

Single Audit Reporting Package

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

*Year Ended September 30, 2020*

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

Year Ended September 30, 2020

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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  
State Budget Office

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, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated March 10, 2021.

### **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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a material weakness.

## **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 financial statements. 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*.

## **The Fund's Response to the Finding**

The Fund's response to the finding 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 Pavlik PLC*

Auburn Hills, Michigan  
March 10, 2021

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  
State Budget Office

**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, 2020. 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, 2020.

### **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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2020, and have issued our report thereon dated March 10, 2021, 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 Paulik PLC*

Auburn Hills, Michigan  
June 24, 2021

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2020

Federal Agency / Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Provided to Subrecipients	Total Federal Expenditures
<b>Department of Labor – Employment and Training Administration:</b>				
Work Opportunity Tax Credit Program	17.271	WT-34118-20-55-A-26	\$ -	\$ 670,220
Unemployment Insurance – 2019 UI Administration	17.225	UI-32606-19-55-A-26	20,803	18,695,584
Unemployment Insurance – 2019 RESEA	17.225	UI-32846-19-60-A-26	1,854,040	1,986,767
Unemployment Insurance – 2020 UI Administration and Disaster Relief	17.225	UI-34065-20-55-A-26	5,398,312	171,107,189
Unemployment Insurance – 2020 RESEA	17.225	UI-34503-20-60-A-26	262,906	286,590
COVID-19 – Unemployment Insurance – COVID-19 Pandemic Grants (PUA, PEUC, FEUC, & First Week)	17.225	UI-34722-20-55-A-26	-	1,309,065
Unemployment Insurance – Short Time Compensation Enrollment	17.225	NONE	-	76,908
<b>Total Department of Labor – Employment and Training Administration</b>			\$ 7,536,061	\$ 194,132,323

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



State of Michigan  
 Department of Labor and Economic Opportunity  
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Schedule of Expenditures of Federal Awards

Year Ended September 30, 2020

<b>Federal Agency / Program Title</b>	<b>Catalog of Federal Domestic Assistance Number</b>	<b>Grant Number</b>	<b>Provided to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>Federal Emergency Management Agency (FEMA):</b>				
COVID-19 – Lost Wages Assistance	97.050	4494DRMISPLW	\$ -	\$ 1,246,771
<b>Total Federal Emergency Management Agency (FEMA)</b>			-	1,246,771
<b>Total Federal Financial Assistance</b>			\$ 7,536,061	\$ 195,379,094

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

State of Michigan  
Department of Labor and Economic Opportunity  
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Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2020

**(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 –  
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

**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? **Yes**
  - 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? **No**
- (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)? **No**
- (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**

**Finding 2020-001: Material Weakness in Year-End Financial Closing Process – Audit Adjustments**

Criteria: Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles, including properly recording all period-end adjusting entries.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

Condition: During the audit of the Fund’s financial statements, we proposed, and management accepted, audit adjustments to correct overstatements and understatements of accounts payable and accrued liabilities, as well as a misclassification between revenues from federal agencies and transfers in. An additional understatement of accounts payable and accrued liabilities was also identified by the Fund’s management after the general ledger closing process when a vendor contacted the Fund to seek payment of an outstanding accounts payable invoice (management recorded an adjustment to correct this misstatement). In addition, management did not record the year-end closing entry to record prepaid rent, which is being reported as an unadjusted audit difference.

Cause: The Fund did not have an adequate process in place to ensure an effective review was conducted of all year-end balances to verify the balances were correct and properly supported in all instances. The Fund’s Finance Director vacated that position in October 2020 and this position remained vacant through the year-end closing process.

Effect: There exists a potential for misstatements in the financial statements to go undetected by management. Several adjustments were required to correct the items noted above, which included material adjustments.

Recommendation: We recommend management further strengthen procedures to ensure such instances identified are corrected in the general ledger during normal close procedures.

Views of Responsible Officials and Planned Corrective Actions: The Michigan Department of Labor & Economic Opportunity (LEO) agrees with this finding and will take actions to resolve this issue going forward. This includes updating procedures to improve the accrual accounting for the Michigan Unemployment Insurance Administration Fund.

The Unemployment Insurance Administration Fund’s closing procedures for FY20 were significantly impacted by the FY20 pandemic and the substantial amount of additional new funding provided by the U.S. Department of Labor to the Michigan Unemployment Insurance Administration and Benefit funds. LEO management agrees that adequate new controls were not implemented to accurately determine and record the substantial increase in Accounts Payable and Accrued Liabilities brought about by the new pandemic funding. This was compounded by the fact that the Department’s Finance Director retired shortly after fiscal year end; shortly followed by the departure of the Department’s Chief Administrative Officer. These staffing decreases strained the existing review processes and likely contributed to errors such as the misclassification of Revenue – Transfer In and the omission of Prepaid Rent.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

LEO recently hired a new Chief Administrative Officer, and is in the process of filling the Department's Finance Director vacancy. Once fully staffed, LEO management will immediately begin implementing new strategies, controls, and procedures to address the challenges resulting from the increase in pandemic related funding.

Anticipated Date of Completion: August 31, 2021  
Responsible Party: Greg Rivet, Director of Administrative Services —  
Michigan Department of Labor and Economic  
Opportunity

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

No findings to report.



GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY  
LANSING

SUSAN CORBIN  
ACTING DIRECTOR

## **Single Audit Report: Corrective Action Plan**

**Year Ended September 30, 2020**

### **Finding 2020-001**

**Corrective Action Plan:** LEO recently hired a new Chief Administrative Officer, and is in the process of filling the Department's Finance Director vacancy. Once fully staffed, LEO management will immediately begin implementing new strategies, controls, and procedures to address the challenges resulting from the increase in pandemic related funding.

**Position of Responsible Official:** Greg Rivet, Director of Administrative Services - Michigan Department of Labor and Economic Opportunity.

**Anticipated Completion Date:** August 31, 2021



GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY  
LANSING

SUSAN CORBIN  
ACTING DIRECTOR

## Summary Schedule of Prior Audit Findings

### Finding 2019-001

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

**Initial Year Written:** Fiscal Year 2018

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

**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 corrected the deficiencies noted in the finding.