



STATE OF MICHIGAN  
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS  
LANSING

RICK SNYDER  
GOVERNOR

MIKE ZIMMER  
ACTING DIRECTOR

Emailed 2/4/16

February 4, 2016

Mr. Jeffrey S. Bankowski, Chief Internal Auditor  
Office of Internal Audit Services  
State Budget Office  
George W. Romney Building – Sixth Floor  
111 S. Capitol, P.O. Box 30026  
Lansing, Michigan 48909

Dear Mr. Bankowski:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are the summary tables identifying our responses and our corrective action plans to address recommendations contained within the Office of the Auditor General's Performance Audit of the Self-Insurers' Security Fund Department of Licensing and Regulatory Affairs (LARA) January 1, 2014 through December 31, 2014

If you have any questions regarding this report, please feel free to call me at (517) 335-9247.

Sincerely,

Signature Redacted

Allan R. Pohl, Deputy Director

Enclosure

cc: Audit Distribution List  
Mark Long  
John Schrock  
Rick Smith  
Shirley Callahan

## Distribution List

Executive Office	Jarrold Agen <a href="mailto:agenj@michigan.gov">agenj@michigan.gov</a>
Office of the Auditor General	Doug Ringler <a href="mailto:dringler@audgen.michigan.gov">dringler@audgen.michigan.gov</a>
Senate Fiscal Agency	Ellen Jeffries <a href="mailto:ejeffries@senate.michigan.gov">ejeffries@senate.michigan.gov</a>
House Fiscal Agency	Mary Ann Cleary <a href="mailto:mcleary@house.mi.gov">mcleary@house.mi.gov</a>
Senate Approps. Committee	Senator Dave Hildenbrand <a href="mailto:sendhildenbrand@senate.michigan.gov">sendhildenbrand@senate.michigan.gov</a>
Senate Approps.Subcommittee on LARA	Senator Marty Knollenberg <a href="mailto:senmknollenberg@senate.michign.gov">senmknollenberg@senate.michign.gov</a>
House Approps. Committee	Representative Al Pscholka <a href="mailto:AlPscholka@house.mi.gov">AlPscholka@house.mi.gov</a>
House Approps.Subcommittee on LARA	Representative Chris Afendoulis <a href="mailto:ChrisAfendoulis@house.mi.gov">ChrisAfendoulis@house.mi.gov</a>
Senate Regulatory Reform Committee	Senator Tory Rocca <a href="mailto:sentrocca@senate.michigan.gov">sentrocca@senate.michigan.gov</a>
House Regulatory Reform Committee	Rep. Ray A. Franz <a href="mailto:RayFranz@house.mi.gov">RayFranz@house.mi.gov</a>

**AUDIT RESPONSE SUMMARY**  
**Performance Audit of Self-Insurers' Security Fund**  
**Department of Licensing and Regulatory Affairs (LARA)**

I. Citations complied with:

1

II. Citations to be complied with:

2

3

III. Citations agency disagrees with:

None

**Performance Audit of Self-Insurers' Security Fund  
Department of Licensing and Regulatory Affairs (LARA)  
January 1, 2014 through December 31, 2014**

**AUDIT RESPONSE**

**FINDING #1 –**

*The Department of Licensing and Regulatory Affairs (LARA) did not have a process to ensure that it provided complete and accurate SISF claim data to the actuary. The SISF actuarially-determined future contingent liability was understated by approximately \$5.6 million.*

**Final Response:**

We agree additional controls are necessary to address any inconsistencies in reporting of the data used to support the claim liability to both the OAG and the actuary. As this was the first year of this audit process a great deal of knowledge has been gained through the process and we appreciate the OAG's insight and input. Additional controls have been put in place to address the prior inconsistencies. In addition, we have and are working with the actuary to gain a better understanding of data needed for completion of their report.

It should be noted that when the SISF takes over claims received from an insolvent self-insurer those claims may not have sufficient data to establish compensation rates or appropriate reserves.

It should be further noted that multiple factors must be considered when placing a proper reserve on a claim and certain data elements that are used to determine reserves may be weighted differently by the Funds Administration than by the OAG.

1. SISF claims have been reviewed and data elements required by the actuary have been added to and input into the FAIS operating system. The paper copy files and FAIS will contain consistent documentation to support the data provided to the actuary. These steps will be maintained on a going forward basis and will address potential inconsistencies in the data.
2. The actuary began their review of the data for the 2015 report the first week of December. This will allow additional time to verify data elements and completion of the report earlier in the audit process.
3. Data elements for the actuary are being drawn from FAIS. By drawing data from one source the likelihood of double counting of claims should be eliminated.
4. On SISF claims where reimbursement is being provided by other provisions within the Funds Administration (Silicosis, Dust Disease and Logging Industry), the data will reflect a reserve based upon the exposure however the actuary will consider the appropriate reimbursement provision and net the established reserve based upon the appropriate Reimbursement provision.

**Performance Audit of Self-Insurers' Security Fund**  
**Department of Licensing and Regulatory Affairs (LARA)**  
**January 1, 2014 through December 31, 2014**

**FINDING #2 –**

*LARA needs to improve its processes to ensure that it timely and accurately prepares SISF financial statements. LARA missed the March 31 reporting deadline and delayed the issuance of the 2015 assessments by approximately four months.*

**Final Response:**

We agree. We have improved our process and completed and documented an Enterprise Fund Statement for the first time by putting improvement processes in place to ensure future statements will be prepared timely and accurately.

The Fund is accounted for, and reported, in the State of Michigan Comprehensive Annual Financial Report as a Special Revenue Fund. LARA developed a process to convert the presentation of the fund as an Enterprise fund outside of the State's Accounting system for the first time. This process should ensure that the statements are prepared as an Enterprise Fund in a timely more accurate manner in the future.

Significant changes have not been made at this time however the Funds Administration and LARA Finance are in discussions on the appropriate reporting of the excess insurance receipts and receivables as expenditure credits rather than revenue for CY 15. The change in reporting structure will be finalized and in place prior to completion of year ending December 31, 2015 financial audit.

**FINDING #3 –**

*LARA should consider the feasibility of implementing a process to validate assessments revenue submitted by SISF private self-insured employers. Without a validation process, LARA could not ensure that SISF received all assessment revenue that it was entitled to.*

**Final Response:**

We agree. As of this date, we are exploring steps that can be taken to verify that assessments received are based upon accurately reported data. The process developed must allow verification, yet not be overly intrusive or burdensome to the business environment.

We are working to verify the data as a project through the LARA Lean Process Improvement Workshops methodology. In addition, we have developed and are implementing a process whereby the Self-Insured Programs Division of the Workers' Compensation Agency completes a random sampling of self-insured employer's indemnity payments through contact with and verification by the service companies, approved by the Workers' Compensation Agency, to handle the claims on behalf of the self-insured employers. The sampling process will begin in January and be completed by March 31, of each year. The sampling will be reviewed against the selected employers reporting to LARA Funds Administration.