

Ms. Sharon Moffett-Massey, Director  
State of Michigan Talent Investment Agency,  
Unemployment Insurance Agency,  
State of Michigan Office of the Auditor General  
State of Michigan Office of Financial Management

In planning and performing our audit of the financial statements of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency (Agency) – Unemployment Compensation Fund, Contingent Fund, and Obligation Trust Fund (Funds) as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Funds' internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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 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.

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 by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control that we consider to be a significant deficiency as discussed within this letter.

This communication is intended solely for the information and use of management of the Funds, the Office of the Auditor General, the Office of Financial Management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper Pavlik PLC*

December 4, 2015  
Auburn Hills, Michigan

## **Current Year Recommendations**

### *Significant Deficiency*

#### Federal Program Account Reconciliations

During our review of account balances, we noted that federal program account balances in MiDAS did not reconcile to the actual revenue and expenditure activity that occurred throughout the year. Management was unable to determine the effect of significant system reconfigurations which generated unidentifiable activity. As a result, management could not reconcile activity in the federal account balances throughout the fiscal year and the federal account balances were misstated on the general ledger. We recommend that the Agency implement the classification tools necessary to accurately distinguish all automated activity, which would support reconciliation activities.

#### *Management's Response:*

The system reconfigurations that occurred during the current year corrected programming issues previously identified. However, the volume of activity re-processed highlighted the challenges with reconciling activity that share a common identifier. One of the Agency's top priorities this year will be to implement additional identifiers (i.e., Trans Types), which will accurately distinguish all activity in the general ledger and facilitate monthly reconciliations.

### *Other Matters*

#### Experience Rate Reference Material

During our testing, we noted errors in the Experience Rate Calculation reference pages from the UIA website. We noted that the Nonchargeable Benefits Component (NBC) reference page has not been updated for changes in the methods of calculating employers that become a contributing employer on or after January 1, 2012. We recommend that the Agency review and make any necessary corrections to the Experience Rate Calculation reference pages on the UIA website.

#### *Management's Response:*

The agency agrees that the reference material on the UIA website is outdated. The Nonchargeable Benefits information will be revised and published on the website.

#### Reimbursing Receivables Reconciliations

During our review of reimbursing receivables reconciliations, we noted that the Agency does not complete reconciliations on a monthly basis. We also noted that when they are completed, the reconciliations are not reviewed by management. We recommend the Agency complete periodic reconciliations and for those reconciliations to be documented, reviewed and approved by management.

*Management's Response:*

The agency agrees that the reimbursing accounts should be periodically reconciled and reviewed. However, due to the way the system reports reimbursing information, the reconciliations will be performed quarterly against the reimbursing billings. All reconciliations will be reviewed by management.

## **Status of Prior Year Recommendations**

### Receivable and Allowance Accounts

We previously recommended that the receivable and allowance accounts be reviewed by writing off old receivable balances that will most likely not be collected or enforcement procedures be implemented to collect these amounts. We repeat our recommendation in this area.

*Management's Response:*

Employer Receivables, CWC Receivables, and Federal Program receivables have all been reviewed and are considered collectible for fiscal year 2015. The reserve methodology for the Restitution Reserve was revised during the current year. Additional work is needed in the area of Restitution Receivables. Since the implementation of a new automated system the agency has not performed an automated write-off process for restitution receivables. The program areas have been doing a considerable amount of work on these accounts to ensure accurate handling during the automated write-off process. The agency expects to be able to perform an automated write-off of Restitution Receivables during fiscal year 2016.

### Federal Program Account Reconciliations

We previously recommended that the Agency implement procedures to reconcile activity in the federal revenue and expenditure accounts on a monthly basis throughout the fiscal year. We noted in the current year that the Agency has reconfigured the automated process and reclassified amounts to more appropriately reflect what the amount signifies. We also noted that the Agency is still reviewing the reconfiguration.

*Management's Response:*

No further action required.

### Experience Rate Reference Material

We previously recommended that the Agency review and make any necessary corrections to the Experience Rate Calculation reference pages on the LARA website. We noted the Experience Rate Calculation reference pages were appropriately updated in the current year. These reference pages are now located on the Agency website. This comment has been adequately resolved and we make no further recommendation in this area.

*Management's Response:*

No further action required.

Experience Rate Internal Testing

We previously recommended that the Agency review its process for maintaining each year's worksheets and ensure that all documents are maintained in accordance with applicable policies. We noted in the current year that the Agency has adopted a three-tier review procedure for the internal testing worksheets. This comment has been adequately resolved and we make no further recommendation in this area.

*Management's Response:*

No further action required.

Employer Loose Payments

We previously recommended the Agency review the controls in place to ensure loose payments are allocated to the correct employer. We noted in the current year that any payment made without an employer or FEIN number was directly allocated to the Suspense account in MiDAS, until the payment could be properly identified. This comment has been adequately resolved and we make no further recommendation in this area.

*Management's Response:*

No further action required.

Issuance of Form UIA 1107

We previously recommended that the Agency make corrections to the MiDAS system so that submissions of Form UIA 1028 are not recognized as amended if an estimated report has been submitted for that quarter and that corrections be made to the MiDAS system so that Form UIA 1107 is generated when an amended Form UIA 1028 with an error is submitted. We noted in the current year that the Form 1107 is being properly generated when an amended Form 1028 is submitted with an error. This comment has been adequately resolved and we make no further recommendation in this area.

*Management's Response:*

No further action required.

### Penalties Assessed on Employers with Multiple Chargeable Locations

We previously recommended that the Agency review accounts that have multiple chargeable locations for proper calculation and assessment of penalties. We noted in the current year that the Agency was properly calculating and assessing penalties for employers with multiple chargeable locations. This comment has been adequately resolved and we make no further recommendation in this area.

#### *Management's Response:*

No further action required.

### Manual Adjustments to Employer Accounts

We previously recommended that the Agency improve documentation of manual adjustments made to employer accounts and for manual adjustments to be reviewed for accuracy and approved before they are posted. We noted in the current year all employers were required to file Form UIA 1028 beginning the 1Q of 2015. No instances where paper versions of UIA 1028 were accepted were noted and any manual adjustments were reviewed before being posted. This comment has been adequately resolved and we make no further recommendation in this area.

#### *Management's Response:*

No further action required.

### Misrepresentation Penalties

We previously recommended that an internal IT review be performed to identify and correct these issues so that all penalties are calculated correctly and consistently in the future. We noted in the current year that penalties were being calculated correctly. This comment has been adequately resolved and we make no further recommendation in this area.

#### *Management's Response:*

No further action required.

### Overpayment Reference Material

We previously recommended that the Agency review and make any necessary corrections to the Overpayments FAQ section of Frequently Asked Questions on the LARA website. We noted in the current year that the information is now under the UIA website. However, the information was not updated to reflect that any subsequent overpayment due to fraud, after the first fraud occurrence, will have a penalty assessed of four times the amount of the overpayment, regardless of whether the overpayment amount is under or over \$500. We recommend that the Agency review and make any necessary corrections to the Overpayments FAQ section of Frequently Asked Questions on the UIA website.

*Management's Response:*

The agency agrees that the Overpayments FAQ information on the UIA website requires clarification. The fraud penalty information will be revised and published on the website.

Inter-Agency Warrant Requests

We previously recommended that the Agency review controls in place to ensure that all Inter-Agency Warrant Requests are signed and dated by management before transfers are initiated. We noted in the current year that the Inter-Agency Warrant Requests were properly signed and dated by management. This comment has been adequately resolved and we make no further recommendation in this area.

*Management's Response:*

No further action required.