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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, 2016, 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 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 Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies, significant deficiencies, or material weaknesses in internal control and therefore, deficiencies, significant deficiencies, or material weaknesses may exist that were not identified.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. These matters are included within this letter.

We would be pleased to discuss these matters in further detail at your convenience, to perform any study of these matters, or to assist you in implementing the recommendations.

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 5, 2016
Auburn Hills, Michigan

Current Year Recommendations

Control Deficiencies

The following comments are not considered significant deficiencies or material weaknesses.

<u>Reimbursing Employer Security</u>

Bonding requirements for certain reimbursing employers require a form of security, including surety bond or letter of credit, be provided to the Agency. All securities are requested to have an expiration date of two years from January 1st of the upcoming year. Employers are notified by mail and have 30 days from the mail date to provide a security upon renewal. Employers that fail to timely provide a security are converted to contributing employer status. We inquired as to any securities that have expired and do not have a current security on file, or those for which the security on file is under the security amount required. We noted that there were 56 employers that received a letter in 2015, that were not converted to contributing status, and were again notified in 2016. We recommend that the agency implement procedures to convert ineligible employers to contributing status in a timelier manner.

Management's Response:

The agency agrees that there were 56 employers that received a security request letter in 2015 that were not converted prior the issuance of the security request letters in 2016. The agency will develop a process to track and follow up on employers that fail to respond to the security request letter. Employers that fail to provide the necessary security within the designated time frame will be converted to contributing status.

<u>Benefit Disbursements</u>

During our testing of benefit disbursements, we reviewed the allocation of benefit charges to employers and the non-chargeable benefit account. We noted charges to employer accounts and the non-chargeable benefit account were incorrect for four of the selected benefit disbursements. In all cases, charges for benefits were not reevaluated after a redetermination had been issued. We recommend that the Agency provide additional training or resources to ensure staff members review the allocation of charges after benefit redeterminations.

Management's Response:

The agency agrees that the four exceptions noted were the result of employee error and the benefit charges should have been reevaluated. The agency will update the staff training modules to ensure this type of exception is covered.

Status of Prior Year Recommendations

Federal Program Account Reconciliations

We previously recommended that the Agency implement the classification tools necessary to accurately distinguish all automated activity, which would support reconciliation activities. We noted all account activity, including Federal programs, appropriately reconciled in the current year. This comment has been adequately resolved and we make no further recommendation in this area.

No management response required.

Experience Rate Reference Material

We previously recommended that the Agency review and make any necessary corrections to 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 repeat our recommendation in this area.

Management's Response:

The agency agrees that information on the Nonchargeable Benefits Component (NBC) reference pages does not contain the post January 2012 calculations. The information will be revised to include the 2012 calculations and the website will be updated.

Reimbursing Receivables Reconciliations

We previously recommended the Agency complete periodic reconciliations of the reimbursing receivable accounts and for those reconciliations to be documented, reviewed and approved by management. Management could not reconcile activity in the reimbursing receivable account balances on a timely basis throughout the year. We recommend the Agency establish additional unique identifiers to accurately distinguish all activity in the general ledger and facilitate monthly reconciliations.

Management's Response:

The agency agrees that the ability to accurately distinguish all activity in the general ledger is necessary to facilitate the monthly reconciliation process. An SQR has been submitted to implement additional identifiers (Trans Types) which appropriately segregate activity posting to the general ledger accounts.

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 noted in the current year that the Agency reviewed restitution receivables and write-offs of old receivables balances were performed. This comment has been adequately resolved and we make no further recommendation in this area.

No management response 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 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 repeat our recommendation in this area.

Management's Response:

The agency agrees that information regarding subsequent overpayment penalties is not currently included in the Overpayments FAQ information on the UIA website. The penalty information will be revised to address subsequent overpayment penalties and the website will be updated.