

Report on Expenditures of Federal Awards

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

*Year Ended September 30, 2019*

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

Year Ended September 30, 2019

**Contents**

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 <i>Government Auditing Standards</i> .....	1
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 .....	3
Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards .....	7
Schedule of Findings and Questioned Costs.....	8
Corrective Action Plan.....	13
Summary Schedule of Prior Audit Findings.....	15

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 – Unemployment Compensation 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 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

## **Fund's Response to Findings**

The Fund's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

## **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 Unemployment Compensation 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.

### ***Basis for Qualified Opinion on the Unemployment Insurance Program***

As described in the accompanying schedule of findings and questioned costs, the Fund did not comply with requirements regarding CFDA 17.225 Unemployment Insurance as described in finding number 2019-003 for Allowable Costs/Cost Principles and Eligibility. Compliance with such requirements is necessary, in our opinion, for the Fund to comply with the requirements applicable to that program.

### ***Qualified Opinion on the Unemployment Insurance Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Fund for the year ended September 30, 2019.

### ***Other Matters***

The results of our auditing procedures disclosed other 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 items 2019-001 and 2019-002. Our opinion on the major federal program is not modified with respect to these matters.

The Fund's response to the noncompliance 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.

### **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 the 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 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. 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 identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-003, that we consider to be a material weakness.

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 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 Sloop Paulik PLC*

Auburn Hills, Michigan  
June 9, 2020

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

<b>Federal Agency / Program Title</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Grant Number</b>	<b>Total Federal Expenditures</b>
Department of Labor – Employment and Training Administration: Unemployment Insurance – State of Michigan / Employer Funded	17.225	NONE	\$ 775,108,625
Alternative Trade Adjustment Assistance / Trade Benefits	17.225	UI-32709-19-55-A-26	4,247,220
Unemployment Insurance – Other Federal Funds	17.225	NONE	3,368,157
Unemployment Insurance – American Recovery and Reinvestment Act	17.225	NONE	(1,813,182)
Total Federal Financial Assistance			<u>\$ 780,910,820</u>

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



State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation 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 Unemployment Compensation 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 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 –  
Unemployment Compensation 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? **Yes**
  - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (b) The type of report issued on compliance for major programs: **Qualified 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**

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

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

Finding 2019-001 is also considered a financial statement finding.

**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:** Affects all grant awards included under CFDA 17.225 on the Schedule of Expenditures of Federal Awards

**Type of Finding:** Material Noncompliance

**Compliance Requirement:** Special Tests and Provisions, UI Program Integrity – Overpayments

**Known Questioned Costs:** None

**Repeat Finding:** 2018-001

**Systemic or Isolated:** Systemic

**Criteria:** Offsets of future unemployment compensation payments to recover prior overpayments are limited to the recovery of the prior overpayment amount in accordance with Federal guidance.

**Condition:** Unapplied offset recoveries attributable to subsequent period adjustments to the original benefit overpayment were used to recover penalties and interest.

**Cause:** A parameter was not established in the benefit system to prevent the allocation of unapplied recoveries to penalties and interest after overpayment amounts due were satisfied.

**Effect:** Interest and penalties due under Federal and State law were recovered from offsets of unemployment compensation payments.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

**Recommendation:** We recommend that the Agency add a parameter to the automated system to ensure adjustments to benefit offsets are only applied to the recovery of prior overpayment amounts.

**Views of Responsible Officials:** The Agency agrees with the finding noted above. The details of the unapplied recoveries issue were reviewed by Agency Services and SQR 29541 was submitted. The estimated completion date of the resulting SQR is September 30, 2020.

**Finding 2019-002**

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

**Federal Award Identification Number and Year:** Affects grant awards under the Unemployment Insurance – State of Michigan / Employer Funded line of CFDA 17.225 on the Schedule of Expenditures of Federal Awards

**Type of Finding:** Material Noncompliance

**Compliance Requirement:** Reporting

**Known Questioned Costs:** None

**Repeat Finding:** 2018-003

**Systemic or Isolated:** Systemic

**Criteria:** The Agency is required to report quarterly using ETA 581, *Contributions Operations* the volume of State Workforce Agency work, performance in determining the taxable status of employers, and other information pertinent to the overall effectiveness of the tax program.

**Condition:** Certain information reported in ETA 581 did not agree to the Agency's automated system.

**Cause:** The Agency is unable to accurately collect certain employer information required for reporting in the ETA 581 as a result of errors in the programming logic of the Agency's automated system.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

**Effect:** The Agency is unable to validate the accuracy of certain information reported in ETA 581.

**Recommendation:** We recommend that the Agency correct programming errors in the automated system to accurately collect certain employer information required for reporting in ETA 581. Once corrected, we recommend the Agency validate the information previously reported and, if necessary, resubmit reports requiring correction.

**Views of Responsible Officials:** The Agency agrees with the finding noted above. Service requests have been submitted and work has begun to ensure information reported in ETA 581 is available and accurately reported in the Agency's automated system. Service requests are expected to be completed by September 30, 2020.

**Finding 2019-003**

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

**Federal Award Identification Number and Year:** Affects all grant awards included under CFDA 17.225 on the Schedule of Expenditures of Federal Awards

**Type of Finding:** Material Noncompliance and Material Weakness

**Compliance Requirement:** Allowable Costs/Cost Principles and Eligibility

**Known Questioned Costs:** Undeterminable

**Repeat Finding:** No

**Systemic or Isolated:** Systemic

**Criteria:** Federal law requires individuals be actively seeking work to be eligible for regular unemployment compensation benefits. As a condition of eligibility for state administrative grants, State law is required to specify the work search requirements for claimants. Because Federal law does not define actively seeking work, states have some discretion to establish the specific work search activities claimants are expected to conduct.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2019

In accordance with State law, the Agency requires claimants seek work with at least two employers each week, and submit a record of that work search, at least once a month, and provide detailed information about the weekly work search.

**Condition:** We tested a selection of 40 benefit payments reviewed under the State’s Benefit Accuracy Measurement (BAM) system. For nine of the benefit payments totaling \$2,587, the Agency concluded the claimant failed to properly report a record of their work search in accordance with State law. The Agency previously reported the overpayments to the Department of Labor with the Benefit Accuracy Measurement testing.

Claimants may receive unemployment compensation benefits without proper submission of a record that a claimant sought work.

**Cause:** With the exception of benefits reviewed under the State’s Benefit Accuracy Measurement (BAM) system, the Agency did not verify submission of claimant work search records.

**Effect:** Certain claimants received and were not required to repay benefits for weeks that the claimants failed to submit a record of their work search.

**Recommendation:** We recommend that the Agency implement additional controls to ensure claimants are submitting records of their work search in accordance with State law. The Agency should continue to monitor further guidance from the Department of Labor clarifying work search verification requirements.

**Views of Responsible Officials:** The Agency agrees with the finding noted above. In January 2020, the Agency entered into a collaboration with the NASWA Unemployment Insurance Integrity Center to develop a comprehensive plan to improve Michigan’s work search compliance rate. The State of Michigan Legislature passed updated work search requirements in Section 421.28(7) of the MES Act with an effective date of April 2, 2020. These combined efforts should result in an improvement in work search compliance beginning in mid-2020.



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**

**Grant Program/CFDA #:** Unemployment Insurance/17.225

**Corrective Action Plan:** The Agency has submitted a service request to update the system logic for adjustments to benefit offsets to limit their application to only the recovery of benefit overpayments.

**Position of Responsible Official:** Deputy Director, Unemployment Insurance Agency

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

### **Finding 2019-002**

**Grant Program/CFDA #:** Unemployment Insurance/17.225

**Corrective Action Plan:** The Agency has submitted service requests to ensure information reported on ETA 581 is available and accurately reported in the Agency's automated system. Once corrected, the Agency will validate the information previously reported and, if necessary, resubmit reports requiring correction.

**Position of Responsible Official:** Deputy Director, Unemployment Insurance Agency

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

**Finding 2019-003**

***Grant Program/CFDA #:*** Unemployment Insurance/17.225

***Corrective Action Plan:*** The State of Michigan Legislature passed updated work search requirements with an effective date of April 2, 2020. In addition, the Agency entered into a collaboration with the NASWA Unemployment Insurance Integrity Center to develop a comprehensive plan to improve Michigan's work search compliance rate.

***Position of Responsible Official:*** Deputy Director, Unemployment Insurance Agency

***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

**Grant Program/CFDA #:** Unemployment Insurance/17.225

**Initial Year Written:** Fiscal Year 2017

**Condition:** Unapplied offset recoveries attributable to subsequent period adjustments to the original benefit overpayment were used to recover penalties and interest.

**Recommendation:** The auditor recommended that the Agency add a parameter to the automated system to ensure adjustments to benefit offsets are only applied to the recovery of prior overpayment amounts.

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

**Reason(s) For Recurrence:** The Agency had very limited resources in fiscal year 2019 due to statute priorities.

**Corrective Action:** During fiscal year 2020, the Agency plans on completing the SQR by September 30, 2020.

### Finding 2018-002

**Grant Program/CFDA #:** Unemployment Insurance/17.225

**Initial Year Written:** Fiscal Year 2017

**Condition:** The unemployment accounts of employers were not correctly charged for benefit overpayments.

**Recommendation:** The auditor recommended that the Agency implement additional controls to ensure all timely employer responses are considered when determining if an employer has failed to respond timely or adequately. The auditor also recommended that the Agency add system parameters to ensure charges to employer accounts are updated for redeterminations of benefit overpayments.

**Current Status:** The Agency corrected the deficiencies noted in the finding.

### **Finding 2018-003**

**Grant Program/CFDA #:** Unemployment Insurance/17.225

**Initial Year Written:** Fiscal Year 2017

**Condition:** Certain information reported in ETA 581 did not agree to the Agency's automated system.

**Recommendation:** The auditor recommended that the Agency correct programming errors in the automated system to accurately collect certain employer information required for reporting in ETA 581. Once corrected, the auditor recommended that the Agency validate the information previously reported and, if necessary, resubmit reports requiring correction.

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

**Reason(s) for Recurrence:** The Agency had very limited resources in fiscal year 2019 due to statute priorities.

**Corrective Action:** During fiscal year 2020, the Agency plans on completing the SQRs by September 30, 2020