

Report on Expenditures of Federal Awards

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

Year Ended September 30, 2022

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

Report on Expenditures of Federal Awards

Year Ended September 30, 2022

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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 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 2022-001 that we consider to be a significant deficiency.

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 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 16, 2023

Independent Auditor's 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

Opinion on 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 identified as subject to audit 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, 2022. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities of the Audit of Compliance section of our report.

We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Fund's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Fund's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Fund's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Fund's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Fund's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 2022-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. *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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the other 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, 2022 and have issued our report thereon dated February 16, 2023, 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 Paulik PLC

Bloomfield Hills, Michigan
June 14, 2023

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

| 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-37918-22-55-A-26 | \$ - | \$ 686,467 |
| Total for Assistance Listing #17.271 | | | - | 686,467 |
| Unemployment Insurance – 2020 RESEA | 17.225 | UI-34503-20-60-A-26 | 704,106 | 912,312 |
| Unemployment Insurance – 2021 RESEA | 17.225 | UI-35951-21-60-A-26 | 1,482,807 | 1,453,582 |
| Unemployment Insurance – 2020 UI Administration | 17.225 | UI-34065-20-55-A-26 | - | 16,419,883 |
| Unemployment Insurance – 2021 UI Administration | 17.225 | UI-35655-21-55-A-26 | 288,254 | 39,129,324 |
| Unemployment Insurance – 2022 UI Administration | 17.225 | UI-37230-22-55-A-26 | 799,405 | 106,685,491 |
| COVID-19 – Unemployment Insurance – COVID-19 Pandemic Grants (PUA, PEUC, & FPUC) | 17.225 | UI-34722-20-55-A-26 | - | 57,499,173 |
| UIPL No. 13-20 Emergency Administrative Grants- EUISAA | 17.225 | NONE | - | 135 |
| Unemployment Insurance Reed Act Administration | 17.225 | NONE | - | 21,627,039 |
| Total for Assistance Listing #17.225 | | | <u>3,274,572</u> | <u>243,726,939</u> |
| Total Department of Labor – Employment and Training Administration / Total Federal Financial Assistance | | | <u>\$ 3,274,572</u> | <u>\$ 244,413,406</u> |

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, 2022

(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, 2022

Section I – Summary of Auditor’s 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 2022-001 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, 2022

Section III – Findings and Questioned Costs Relating to Federal Awards

Finding 2022-001

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

Federal Award Identification Number and Year:

| | |
|---------------------|-------------------------|
| UI-32846-19-60-A-26 | 01/01/2019 – 06/30/2021 |
| UI-35951-21-60-A-26 | 01/01/2021 – 09/30/2023 |
| UI-37230-22-55-A-26 | 10/01/2021 – 12/31/2024 |
| UI-34722-20-55-A-26 | 04/01/2020 – 06/30/2023 |

Type of Finding: Significant Deficiency and Noncompliance

Compliance Requirement: Activities Allowed or Unallowed and Reporting

Known Questioned Costs: None

Repeat Finding: 2021-001

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 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.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2022

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 recommendation.



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, 2022

Finding 2022-001

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

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

Anticipated Completion Date: August 31, 2023



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC OPPORTUNITY
LANSING

SUSAN CORBIN
DIRECTOR

Summary Schedule of Prior Audit Findings

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

Initial Year Written: Fiscal Year 2021

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.

Recommendation: The auditor recommended 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.

Current Status: A significant deficiency was identified in the current year related to accurate determination and reporting of amounts charged to federal grants. The deficiency stemmed from use of outdated report information in the process of allocating certain expenditures among available federal grants.

Reason(s) For Recurrence: A correction was made to adjust for a previous year manual formula error in the worksheet used to calculate allocations of federal expenditures among available federal awards. However, in the current year, use of outdated ETA report information in one section of the worksheet resulted in federal expenditure amounts not being accurately determined or reported.

Corrective Action: The Fund corrected the prior year deficiencies noted in the finding by fixing the formula error in the worksheet used to calculate allocations. See the Corrective Action Plan on page 12 for current year actions to be taken.