

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, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 15, 2022.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. As described below, we did identify a deficiency in internal control that we consider to be a significant deficiency.

Finding 2021-001: Significant Deficiency in Determining Allocation of Expenditures

Criteria: Management is responsible for the fair presentation of the financial statements and schedule of expenditures of federal awards in accordance with generally accounting principles, including proper classification and presentation of grant expenditure amounts, as well as accurate reporting of expenditures of federal grant awards on grant reports.

Condition: Amounts charged to certain federal grants were not accurately determined or reported due to errors in the process of allocating certain expenditures among available federal grants. The total expenditures on the schedule of expenditures of federal awards was not impacted by this error.

Cause: Management indicated the errors were due to manual formula errors in the worksheet used to calculate the allocations of federal expenditures among available federal awards. The Fund did not have an adequate process in place to ensure an effective review was conducted of the allocations.

Effect: Adjustments to the schedule of expenditures of federal awards were required to correct the grant expenditure amounts reported, and certain grant expenditures were not reported correctly on grant reports. In addition, as a result of the error and subsequent changes to the allocation methodology, revenue from federal agencies and due from federal agencies on the financial statements are overstated by approximately \$8.8 million, and transfers in and due from State of Michigan funds on the financial statements are understated by approximately \$8.8 million. These misstatements are reported as unadjusted audit differences for the financial statement audit. Absent effective procedures for properly allocating expenditures to available grants, there exists a potential for amounts to be charged to grants and reported in error and for misstatements in the financial statements and schedule of expenditures of federal awards to go undetected.

Recommendation: We recommend management improve controls related to allocations of expenditures to available federal grants to ensure amounts are determined and reported in accordance with an appropriate allocation methodology.

Views of Responsible Officials: The Michigan Department of Labor and Economic Opportunity (LEO) agrees with this finding and will take actions to resolve this issue going forward. This includes updating the methodology and tools used, as well as procedures, to ensure an effective review is conducted of federal expenditure allocations for the Michigan Unemployment Insurance Administration Fund.

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*.

Fund's Response to Finding

The Fund's response to the finding identified in our audit is described above. 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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Andrews Hooper Pavlik PLC

Bloomfield Hills, Michigan
February 15, 2022