



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR & ECONOMIC GROWTH
LANSING

KEITH W. COOLEY
DIRECTOR

October 16, 2007

Mr. Michael J. Moody, Director
Office of Financial Management
Department of Management & Budget
Romney Building – Seventh Floor
111 S. Capitol, P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Moody:

We are enclosing our response to comments made in the Office of the Auditor General's Financial Audit Including the Provisions of the Single Audit Act for the Department of Labor and Economic Growth for the period October 1, 2005 through September 30, 2006.

If you have any questions regarding this report, please feel free to call me at 335-1953.

Sincerely,

Signature Redacted

Allen Williams, Director
Internal Audit & Monitoring Division

Enclosure

cc: Lisa Webb Sharpe, Director, DMB
Keith W. Cooley
Andy Levin
Sharon Bommarito
Rita Canady
Susan Corbin
Allan Pohl
Michael Becker, OAG

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AUDIT RESPONSE SUMMARY

Financial Audit Including the Provisions of the Single Audit Act Michigan Department of Labor and Economic Growth (October 1, 2005 through September 30, 2006)

I. Citations complied with:

#2, #3, #5c, #6a, #6b, #6c1, #8c, #9, #10

II. Citations to be complied with:

#1 - Estimated date of compliance is October 31, 2007
#4 - Estimated date of compliance is November 30, 2007
#5a - Estimated date of compliance is July 1, 2008
#5b - Estimated date of compliance is July 1, 2008
#7 - Estimated date of compliance is July 1, 2008
#8a - Estimated date of compliance is July 1, 2008
#8b - Estimated date of compliance is July 1, 2008

III. Citations agency disagrees with:

#6c2

AUDIT RESPONSE

Financial Audit Including the Provisions of the Single Audit Act Michigan Department of Labor and Economic Growth (October 1, 2005 through September 30, 2006)

1. Labor Force Statistics, CFDA 17.002

The Department of Labor and Economic Growth's (DLEG's) internal control did ensure that the Labor Force Statistics Program complied with federal laws and regulations regarding allowable costs/cost principles. Six employees who charged 100% of their time to the program did not complete the required semiannual certifications during the two-year period ending September 30, 2006.

Recommendation:

We recommend that DLEG improve its internal control to ensure that the Labor Force Statistics Program complies with federal laws and regulations regarding allowable costs/cost principles.

Agency Response:

DLEG agrees with this finding and will require staff who are 100% assigned to a single federal program to complete semiannual certifications in addition to biweekly time and effort reporting. A copy of the certification will be forwarded to DLEG's Financial Services Division (FSD) on a semiannual basis. The certification for the period October 1, 2006 - March 31, 2007 will be provided to FSD by October 15, 2007 and certifications for the period April 1, 2007- September 30, 2007 will be completed and submitted by October 31, 2007. In subsequent semiannual periods, certifications will be submitted to FSD no later than March 31 and September 30 of that year and will be available for audit.

2. Trade Adjustment Assistance (TAA), CFDA 17.245

DLEG's internal control did not ensure that the TAA Program complied with federal laws and regulations regarding reporting.

DLEG is required to report program expenditures on an accrual basis. Accordingly, it requires its subrecipients to submit monthly expenditure reports along with estimates of program expenditures through September 30. DLEG records the estimated expenditures in the State's accounting system as expenditures and accounts payable. However, DLEG did not include the estimated program expenditure in its financial status reports (FSRs).

Recommendation:

We recommend that DLEG improve its internal control to ensure that the TAA Program complies with federal laws and regulations regarding reporting.

Agency Response:

DLEG agrees with this finding and has complied. This issue has been corrected through staff training and is now resolved.

3. Consultation Agreements, CFDA 17.504

DLEG's internal control did not ensure that the Consultation Agreements Program complied with federal laws and regulations regarding allowable costs/cost principles.

- a. *DLEG did not maintain supporting documentation for all non-payroll expenditures.*
- b. *DLEG did not ensure that personnel-payroll cost distributions to the Consultation Agreements Program were properly supported by personnel activity reports.*

Recommendation:

We recommend that DLEG improve its internal control to ensure that the Consultation Agreements Program complies with federal laws and regulations regarding allowable costs/cost principles.

Agency Response:

DLEG agrees with this recommendation and has implemented corrective action.

- a. The Michigan Occupational Safety and Health Administration (MIOSHA) will maintain documentation to support that all non-payroll expenditures are allowable.
- b. MIOSHA have begun keeping track of employee time to ensure that the distribution rate accurately reflects actual activity. Also, timekeeping procedures have been reviewed with MIOSHA's Consultation, Education and Training Division timekeepers. The Division's certifier will request a printout every six months detailing how payroll is being charged in order to verify the accuracy of charges and make any necessary reconciliation.

4. State Energy Program, CFDA 81.041

DLEG's internal controls over the State Energy Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring. DLEG did not determine if 5 of 7 (71%) FY 2004-05 subrecipients met or exceeded the \$500,000 federal award threshold requiring a Single Audit.

Recommendation:

We recommend that DLEG improve its internal control to ensure that the State Energy Program complies with federal laws and regulations regarding subrecipient monitoring.

Agency Response:

DLEG agrees with this finding and will comply with the recommendation.

The Energy Office will take actions to bring the State Energy Program into compliance with monitoring subrecipients and Single Audit requirements. This will include Energy Office staff giving higher priority to Single Audit monitoring tasks and reviewing existing procedures to identify more efficient ways to ensure compliance. An annual report will be prepared and forwarded to DLEG's Audit & Monitoring Division detailing efforts made in the previous 12 months no later than November 30, 2007.

5. Adult Education – State Grant Program, CFDA 84.002

DLEG's internal control did not ensure that the Adult Education – State Grant Program (Adult Education Program) complied with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and reporting.

- a. *DLEG did not consistently include in-kind contributions as program effort.*
- b. *DLEG did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3), and federal regulation 34 CFR 80.40.*
- c. *DLEG did not verify the accuracy of data entered into its Web-based reporting system by subrecipients.*

Recommendation:

We recommend that DLEG improve its internal control to ensure that the Adult Education Program complies with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and reporting.

Agency Response:

DLEG agrees with this finding. Office of Adult Education is in the process of implementing the following corrective action to address the above findings.

- a. Tracking of all future in-kind contributions: Began implementation July 1, 2007, to be completed by July 1, 2008. Since it is a continuous process, it will be tracked in subsequent years.
- b1. Conduct on-site monitoring and in-depth desk reviews: Started implementation July 1, 2007 to be completed by July 1, 2008. It will be continuous in subsequent years.
- b2. Prompt return of corrective action plans in the file: started and completed implementation July 30, 2007.
- b3. Expenditures' supporting documentation is placed in the file: started implementation July 1, 2007 with a completion date of July 1, 2008.
- b4. Grant award notification with correct information: Started implementation June 15, 2007 and completed by July 30, 2007.

- b5. Conduct periodic visits to some sub-recipients that received in-depth desk reviews: Will begin November 2007 and completion by July 1, 2008.
- c. No corrective action is needed.

6. Vocational Education – Basic Grants to States, CFDA 84.048

DLEG's internal control did not ensure that Vocational Education – Basic Grants to States (Vocational Education Program) complied with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and subrecipient monitoring.

- a. *DLEG did not document its approval of grant applications prior to issuing subrecipient grant awards.*
- b. *DLEG did not ensure that required employees completed periodic certifications of personnel costs.*
- c. *DLEG did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d), and federal regulation 34 CFR 80.40 by:*
 - (1) *Not consistently documenting the justification for significant deviations between budgeted and actual expenditures for subrecipients.*
 - (2) *Not consistently verifying the accuracy of student enrollment and performance data for subrecipients.*

Recommendation:

We recommend that DLEG improve its internal control to ensure that the Vocational Education Program complies with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and subrecipient monitoring.

Agency Response:

a. DLEG has implemented internal control improvements by centralizing records documenting approvals. It should be noted that DLEG previously contended that it did document the review and approval of sub-recipient grant applications (manually) for all 23 sub-recipient grant files tested by the auditors; and staff did document the completion of all review items on the grant application check sheets. However, DLEG's automated tracking system (from which information was submitted electronically to the auditors) failed to show such approvals and reviews. DLEG has since worked with the system developer and this issue is now resolved.

b. DLEG acknowledges that it did not collect semi-annual certifications in a timely manner. However, we contend that time and attendance reporting was maintained that clearly documents that staff worked on the program. DLEG also immediately implemented the practice of obtaining semi-annual certifications for these staff.

c1. DLEG has implemented changes to its online application system that allows colleges the ability to go on-line and change their activities to adjust for circumstances that occur throughout

the grant year. DLEG had a system in place whereby a reviewer received notification of the changes which prompted him to contact the colleges involved. For some reason (possibly a computer error), budget changes did not show up on the final close-out of the application. It should be noted that the final expenditure report (DS4044) accurately reflected the changes that were agreed upon and the total of the grant application did not exceed the colleges' approved allocation. DLEG has since requested that the developer of the grant management system modify it to flag and/or prevent expenditure modifications that exceed budgeted line-item amounts in excess of the allowable (pre-defined) percentage. This issue has been resolved.

c2. DLEG disagrees with this finding. The Office of Postsecondary Services completes on-site compliance reviews of a specified number of colleges who participate in the Perkins activities each year. Staff verifies student enrollment data at the time the colleges submit the annual data. Student data is received electronically in aggregate form, not by individual student, which is the case for secondary education students. A series of reliability and accuracy tests occur. Any variations in data trends are followed up with the college at that time; as opposed to waiting for on-site visits. The core indicator data is summarized individually for each college and state averages are calculated and reported to the USDOE each December. Additionally, DLEG has confirmed with John Haigh from the USDOE that the Community College Services Unit's present process is appropriate, and that viewing individual student records is not mandated as a method.

7. Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126

DLEG's internal control did not ensure that the Rehabilitation Services-Vocational Rehabilitation Grants to States (Rehabilitation Services Program) complied with federal laws and regulations regarding allowable costs/cost principles.

DLEG cited a Michigan Rehabilitation Services (MRS) employee for using a State vehicle for non-State related activities and falsifying travel vouchers and time and attendance reports. DLEG identified \$24,180 of improper charges to the State, including \$20,467 for personal use of a State vehicle, \$3,331 of falsified work hours, and \$382 for inappropriate travel expenses. The Rehabilitation Services Program was charged a total of \$16,392 of these costs.

Recommendation:

We recommend that DLEG improve its internal control to ensure that the Rehabilitation Services Program complies with federal laws and regulations regarding allowable costs/cost principles.

Agency Response:

DLEG agrees with this finding as MRS is continuing to attempt to collect any and all disallowed amounts. The disputed amounts are currently undergoing arbitration associated with the employee termination.

All MRS managers and administrative support staff have received mandatory training in the DMB's travel rules and regulations. Significant detail is now required on all vouchers and State

car logs. FSD will provide a second, detailed review of travel records. Supplemental employment procedures have been fully implemented with several new levels of review and approval including one by DLEG's Office of Human Services for which they will provide a final written approval to MRS.

8. Supported Employment Services to Individuals with Severe Disabilities, CFDA 84.187

DLEG's internal control did not ensure that Supported Employment Services to Individuals with Severe Disabilities (Supported Employment Program) complied with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

- a. *DLEG did not ensure that program coding changes and adjusting entries resulted in allowable Supported Employment Program expenditures.*
- b. *DLEG did not maintain documentation for Supported Employment Program expenditures.*
- c. *DLEG provided Supported Employment Program assistance to ineligible customers.*

Recommendation:

We recommend that DLEG improve its internal control to ensure that the Supported Employment Program complies with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Agency Response:

- a. / b. Michigan Rehabilitation Services will train staff on the importance of maintaining complete case file documentation to support authorization for customer services and will do follow-up reviews to ensure compliance.
- c. DLEG agrees. The Michigan Commission for the Blind has modified its procedures and instructed staff to ensure that eligibility requirements for Supported Employment Services for Individuals with Severe Disabilities are noted in all customer files.

9. Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), CFDA 84.334

DLEG's internal control did not ensure that GEAR-UP complied with federal laws and regulations regarding allowable costs/cost principles. DLEG did not ensure that personnel-payroll cost distributions to GEAR-UP were properly supported by personnel activity reports in accordance with federal requirements.

Recommendation:

We again recommend that DLEG improve its internal control to ensure that *GEAR-UP* complies with federal laws and regulations regarding allowable costs/cost principles.

Agency Response:

DLEG agrees and has implemented a procedure in March 2007 whereby staff enters their time on the State's timekeeping system every pay period based upon distributed (budgeted) personnel-payroll costs which are later reconciled to actual costs at least on a semiannual basis.

10. AmeriCorps, CFDA 94.006

DLEG's internal control did not ensure that the AmeriCorps Program complied with federal laws and regulations regarding subrecipient monitoring. DLEG did not ensure the timely submission of subrecipients' financial status reports (FSRs).

Recommendation:

We recommend that DLEG improve its internal control to ensure that the AmeriCorps Program complies with federal laws and regulations regarding subrecipient monitoring.

Agency Response:

The Michigan Community Service Commission (MCSC), formerly of DLEG, agrees with this finding and has implemented actions previously described in the Corrective Action Plan. For its new 2007-08 grantees, the FSR due date has been moved back 10 days to the 25th day of the month in which they are due. This change will allow the programs, which had difficulty getting internal financial reports by the original due date, to meet the due date.

Also, MCSC has been using an electronic reporting system, Web Based Reporting System (WBRS), which allows our programs to input financial data and create and certify both monthly financial expenditure reports and FSR's in a matter of minutes. We can then access those reports on-line with no lag time and if needed produce an aggregate state FSR the same day.