

Independent Auditor's 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, 2022, 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 16, 2023.

**Report on 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 Fund'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 2022-001: 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 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 use of outdated ETA report information 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 use of outdated ETA 902P report data in the worksheet used to calculate the allocations of federal expenditures among available federal awards. This was due to revisions made to the ETA 902P reports for fiscal year 2022. The Fund did not have an adequate process in place to ensure an effective review was conducted of the allocation inputs.

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. 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 and accurate allocation methodology.

Views of Responsible Officials: The Michigan Department of Labor & Economic Opportunity (LEO) agrees with this finding and will take actions to resolve the issue going forward. This includes training staff and updating procedures to ensure that a management review is conducted of the allocation inputs.

### **Report on 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Fund's response to the finding identified in our audit and described above. The Fund's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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 Paulik PLC*

Bloomfield Hills, Michigan  
February 16, 2023