

## EXECUTIVE DIGEST

# MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

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### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit\* Act, of the Michigan Department of Career Development (MDCD) for the period October 1, 1998 through September 30, 2000.

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### AUDIT PURPOSE

This financial audit of MDCD was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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### BACKGROUND

Effective April 5, 1999, Executive Order No. 1999-1 created MDCD. MDCD's mission\* is to develop a system that produces a workforce with the required skills to maintain and enhance the Michigan economy.

Executive Order No. 1999-1 also transferred the Michigan Strategic Fund (MSF), which included numerous economic development related programs previously administered by the Michigan Jobs Commission, to the Department of Management and Budget as an autonomous agency. Subsequently, in accordance with Executive Order No. 1999-1, MSF created the Michigan Economic

Development Corporation to administer many of these economic development programs.

Executive Order No. 1999-12, effective January 1, 2000, transferred State and federal adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD.

As of September 30, 2000, MDCD had 11 organizational units. Administrative Services was responsible for maintaining MDCD's budgeting, purchasing, information technology, personnel services, office services, and accounting and financial reporting, including the preparation and submission of most federal program cost reports. The individual program areas had the responsibility for establishing and implementing grant and service program policies.

MDCD's major funding sources were the State's General Fund; the U.S. Departments of Agriculture, Labor, Education, and Health and Human Services; and the Corporation for National and Community Service. MDCD had General Fund net expenditures and operating transfers out totaling approximately \$336 million and \$459 million for fiscal years 1999-2000 and 1998-1999, respectively. As of September 30, 2000, MDCD had 1,087 employees.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To audit MDCD's financial schedules and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to MDCD's financial schedules for the fiscal years ended September 30, 2000 and September 30, 1999.

**Conclusion:** We expressed an unqualified opinion\* on MDCD's financial schedules. In addition, we expressed an unqualified opinion on MDCD's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

**Audit Objective:** To assess and report on MDCD's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.\* However, we identified a reportable condition\* related to cash receipting (Finding 1).

In addition, our assessment indicated that MDCD was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

**Audit Objective:** To assess and report on MDCD's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion:** We issued an unqualified opinion on MDCD's compliance with requirements applicable to

**each major federal program except Adult Education - State Grant Program, for which we qualified our opinion.** Our assessment disclosed an instance of noncompliance related to federal Adult Basic Education (ABE) and English as a Second Language (ESL) program participation that is required to be reported under OMB Circular A-133 (Finding 2). **Also, our assessment of internal control over compliance applicable to each major federal program identified one material weakness:**

- MDCD's internal control did not ensure that federal ABE/ESL Program subrecipients\* were allocated federal funds based on actual participation in accordance with the Program's approved State Plan (Finding 2).

We also identified other reportable conditions related to earmarking requirements, federal reporting, employee payroll certification, and articulation agreements (Findings 3 through 6).

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**AUDIT SCOPE**

Our audit scope was to examine the General Fund financial and other records, including federal programs, of the Michigan Department of Career Development and the federal programs for the Employment Service Agency, which is accounted for in the Michigan Employment Security Act - Administration Fund (a special revenue fund that is audited and reported on separately), for the period October 1, 1998 through September 30, 2000. Our audit was conducted 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 OMB Circular A-133,

*Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Several Executive Orders have been issued which have affected MDCD's accounting and reporting requirements for certain federal programs and differences between MDCD's financial schedules and its schedule of expenditures of federal awards.

Executive Order No. 1997-18, effective November 17, 1997, transferred the Employment Service Agency (ESA) to MDCD. ESA's financial transactions are audited separately by other auditors and are reported in the Michigan Employment Security Act - Administration Fund. However, because MDCD is responsible for federal program compliance after November 16, 1997, ESA's federal expenditures are included in MDCD's schedule of expenditures of federal awards and we included the related federal programs in our consideration of programs to be tested for federal program compliance.

Executive Order No. 1999-1, effective April 5, 1999, created MDCD, abolished the Michigan Jobs Commission, and transferred the Michigan Strategic Fund to the Department of Management and Budget as an autonomous agency. Numerous economic development related programs, previously administered by the Michigan Jobs Commission, were transferred to the Department of Management and Budget. Subsequently, the Michigan Strategic Fund created the Michigan Economic Development Corporation to administer many of these economic development programs. Federal expenditures for the Community Development Block Grants/State's Program for the period October 1, 1998 through April 4, 1999 are reported in MDCD's financial schedules and

included within the financial reporting scope of this audit. However, because the Michigan Strategic Fund is responsible for federal program compliance after April 4, 1999, the Community Development Block Grants/State's Program was considered for federal program compliance testing in our separate audit of the Michigan Strategic Fund.

Executive Order No. 1999-12, effective January 1, 2000, transferred State and federal adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD. The Department of Education retained financial and reporting responsibilities for the transferred programs through September 30, 2000. Accordingly, financial transactions for these programs are not included in MDCD's basic financial schedules but will be subject to testing in our separate audit of the Department of Education. However, because MDCD is responsible for federal program compliance after December 31, 1999, federal expenditures for these programs for fiscal year 1999-2000 are included in MDCD's schedule of expenditures of federal awards, and we included these programs in our consideration of programs to be tested for federal program compliance.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report contains 6 findings and 6 corresponding recommendations. MDCD's corrective action plan indicates that it agrees with the 6 recommendations. Also, MDCD's corrective action plan indicates that it has complied with 1 recommendation and will comply with the other 5.

As disclosed in MDCD's summary schedule of prior audit findings, MDCD fully corrected 11 of the 15 prior Single Audit findings and did not correct or partially corrected 3 findings. One prior audit finding will be audited under another entity.

Executive Order No. 1999-12, effective January 1, 2000, transferred the State's adult education, vocational education, and vocational-technical education programs from the Department of Education to MDCD. This transfer included 4 audit findings that are included in MDCD's summary schedule of prior audit findings. In addition, Executive Order No. 1997-18, effective November 17, 1997, transferred the Employment Service Agency from the Unemployment Agency to MDCD. This transfer included 3 audit findings that are included in MDCD's summary schedule of prior audit findings.