

Single Audit Reporting Package

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

Year Ended September 30, 2020

State of Michigan
Department of Labor and Economic Opportunity
Unemployment Insurance Agency –
Unemployment Compensation 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 – Unemployment Compensation 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 items 2020-001, 2020-003, and 2020-004, that we consider to be material weaknesses.

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 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 items 2020-002, 2020-003, and 2020-004.

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 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 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 each of the Fund's major federal programs for the year ended September 30, 2020. The Fund's major federal programs are 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 each of the Fund's major federal programs 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 qualified and unmodified opinions on compliance for major federal programs. 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 2020-003, 2020-004, and 2020-006 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 CFDA 17.225 Unemployment Insurance for the year ended September 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

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 each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2020.

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 2020-002, 2020-005, and 2020-007. Our opinion on each 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 each 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. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-003, 2020-004, and 2020-006 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-007 to be a significant deficiency.

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, 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 Pavlik PLC

Auburn Hills, Michigan

June 24, 2021

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, 2020

| <u>Federal Agency / Program Title</u> | <u>Catalog of Federal Domestic Assistance Number</u> | <u>Grant Number</u> | <u>Total Federal Expenditures</u> |
|---|--|---------------------|---------------------------------------|
| Department of Labor – Employment and Training Administration: | | | |
| Unemployment Insurance – State of Michigan / Employer Funded Alternative Trade Adjustment Assistance / Trade Benefits | 17.225 | NONE | \$ 4,793,394,702 |
| Unemployment Insurance – Other Federal Funds | 17.225 | UI-34171-20-55-A-26 | 2,834,672 |
| Unemployment Insurance – American Recovery and Reinvestment Act | 17.225 | NONE | 9,192,779 |
| COVID-19 – Unemployment Insurance – Short-Term Compensation | 17.225 | NONE | (2,230,254) |
| COVID-19 – Unemployment Insurance – Other Federal Funds | 17.225 | UI34863Z80 | 65,953,826 |
| | 17.225 | NONE | <u>19,135,651,373</u> |
| Total Department of Labor – Employment and Training Administration | | | <u>24,004,797,098</u> |
| Federal Emergency Management Agency (FEMA): | | | |
| COVID-19 – Lost Wages Assistance | 97.050 | 4494DRMISPLW | <u>1,358,306,058</u> |
| Total Federal Emergency Management Agency (FEMA) | | | <u>1,358,306,058</u> |
| Total Federal Financial Assistance | | | <u><u>\$ 25,363,103,156</u></u> |

See accompanying notes to schedule of expenditures of federal awards.

State of Michigan
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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 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
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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? **Yes**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **Yes**
- (b) The type of report issued on compliance for major programs: **Unemployment Insurance/17.225 – Qualified Opinion** and **Lost Wages Assistance/97.050 – Unmodified Opinion**
- (c) Any audit findings which are required to be reported under 2 CFR 200.516(a)? **Yes**
- (d) Major programs: **Unemployment Insurance/17.225** and **Lost Wages Assistance/97.050**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$38,044,655**
- (f) Auditee qualified as a low-risk auditee under 2 CFR 200.520? **No**

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

Finding 2020-001

Criteria: A strong system of internal control dictates that all general ledger activity be accurately recorded and available for review on a timely basis. This includes a formal bank reconciliation be prepared and reviewed timely with the appropriate review and sign off as evidence of the completeness, accuracy, and timeliness of the reconciliation. The regular reconciliation and timely review of financial activity during the year reduces the risk that errors, fraud, or misuse of funds could go undetected and/or uncorrected.

Condition: For several months during the fiscal year, management was unable to reliably access general ledger activity. Furthermore, management was unable to record certain benefit payments correctly in the general ledger, which affected reporting of cash; expenses; revenues; due from federal government; and federal, state, and other withholdings for several months throughout the year.

Cause: The implementation of program changes to the Fund's benefit system for new federal benefits, in response to the Coronavirus pandemic, resulted in functionality issues described in the Condition section above.

Effect: Management was unable to reconcile certain bank and general ledger accounts on a timely basis during the year.

Recommendation: We recommend management strengthen internal controls over their procedures for program changes to their information systems such that functionality issues do not limit controls over financial reporting.

Views of Responsible Officials: Management agrees the general ledger is a significant internal control and understands the impact a delay in automation corrections has on the reporting of financial activity. The Agency will modify the current process in place for requesting automation services (SQR's), to ensure requests that involve internal controls are identified and given priority status.

Expected completion date is September 30, 2021.

Findings 2020-02, 2020-03, and 2020-04 are also considered financial statement findings.

State of Michigan
Department of Labor and Economic Opportunity
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

Section III – Findings and Questioned Costs Relating to Federal Awards

Finding 2020-002

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: 2019-001

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.

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.

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Year Ended September 30, 2020

Views of Responsible Officials: Management agrees with the finding. Although the majority of conditions that originally permitted unapplied offsets to post to penalty and interest have been addressed; an uncommon condition has not yet been resolved. The details of the unapplied recoveries issue were reviewed by Agency Services and SQR 29541 was submitted.

The estimated completion date of the remaining SQR is the end of the 2021 fiscal year.

Finding 2020-003

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: The federal government set a prescribed claim progression and eligibility requirements for federal programs resulting from the Coronavirus pandemic. If a claimant is eligible for regular unemployment compensation, the claimant is ineligible for receiving benefits under the Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), or Extended Benefits (EB) programs. In addition, claimants must exhaust all rights to benefits under the previous claim type within the progression to become eligible for the subsequent claim type.

Condition: In certain instances, the benefit system allowed for the payment of benefits under the PUA, PEUC, and EB programs when claimants were eligible for regular unemployment compensation or prior to the exhaustion of the previous claim type within the progression.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

Cause: Proper controls were not set within the benefit system to ensure proper eligibility and claim progression.

Effect: Payments of benefits under federal programs have no net effect on the net position of the Fund since the expenditure is offset by a reimbursing federal revenue, whereas payments under regular unemployment compensation reduce the net position of the Fund. Additionally, improper payments of benefits under federal programs create unallowed federal costs.

Recommendation: We recommend that the Agency improve controls in the benefit system to ensure proper eligibility and claim progression.

Views of Responsible Officials: The Agency will review the current process in place for testing automation changes to determine the appropriate controls to be implemented.

The review of the SQR process will be completed by September 30, 2021. The implementation of the new controls will be complete by March 31, 2022.

Finding 2020-004

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

State of Michigan
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

Criteria: As a condition of federal awards, management of the Fund has agreed to comply with the eligibility requirements described in federal law, regulations, and the provision of grant agreement and contracts, and to also maintain internal control to provide reasonable assurance of compliance within these requirements.

Condition: For several months of the year, management was unable to determine the amount of payments to ineligible claimants, including imposter fraud (identity theft) activity.

Cause: During the Coronavirus pandemic, the Fund experienced an unprecedented level of claims as a result of record levels of unemployment and new federal programs offering extended and additional benefits, including to workers not previously eligible for unemployment insurance. These factors and others, including the addition of third-party contractors, numerous system changes, and program requirements that limited the verification of claimant information, increased the likelihood that the benefits were paid to ineligible claimants and further exposed the Fund to the risk of imposter fraud.

During this same time, management also chose to prioritize the payment of unemployment compensation benefits and limit certain existing internal controls previously used to identify ineligible payments.

Effect: Failure to comply with the eligibility requirements results in noncompliance with the terms of the award.

Recommendation: We recommend that management review policies and procedures for responding to the sudden increase in unemployment claims. If decided, management should document in advance when conditions necessitate limiting certain internal controls and how such actions best balance expedient payment and payment integrity to eligible individuals.

Views of Responsible Officials: The Agency's existing policies and procedures, for the most part, did not adequately cover the PUA program - which is not a traditional UI program. For PUA, the Agency was essentially implementing an entirely new unemployment program - in the middle of the pandemic. Although states were expected to utilize current UI systems, several elements that support controls for UI (i.e.: covered wages and employment verification) were not a requirement for PUA. It should also be noted that as all states have struggled with the implementation of this specific non-traditional UI program, guidance has continually been updated changing the program requirements resulting in eligibility having to be reconsidered for affected claimants. Although it would be impossible to plan for a similar scenario in the future,

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

the Agency does intend to identify critical controls in the claims process to ensure existing policies and procedures prevent them from being erroneously impacted by new program changes.

The identification of key controls, and necessary policy updates will be completed by March 31, 2022.

Finding 2020-005

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: 2019-002

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. The ETA 581 report for each calendar quarter is due in the Employment and Training Administration (ETA) National Office on the 20th day of the second month following the quarter to which it relates.

Condition: Certain information reported in ETA 581 did not agree to the Agency's automated system. The ETA 581 reports for the quarters ended March 31, 2020; June 30, 2020; and September 30, 2020 were submitted to the ETA on November 25, 2020.

State of Michigan
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Schedule of Findings and Questioned Costs

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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, also resulting in untimely submission to the ETA.

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 timely 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 were completed during 2020 to correct programming errors related to the ETA 581. All outstanding ETA 581 reports have been submitted, and the ETA 581 for December 31, 2020 and March 31, 2021 have been submitted timely. We expect all future ETA 581s to be submitted timely. The Agency is currently conducting data validation testing to ensure information reported in ETA 581 is accurately reported in the Agency’s automated system. Data validation testing is expected to be completed by September 30, 2021.

Finding 2020-006

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: 2019-003

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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.

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: 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. The State of Michigan Legislature passed updated work search requirements in Section 421.28 of the MES Act with an effective date of April 2, 2020. In addition to increasing the type of acceptable work search activity, claimants are required to report the details of the work search activity for any type of unemployment benefits. Effective week ending June 5, 2021, the Agency now requires work search activities to be submitted when claimants complete their bi-weekly certifications. The work search activity can be submitted online when certifying through MiWAM, online through the Agency's website, or through MARVIN. Benefits will be held until the work search activity has been received and processed. These new work search certification requirements, along with the continued BAM review, should result in an immediate improvement in work search compliance.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2020

Finding 2020-007

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: Significant Deficiency and Noncompliance

Compliance Requirement: Allowable Costs/Cost Principles and Eligibility

Known Questioned Costs: \$11,410,536

Repeat Finding: No

Systemic or Isolated: Isolated

Criteria: The Agency is required to pay only eligible benefits.

Condition: A benefit system processing delay on Thursday, May 7, 2020 resulted in a delayed payment file settlement date of May 11, 2020, as opposed to the intended settlement date of the following business day, May 8, 2020.

Cause: In an attempt to correct the processing delay, a duplicate payment file was manually initiated by Agency accounting staff on Friday, May 8, 2020 to settle that same day with the expectation that the original payment file would be voided. However, the original file, with a settlement date of May 11, 2020, had already been released by the Agency's Originating Depository Financial Institution (ODFI) and, therefore, was unable to be voided. A reversal file was then sent through the ACH Exchange to intercept the second payment, but some institutions had already posted the funds to their customers' accounts. As a result, the Agency was only able to recover a portion of what was paid as duplicate payments to claimants.

When the reversal transactions for the duplicate payments were posted in MiDAS, the system erroneously recorded the funds as payable to the claimants, which resulted in a system-generated triplicate payment to claimants.

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The Agency had a net overpayment balance of \$11,410,536 after adjusting for amounts recovered through September 30, 2020.

Effect: Certain claimants received duplicate and, in some cases, triplicate payments of unemployment benefits.

Recommendation: We recommend that the Agency implement additional controls to ensure proper handling of banking delays and ensure that the system properly posts reversal transactions to prevent future overpayments.

Views of Responsible Officials: The Agency agrees with the finding noted above. The Agency implemented a control requiring the dual authorization of the Finance Administrator and the Deputy Director to create a manual payment file. In addition, a system change was implemented in July 2020 with SQR 33582 that now allows the appropriate posting of rejected ACH transactions. This change will prevent the creation of erroneous payables on claimants' accounts due to ACH reversals.

To recover the questioned costs, the Agency established overpayments on all the claimants that received duplicate and triplicate payments. These receivables are being recovered via 50% recoupments in addition to elective payments with the implementation of SQR 33872 in August 2020. As the amounts are recovered, they are returned to the appropriate federal program. From October 1, 2020 through June 18, 2021, the Agency has returned \$4,800,000 to the impacted federal programs. The questioned cost balance has been reduced to \$6,600,000 as of June 18, 2021.



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: The Agency will review and modify, as needed, the current process in place for requesting automation services (SQR's) to ensure requests that involve internal controls are identified and given priority status.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Anticipated Completion Date: September 30, 2021

Finding 2020-002

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: Although the majority of conditions that originally permitted unapplied offsets to post to penalty and interest have been addressed, an uncommon condition has not yet been resolved. The details of the unapplied recoveries issue were reviewed by Agency Services and SQR 29541 was submitted.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Anticipated Completion Date: September 30, 2021

Finding 2020-003

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The Agency will review the current process in place for testing automation changes to determine the appropriate controls to be implemented. The review of the SQR process will be completed by September 30, 2021, with implementation to follow.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Anticipated Completion Date: March 31, 2022

Finding 2020-004

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The Agency's existing policies and procedures, for the most part, did not adequately cover the PUA program - which is not a traditional UI program. For PUA, the Agency was essentially implementing an entirely new unemployment program - in the middle of the pandemic. Although states were expected to utilize current UI systems, several elements that support controls for UI (i.e.: covered wages and employment verification) were not a requirement for PUA. It should also be noted that as all states have struggled with the implementation of this specific non-traditional UI program, guidance has continually been updated changing the program requirements resulting in eligibility having to be reconsidered for affected claimants. Although it would be impossible to plan for a similar scenario in the future, the Agency does intend to identify critical controls in the claims process to ensure existing policies and procedures prevent them from being erroneously impacted by new program changes.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Anticipated Completion Date: March 31, 2022

Finding 2020-005

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: Service requests were completed during 2020 to correct programming errors related to the ETA 581. All outstanding ETA 581 reports have been submitted and the ETA 581 for December 31, 2020 and March 31, 2021 have been submitted timely. We expect all future ETA 581s to be submitted timely. The Agency is currently conducting data validation testing to ensure information reported in ETA 581 is accurately reported in the Agency's automated system.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Anticipated Completion Date: September 30, 2021

Finding 2020-006

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The State of Michigan Legislature passed updated work search requirements in Section 421.28 of the MES Act with an effective date of April 2, 2020. In addition to increasing the type of acceptable work search activity, claimants are required to report the details of the work search activity for any type of unemployment benefits. Effective week ending June 5, 2021, the Agency now requires work search activities to be submitted when claimants complete their bi-weekly certifications. The work search activity can be submitted online when certifying through MiWAM, online through the Agency's website, or through MARVIN. Benefits will be held until the work search activity has been received and processed. These new work search certification requirements along with the continued BAM review should result in an improvement in work search compliance.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Completion Date: June 5, 2021

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Finding 2020-007

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The Agency implemented a control requiring the dual authorization of the Finance Administrator and the Deputy Director to create a manual payment file. In addition, a system change was implemented in July 2020 with SQR 33582 that now allows the appropriate posting of rejected ACH transactions. This change will prevent the creation of erroneous payables on claimants' accounts due to ACH reversals.

To recover the questioned costs, the Agency established overpayments on all the claimants that received duplicate and triplicate payments. These receivables are being recovered via 50% recoupments in addition to elective payments with the implementation of SQR 33872 in August 2020. As the amounts are recovered, they are returned to the appropriate federal program. From October 1, 2020 through June 18, 2021, the Agency has returned \$4,800,000 to the impacted federal programs. The questioned cost balance has been reduced to \$6,600,000 as of June 18, 2021.

Position of Responsible Official: Kimberly Berry, Deputy Director – Unemployment Insurance Agency

Anticipated Completion Date: September 30, 2021

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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

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 all the deficiencies noted in the finding.

Reason(s) For Recurrence: The Agency had very limited resources in fiscal year 2020 due to the COVID pandemic.

Corrective Action: During fiscal year 2021, the Agency plans on completing the SQR by September 30, 2021.

Finding 2019-002

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.

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

Reason(s) for Recurrence: The Agency had very limited resources in fiscal year 2020 due to the COVID pandemic.

Corrective Action: During fiscal year 2021, the Agency plans on completing the data validation testing by September 30, 2021.

Finding 2019-003

Grant Program/CFDA #: Unemployment Insurance/17.225

Initial Year Written: Fiscal Year 2019

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

Recommendation: The auditor recommended 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.

Current Status: The Agency corrected the deficiencies noted in the finding in 2021.

Reason(s) for Recurrence: The Agency had very limited resources in fiscal year 2020 due to the COVID pandemic.

Corrective Action: During fiscal year 2021, the Agency implemented the requirement that work search activities be submitted when claimants complete their bi-weekly certification, effective week ending June 5, 2021.

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