

Report on Expenditures of Federal Awards

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Year Ended September 30, 2016

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Year Ended September 30, 2016

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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 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 – Administration 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 a 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

State of Michigan
Office of the Auditor General,
Office of Financial Management and
Talent Investment Agency,
Unemployment Insurance Agency

Report on Compliance for Each Major Federal Program

We have audited the State of Michigan, Talent Investment Agency, Unemployment Insurance Agency – Administration Fund's (Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended September 30, 2016. The Fund's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the Fund as of and for the year ended September 30, 2016, and the related notes to the financial statements. We issued our report thereon dated December 5, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
December 5, 2016

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2016

Federal Agency / Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Expenditures
Department of Labor – Employment and Training Administration:			
Employment Service	17.207	ES-25257-14-55-A-26	\$ 677,760
Unemployment Insurance	17.225	UI-25211-14-55-A-26	354,388
Unemployment Insurance	17.225	UI-23898-13-55-A-26	36,666
Unemployment Insurance	17.225	UI-26401-14-60-A-26	100,598
Unemployment Insurance	17.225	UI-26541-15-55-A-26	20,056,222
Unemployment Insurance	17.225	UI-26541-15-55-A-26	2,309,808
Unemployment Insurance	17.225	UI-27118-15-55-A-26	830,576
Unemployment Insurance	17.225	UI-27983-16-55-A-26	99,912,536
Short Time Compensation Implement – Unemployment Insurance	17.225	NONE	292,796
Short Time Compensation Enrollment – Unemployment Insurance	17.225	NONE	497,374
Total Federal Financial Assistance			<u>\$ 125,068,724</u>

See accompanying notes to schedule of expenditures of federal awards.

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2016

(1) General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of federal financial assistance programs of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency – Administration Fund (Fund). The operations of the Fund are recorded as described in Note 1 of the Fund's financial statements.

(2) Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting.

(3) Indirect Cost Rate

The Fund has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unmodified Opinion**
- (b) Internal control over financial reporting:
 - i. Material weaknesses identified? **No**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (c) Noncompliance material to financial statements noted? **No**

Federal Awards

- (a) Internal control over major programs:
 - i. Material weaknesses identified? **No**
 - ii. Significant deficiencies identified that are not considered material weaknesses? **No**
- (b) The type of report issued on compliance for major programs: **Unmodified Opinion**
- (c) Any audit findings which are required to be reported under 2 CFR section 200.516(a)?
No
- (d) Major program: **Unemployment Insurance/17.225**
- (e) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (f) Auditee qualified as a low-risk auditee under 2 CFR section 200.520? **Yes**

**Section II – Findings Relating to the Financial Statements Reported in Accordance with
*Government Auditing Standards***

No findings to report.

Section III – Findings and Questioned Costs Relating to Federal Awards

No findings to report.

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2016

No matters were reported.