

Independent Auditors' 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
Office of the Auditor General,
Office of Financial Management and
Department of Licensing and Regulatory Affairs,
Unemployment Insurance Agency

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 Licensing and Regulatory Affairs, Unemployment Insurance Agency – Unemployment Compensation Fund (Fund), as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2014.

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) to determine the 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 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2014-01 that we consider to be a significant deficiency.

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 determination of financial statement amounts. 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*.

Unemployment Insurance Agency – Unemployment Compensation Fund's Response to Findings

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Andrews Hooper Paulik PLC

Auburn Hills, Michigan
December 5, 2014

Schedule of Findings

Finding 2014-01

Criteria: A strong system of internal control includes processes for reconciling general ledger account balances to a subsidiary ledger or other adequate supporting documentation on a periodic basis.

Condition: Federal program account balances in the general ledger did not reconcile to the actual revenue and expenditure activity for the year due to erroneous adjustments posted to the accounts.

Cause: These errors were initially undetected by management because the Agency had not been reconciling federal revenue and expenditure accounts throughout the year.

Effect: Federal revenue and expenditures were initially misstated on the general ledger.

Recommendation: We recommend that the Agency implement procedures to reconcile activity in the federal revenue and expenditure accounts on a monthly basis throughout the fiscal year.

Response: The coding problem with restitution write-offs has been identified. The automated process will be re-configured to accurately account for the federal programs. The accounting section is scheduled to do a full review and reconciliation of all the activity accounts during Fiscal Year 2015.