

Report on Expenditures of Federal Awards

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

Year Ended September 30, 2021

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Year Ended September 30, 2021

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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, 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

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 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 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

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, 2021. 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, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to this matter.

The Fund's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for 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, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

The Fund's response to the internal control over compliance finding 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, 2021, and have issued our report thereon dated February 15, 2022, 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.

Bloomfield Hills, Michigan
June 28, 2022

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2021

Federal Agency / Program Title	Assistance Listing Number	Grant Number	Provided to Subrecipients	Total Federal Expenditures
Department of Labor – Employment and Training Administration:				
Work Opportunity Tax Credit Program	17.271	WT-35831-21-55-A-26	\$ -	\$ 636,709
Total for Assistance Listing #17.271			-	636,709
Unemployment Insurance – 2019 RESEA	17.225	UI-32846-19-60-A-26	54,866	108,040
Unemployment Insurance – 2020 RESEA	17.225	UI-34503-20-60-A-26	1,871,123	1,962,012
Unemployment Insurance – 2021 RESEA	17.225	UI-35951-21-60-A-26	150,483	257,689
Unemployment Insurance – 2019 EUC	17.225	UI-32606-19-55-A-26	-	5,806
Unemployment Insurance – 2020 UI Administration and EUC	17.225	UI-34065-20-55-A-26	-	(8,212,330)
Unemployment Insurance – 2021 UI Administration and Disaster Relief	17.225	UI-35655-21-55-A-26	1,634,625	121,659,020
COVID-19 – Unemployment Insurance – COVID-19 Pandemic Grants (PUA, PEUC, FPUC, MEUC & First Week)	17.225	UI-34722-20-55-A-26	-	230,161,548
Unemployment Insurance – Short Time Compensation Enrollment	17.225	NONE	-	307,361
UIPL No. 13-20 Emergency Administrative Grants- EUISAA	17.225	NONE	-	9,769,583
Total for Assistance Listing #17.225			3,711,097	356,018,729
Total Department of Labor – Employment and Training Administration / Total Federal Financial Assistance			\$ 3,711,097	\$ 356,655,438

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2021

(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 –
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

Section I – Summary of Auditors’ Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unmodified Opinion**
- (b) Internal control over financial reporting:
 - i. Material weaknesses identified? **No**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **Yes**
- (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? **Yes**
- (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)? **Yes**
- (d) Major program: **Unemployment Insurance/17.225**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (f) Auditee qualified as a low-risk auditee under 2 CFR 200.520? **No**

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

Finding 2021-001 is also considered a financial statement finding.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

Section III – Findings and Questioned Costs Relating to Federal Awards

Finding 2021-001

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

Federal Award Identification Number and Year:

UI-34065-20-55-A-26	10/01/2019 – 12/31/2022
UI-35655-21-55-A-26	10/01/2021 – 12/31/2023
UI-34722-20-55-A-26	04/01/2020 – 06/30/2022
UIPL No. 13-20 Emergency Administrative Grants- EUISAA	N/A

Type of Finding: Significant Deficiency and Noncompliance

Compliance Requirement: Activities Allowed or Unallowed and Reporting

Known Questioned Costs: None

Repeat Finding: No

Systemic or Isolated: Systemic

Criteria: Management is responsible for the fair presentation of the financial statements and schedule of expenditures of federal awards in accordance with generally accepted 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.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

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 & Economic Opportunity (LEO) agrees with this finding and will take actions to resolve this issue going forward. This includes updating procedures to ensure an effective review is conducted of federal expenditure allocations for the Michigan Unemployment Insurance Administration Fund.



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, 2021

Finding 2021-001

Corrective Action Plan: 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 ensure an effective review is conducted of federal expenditure allocations for the Michigan Unemployment Insurance Administration Fund.

Position of Responsible Official: Lora MacKay, Finance Director – Michigan Department of Labor and Economic Opportunity

Anticipated Completion Date: August 31, 2022



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY
LANSING

SUSAN CORBIN
DIRECTOR

Summary Schedule of Prior Audit Findings

Finding 2020-001: Material Weakness in Year-End Financial Closing Process – Audit Adjustments (Finding related to the Financial Statements Reported in Accordance with *Government Auditing Standards*)

Initial Year Written: Fiscal Year 2020

Condition: During the audit of the Fund’s financial statements for the year ended September 30, 2020, 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.

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

Current Status: The Fund corrected the deficiencies noted in the finding.