

Audited Financial Statements

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

*Year Ended September 30, 2021
with Report of Independent Auditors*

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

Audited Financial Statements

Year Ended September 30, 2021

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Administration Fund of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency (Fund) as of and for the year ended September 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2021, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Administration Fund of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency and do not purport to, and do not, present fairly the financial position of the State of Michigan or the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency in its entirety as of September 30, 2021, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted budget to actual comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2022 on our consideration of the Administration Fund of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration Fund of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Bloomfield Hills, Michigan
February 15, 2022

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

Management's Discussion and Analysis

Year Ended September 30, 2021

Our discussion and analysis of the Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's governmental fund financial performance provides an overview of the Fund's activities for the year ended September 30, 2021.

The Fund was established as a Special Revenue fund of the State of Michigan under the provisions of the Michigan Employment Security Act of 1936 to account for the expenditures of administration of the Unemployment Compensation and Contingent funds of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. The accompanying financial statements present the results of operations for the Fund only. Accordingly, these financial statements do not present fairly the financial position or results of operations of the State of Michigan or the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency.

Financial Highlights

During fiscal year ending September 30, 2021, the State of Michigan, along with the rest of the nation, continued to be impacted by the COVID-19 pandemic. The Unemployment Insurance Agency played a critical role in providing assistance to millions of Michigan residents who found themselves without income during a public health crisis.

The Fund showed an increase of \$160 million in Federal Grant Revenue. Revenue is earned on a cost reimbursement basis and relates directly to federal expenditures. The Administration Fund accounts for administrative expenditures of the Unemployment Insurance Agency. The Administration Fund does not incur or pay expenditures for benefit payments, as these expenditures are incurred and paid by the Unemployment Compensation Fund of the State of Michigan. The increase in Federal Grant Revenue was due to extensive unemployment throughout the State as a result of COVID-19 restrictions. While the Unemployment rate decreased from 8.2% on September 30, 2020 to 6.3% on September 30, 2021, total expenditures increased due to the need to provide pandemic-related services for the entire year.

Spending related to appropriations from the Contingent Fund Penalty & Interest Account accounted for \$48.1 million in expenditures, which is reflected as transfers in on a cost reimbursement basis from the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Contingent Fund. \$20.2 million of this funding was used to pay for fraud detection and mitigation support services. In addition, \$13.8 million was given to Michigan Works Agencies to operate the Temporary Assistance to Needy Families Program and the Community Venture Programs, which provide career pathways and wrap-around services to structurally unemployed and working poor.

State of Michigan
 Department of Labor and Economic Opportunity
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Management’s Discussion and Analysis

Year Ended September 30, 2021

Using this Annual Financial Report

The annual report includes this management’s discussion and analysis report, the independent auditors’ report, and the financial statements of the Fund. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Reporting on the Fund

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fund, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Fund’s financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Fund

Exhibit A provides the comparative summary of the Fund’s fund balance as of September 30, 2021 and 2020:

Exhibit A

	2021	2020
Assets		
Total assets (all current)	\$ 88,315,857	\$ 57,666,728
Liabilities		
Total liabilities (all current)	88,315,857	57,666,728
Fund Balance		
Total fund balance	\$ -	\$ -

The increase of \$30.6 million in both total assets and total liabilities was mainly due to the timing of payments to temporary staffing companies. Multiple companies were hired for temporary staff to help with the spike in unemployment benefit payments and many of the billings came later in the closing process. These billings are recorded as accounts payable with corresponding receivables.

State of Michigan
 Department of Labor and Economic Opportunity
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Management’s Discussion and Analysis

Year Ended September 30, 2021

The results of this year’s operations for the Fund are reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance, as summarized in Exhibit B below, which shows the changes in fund balance for the years ended September 30, 2021 and 2020.

Exhibit B

	2021	2020
Revenues		
Federal	\$ 355,322,004	\$ 195,279,682
Miscellaneous	252,610	22,505
Total revenues	355,574,614	195,302,187
Expenditures		
Current – labor, commerce, and regulatory	402,223,176	208,623,727
Debt service – capital lease payments	1,049,439	1,229,009
Total expenditures	403,272,615	209,852,736
Other financing sources (uses)		
Transfers in	49,362,124	15,787,226
Transfers out	(1,664,123)	(1,236,677)
Total other financing sources	47,698,001	14,550,549
Change in fund balance	\$ -	\$ -

Overall, the Unemployment Administration Fund increased spending by \$193.4 million. The unemployment spending increase was due to extensive unemployment throughout the State during the pandemic. Specifically, the increase was directly related to increased costs necessary to provide increased levels of service during the pandemic. The specific details are presented in the Financial Highlights section. There was an increase of \$33.6 million in transfers in due to budget appropriations from the Contingent Fund Penalty & Interest Account of the Unemployment Insurance Agency – Contingent Fund to Administration Fund designated for programming and operations.

State of Michigan
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Management’s Discussion and Analysis

Year Ended September 30, 2021

Factors Expected to Have an Effect on Future Operations

During fiscal year 2020, the Unemployment Compensation Fund received approximately \$29.1 million under the Families First Coronavirus Response Act which is restricted for use by the Administration Fund. The Administration fund spent \$996,190 leaving a balance of \$28.1 million. Subsequent to September 30, 2021, the Fund was awarded approximately \$20.1 million for continued Pandemic Unemployment Assistance Administration, Pandemic Emergency Unemployment Compensation Administration, and Federal Pandemic Unemployment Compensation Administration for which the period of availability for expenditures is through June 30, 2022.

Michigan’s regular unemployment claims have been trending downward, but the COVID-19 pandemic created a backlog in administrative duties. Unemployment rate went from 8.2% on September 30, 2020 to 6.3% on September 30, 2021. The decrease in unemployment rate is positive; however, the backlog of COVID-19 related administrative duties is expected to continue to cause higher than normal expenditure levels for the Fund.

State of Michigan
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Balance Sheet

September 30, 2021

Assets

Current assets:

Due from federal agencies	\$ 85,593,664
Due from State of Michigan funds	1,303,552
Due from local units	1,110,705
Miscellaneous	307,936
Total assets	<u>\$ 88,315,857</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	\$ 49,888,778
Due to State of Michigan funds	38,427,079
Total liabilities	<u>88,315,857</u>

Fund Balance

Fund balance – unassigned	-
Total liabilities and fund balance	<u>\$ 88,315,857</u>

State of Michigan
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Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended September 30, 2021

Revenues:	
From federal agencies	\$ 355,322,004
Miscellaneous	252,610
Total revenues	355,574,614
Expenditures:	
Current – labor, commerce, and regulatory	402,223,176
Debt service – capital lease payments	1,049,439
Total expenditures	403,272,615
Excess of revenues over (under) expenditures	(47,698,001)
Other financing sources (uses):	
Transfers in	49,362,124
Transfers out	(1,664,123)
Total other financing sources	47,698,001
Change in fund balance	-
Fund balance at beginning of year	-
Fund balance at end of year	\$ -

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

Notes to Financial Statements

September 30, 2021

1. General Activities and Significant Accounting Policies

The Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency (Agency) was established under the provisions of the Michigan Employment Security Act of 1936. The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The Fund is a Special Revenue fund which accounts for the expenditures of the administration of the Unemployment Compensation and Contingent funds of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. The Fund derives a substantial portion of its revenue from federal grants.

The Fund's financial statement amounts are included in the combined financial statements contained in the State of Michigan Annual Comprehensive Financial Report.

Budgetary Control

Appropriations and revenue estimates for the Fund are approved annually by the State of Michigan legislature. If revenues fall short of estimates, related spending authorizations are reduced. If revenues exceed the estimate, supplemental appropriations are required before they can be spent.

Budgetary control of spending is maintained at the appropriation line-item level, and appropriations lapse at the end of each fiscal year. There were no overexpenditures by the Fund during the fiscal year 2021.

Basis of Accounting

The Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

State of Michigan
Department of Labor and Economic Opportunity
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Notes to Financial Statements

September 30, 2021

1. General Activities and Significant Accounting Policies (continued)

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund has no items that qualify for reporting in this category in the current year.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has no items that qualify for reporting in this category in the current year.

2. Transfers

The Fund records expenditures to and revenues from other State of Michigan agencies for services received and rendered as transfers, in accordance with accounting policies established by the State of Michigan.

3. Leases

The Fund leases various buildings under non-cancelable leasing arrangements which have been categorized as capital or operating leases.

Rental expenditures under operating and capital leases, which may include certain utilities depending upon the rental and site agreements, approximated \$5 million for the year ended September 30, 2021.

State of Michigan
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Notes to Financial Statements

September 30, 2021

3. Leases (continued)

Capital and operating lease commitments, including principal, interest, and executory costs, are as follows as of September 30, 2021:

	<u>Capital Leases</u>	<u>Operating Leases</u>
Year ending September 30:		
2022	\$ 1,622,817	\$ 2,996,663
2023	1,635,158	315,024
2024	1,636,280	
2025	1,636,280	-
2026	1,392,530	-
2027-2031	3,667,254	-
2032-2036	2,232,210	-
2037-2039	1,088,177	-

The capital assets and associated liabilities related to the Fund’s capital leases are accounted for in the statewide financial statements contained in the State of Michigan Annual Comprehensive Financial Report.

4. Retirement Plans

Substantially all of the Fund’s employees are covered by a statewide defined benefit pension plan (Michigan State Employees’ Retirement System) established by the State of Michigan. The plan provides retirement benefits (including postemployment benefits of health, dental, and vision, as well as life insurance) to all state employees who are not covered by other state retirement systems and were participants in the plan prior to March 31, 1997 (the date the plan closed to new participants). The Michigan State Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State of Michigan’s website at <http://www.michigan.gov/ors>. Information regarding the plan’s net pension benefit obligation; net assets available for benefits; contribution requirements; funded ratio; actuarial valuation, methods, and assumptions; and number of participants is included in the State of Michigan Annual Comprehensive Financial Report or the separately issued Annual Comprehensive Financial Report of the plan. Expenditures for the Fund for this plan for the year ended September 30, 2021 were approximately \$15.8 million.

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September 30, 2021

4. Retirement Plans (continued)

Fund employees who are not covered by the above described defined benefit pension plan are covered by a defined contribution plan (State Employees' Deferred Compensation Plan II) sponsored by the State of Michigan. Employees hired after March 31, 1997 become eligible on the first day of employment in this plan as long as they are not covered by other state retirement systems. The financial report for the defined contribution plan may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 530 West Allegan St., Lansing, MI, 48933-1524 or by calling (517) 322-5103. The Fund provides for a mandatory contribution of 4% of each employee's annual compensation to the plan. The Fund is also required to make matching contributions equal to elective deferrals to the plan, up to a maximum of 3% of each employee's annual compensation. Employees are 100% vested in their salary deferrals at all times and are vested in employer contributions based on years of service over a four year period. Expenditures for the Fund for this plan for the year ended September 30, 2021 were approximately \$5.7 million.

The Fund participates in the State of Michigan's postemployment benefit plan. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending on the years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination. Expenditures for the Fund for this plan for the year ended September 30, 2021 were approximately \$18.4 million.

5. Compensated Absences

Employees accumulate annual leave (vacation) balances to a maximum ranging from 240 to 300 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State of Michigan service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation multiplied by the last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave, which increases from 0% to 50% depending upon the balance of their sick leave hours.

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Notes to Financial Statements

September 30, 2021

5. Compensated Absences (continued)

The Fund has accrued liabilities for compensated absences as required by the GASB. Annual leave is valued at 100% of the balance plus the Fund's share of Social Security and retirement contributions. Sick leave is valued, as explained above, at 0% to 50%, plus the Fund's share of Social Security contributions. The pay rates in effect as of September 30, 2021 are used. Liabilities are considered "due and payable" and recorded only for separations or transfers that occur before year-end and are paid with expendable, available resources.

6. Risk Management

The State of Michigan has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State of Michigan is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past 10 fiscal years.

The State of Michigan has established two internal service funds to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the Fund recognizes liabilities and records expenditures when a loss is due and payable.

For unemployment claims, the Unemployment Compensation Fund of the State of Michigan Department of Labor and Economic Opportunity bills the State of Michigan for the actual amount of claims paid to former State employees. The State of Michigan accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by the Unemployment Compensation Fund through September 30.

7. Contingencies

The Fund is involved in various claims and legal actions and participates in a number of federal financial assistance programs, which could lead to a request for reimbursement from the federal grantor agencies for disallowed expenditures. Although it is not possible to predict the outcome of these matters, in the opinion of management, their ultimate disposition will not have a material effect on the financial position of the Fund.

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Notes to Financial Statements

September 30, 2021

8. COVID-19

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. The pandemic has had an economic impact on the United States and the international community, significantly impacting unemployment levels across the State of Michigan.

The State of Michigan unemployment rate ranged between 4.7% and 8.2% in fiscal year 2021 and had reached a record high of approximately 24% in the previous fiscal year. To review and process the volume of claims resulting from the above average unemployment rates, the Agency hired additional employees and contracted with vendors to obtain contract workers in fiscal year 2020. The additional employees were retained and the number of contract workers more than doubled in fiscal year 2021. The primary focus for these additional employees and contract workers was addressing a backlog in claim processing resulting from the pandemic.

New benefits programs were added since the start of the pandemic, designed to assist impacted workers. The implementation of these new programs required time and effort to be spent by Agency employees. Due to the speed of implementation of the new programs at the start of the pandemic and subsequent changes in eligibility requirements for some programs, additional time and effort was spent by Agency employees in fiscal year 2021 to determine proper distribution of benefits.

Federal Awards Subsequent to September 30, 2021

Subsequent to September 30, 2021, the Fund was awarded approximately \$20.1 million for Pandemic Unemployment Assistance Administration, Pandemic Emergency Unemployment Compensation Administration, and Federal Pandemic Unemployment Compensation Administration by the U.S. Department of Labor which has a period of availability for expenditure through June 30, 2022.

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8. COVID-19 (continued)

CARES Act Administrative Distribution

On April 1, 2020 and April 4, 2020, the Unemployment Compensation Fund received cumulative distributions totaling \$29,109,491 that were prescribed by the Families First Coronavirus Response (FFCR) Act, Public Law (Pub. L.) 116-127, specifically Division D, the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA). The EUISAA stipulates this money may be used for the costs of administration of the unemployment compensation program. The Unemployment Compensation Fund accounted for this funding as federal revenue in fiscal year 2020 and as a component of restricted net position as of September 30, 2020. The Fund requests transfers from the Unemployment Compensation Fund as the Fund incurs related reimbursable expenditures, at which time the expenditures and related transfer in will be recorded in the Fund's financial statements. Approximately \$28 million of this funding remained unspent as of September 30, 2021.

Future Impact

The extent of the ultimate impact of the pandemic on the Fund will depend on certain developments, including level of spread of the virus, duration of the outbreak, funding levels and sources for existing and new benefit programs, and future levels of unemployment across the state, all of which cannot be reasonably predicted at this time.