Condition:*** Our review of fiscal year 2019 noted:

- As of December 26, 2018, the Fund had drawn \$38,136,666 in federal reimbursements since October 1, 2018 but had incurred federal expenditures totaling \$36,707,007. This represents an overdraw of federal funds of \$1,429,659. This overdraw was substantially corrected when a February 2019 draw was reduced by \$718,036 and a November 2019 draw was reduced by \$706,098.
- The Fund underdrew \$278,877 prior to March 20, 2019. This underdraw was corrected when the March 20, 2019 draw was increased by \$278,877.
- The Fund overdrew \$157,313 prior to May 15, 2019. This overdraw was corrected when the May 15, 2019 draw was reduced by \$157,313.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

- The Fund overdrew \$6,336 prior to November 14, 2019. This overdraft was corrected when the November 14, 2019 draw was reduced by \$6,336.
- The Fund overdrew \$28,752 prior to November 27, 2019. This overdraft was corrected when the November 27, 2019 draw was reduced by \$28,752.

In addition, the Fund did not report one noncompliant draw to the Michigan Department of Treasury.

**Cause:** Controls were not properly designed and implemented, considering the functionality of the new State of Michigan Accounting System (SIGMA), to allow the Fund to determine accurate draw amounts based on liabilities recorded since the last request for funds in accordance with the CMIA Agreement.

**Effect:** The Fund was not in compliance with the CMIA Agreement. For underdraws, the State may have lost interest by drawing funds late. For overdrafts, the overdraft could result in interest due to the federal government. Also, the federal grantor agency could issue sanctions or disallowances related to noncompliance.

**Recommendation:** We recommend that the Fund ensure proper design and implementation of internal controls related to determination of draw amounts such that reimbursement requests are in accordance with the CMIA Agreement.

**Views of Responsible Officials:** The Fund agrees with the finding noted above. The Fund is reviewing the way SIGMA generates receivables to determine the appropriate amount to draw. More procedures are being implemented to accurately follow the CMIA Agreement.



GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY  
LANSING

JEFF DONOFRIO  
DIRECTOR

**Single Audit Report: Corrective Action Plan**  
**Year Ended September 30, 2019**

**Finding 2019-001**

**Federal Agency/Program Title/CFDA #:** U.S. Department of Labor, Unemployment Insurance – 17.225

**Corrective Action Plan:** The Agency will implement a revised cash management procedure that will ensure that incurred expenses are drawn on a timely basis and in compliance with the CMIA (Cash Management Improvement Act) agreement. And, any variations between the SIGMA proposed draw and the actual amounts drawn will be appropriately documented. In addition, the agency's Federal Finance Manager will verify the appropriateness of proposed draws. And, the agency will notify the Michigan Department of Treasury of any instances of CMIA Deviations.

**Position of Responsible Official:** Federal Finance Manager, Dept of Labor & Economic Opportunity

**Anticipated Completion Date:** The estimated completion date is September 30, 2020.



GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY  
LANSING

JEFF DONOFRIO  
DIRECTOR

## Summary Schedule of Prior Audit Findings

### Finding 2018-001

**Federal Agency, Program Title and CFDA Number:** U.S. Department of Labor, Unemployment Insurance – 17.225

**Condition:**

- As of December 14, 2017, the Fund had drawn \$23,591,848 in federal reimbursements since October 1, 2017 but had incurred federal expenditures totaling \$24,067,731. This represents an underdraw of federal funds of \$475,883.
- The Fund overdraw \$463,444 in federal funds on April 4, 2018.
- On April 18, 2018, the Fund drew \$3,483,945 in federal reimbursements but had incurred federal expenditures since the last draw totaling \$4,189,542. This represents an underdraw of federal funds of \$705,597.
- The Fund incurred expenditures totaling approximately \$5 million during the fiscal year ended September 30, 2018 that had not yet been requested for reimbursement as of December 13, 2018.

In addition, the Fund did not report the noncompliant draws to the Michigan Department of Treasury.

**Recommendation:** The auditor recommended that the Fund ensure proper design and implementation of internal controls related to determination of draw amounts such that reimbursement requests are in accordance with the CMIA Agreement.

**Current Status:** The Fund did not correct the deficiencies noted in the finding.

**Reason(s) For Recurrence:** The agency is still adjusting to the new accounting system SIGMA and receivables. September 30, 2018 was the first year-end close under SIGMA. Proper draw adjustment related to year-end Accounts Receivable and prior year billings posted in the new fiscal year were still part of the learning curve and impacted several of these findings. New processes are being implemented as stated below.

**Corrective Action:** The Agency will implement a revised cash management procedure that will ensure that incurred expenses are drawn on a timely basis and in compliance with the CMIA (Cash Management Improvement Act) agreement. And, any variations between the SIGMA proposed draw and the actual amounts drawn will be appropriately documented. In addition, the agency's Federal Finance Manager will verify the appropriateness of proposed draws. And, the agency will notify the Michigan Department of Treasury of any instances of CMIA Deviations.