

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
Talent Investment Agency,
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, Talent Investment Agency, Unemployment Insurance Agency – Contingent Fund (Fund), as of and for the year ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2016.

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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-01.

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

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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, 2016

Schedule of Findings and Questioned Costs

Finding 2016-01

Criteria: Offsets of future unemployment compensation payments to recover prior overpayments are limited to the recovery of the prior overpayment amount in accordance with Federal guidance.

Condition: Offsets of unemployment compensation payments were allocated to the recovery of interest and penalty amounts due under Federal or state law after the overpayment amount due was satisfied.

Cause: A parameter was not established in the benefit system to prevent the allocation of unemployment compensation payment offsets to penalties and interest after the overpayment amount due was satisfied.

Effect: Interest and penalties due under Federal and state law were recovered from offsets of unemployment compensation payments.

Recommendation: We recommend that the Agency add parameters to the benefit system to limit the use of unemployment compensation offsets for only the recovery of prior overpayment amounts.

Response: The Agency has implemented the necessary parameter. Test work was conducted prior to the completion of the audit which confirmed that the Agency is now in compliance with the offset criteria.