



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TALENT AND ECONOMIC DEVELOPMENT
LANSING

ROGER CURTIS
DIRECTOR

January 8, 2018

Mr. Rick Lowe, Director
Office of Internal Audit Services
Office of Performance & Transformation
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Lowe:

In accordance with the State of Michigan, Financial Management Guide, Part VII, Chapter 4, Section 100, enclosed are our summary table identifying our responses and corrective action to address findings and recommendations related to the Office of the Auditor General's Follow-Up Report of the performance audit titled Collection of Delinquent Unemployment Taxes and Reimbursements, Unemployment Insurance Agency (UIA), Talent Investment Agency (TIA), Department of Talent and Economic Development (TED), covering the period of January 1, 2015, through May 31, 2016. Please contact me directly with any questions.

Sincerely,

Signature Redacted

Amanda Bright McClanahan
Chief Financial and Procurement Officer

Enclosure

c: Wanda Stokes, Director, Talent Investment Agency
Michelle Beebe, Director, TIA-Unemployment Insurance
Allen Williams, TED Internal Control Officer

AUDIT RESPONSE SUMMARY

**Collection of Delinquent Unemployment Taxes and Reimbursements
Unemployment Insurance Agency (UIA), Talent Investment Agency (TIA),
Department of Talent and Economic Development (TED),
January 1, 2015 through May 31, 2016**

Summary Response Matrix

	Complied	Will Comply	Partially Complied	Will Not Comply
Agrees	2 (Part 1) 3 (Parts 1 and 2)	1 2 (Part 2) 4 (Parts 1 and 2)		
Partially Agrees				
Disagrees				

**Collection of Delinquent Unemployment Taxes and Reimbursements
Unemployment Insurance Agency (UIA), Talent Investment Agency (TIA),
Department of Talent and Economic Development (TED),
January 1, 2015 through May 31, 2016**

FINDING #1 – Collection Efforts for Delinquent SUTA Taxes

We again recommend that UIA's CU and TEU initiate sufficient and timely efforts to collect delinquent SUTA taxes from contributing employers.

Final Response:

UIA agrees and has partially complied.

UI continues to use the automatic contact process in which notices are generated from MiDAS. UI is pursuing a concentrated effort to ensure additional notices are clear and concise to the employer while making sure he/she understands what is transpiring with their account. This updated information will assist to remind the employer of the potential errors on their account and other instances for correction to confirm they are aware of the outstanding matters. These updated and newly created forms will charge the employer to remain in compliance while maintaining their account is current to prevent delinquency. This process is expected to be fully completed by January 31, 2018 with MiDAS programming improvements.

TEU regulation agents continue to use skip tracing strategies to obtain banking information for delinquent employers. TEU reviews past banking practices and even searches surrounding banks in the employer's location to identify banking information. This is a continuous improvement process that TEU embarks on daily to obtain banking information for delinquent employers.

UI's Collection Policy was reviewed in December, 2016 and again in January, 2017 to emphasize with TEU staff that cases should be continually referred to the Attorney General's Office when regular collection activities prove to be unsuccessful. Through November, 2017, 172 Civil Suit letters have been sent to delinquent employers and 58 cases have been forwarded to the Attorney General's office due to TEU not being able to enter into a payment plan with the employer.

FINDING #2 – Real Property Liens

We again recommend that CU determine if delinquent contributing employers own real property before CU files real property liens against the employers.

We also again recommend that CU establish controls to verify that county register of deeds offices promptly record UIA's liens and lien discharges and that CU document the lien recording and discharge information in UIA's records.

Final Response:

UIA agrees, having fully complied with part one and partially complied with part two.

Recommendation 1:

Liens are placed on employers with delinquent balances of \$5,000 or greater. Collection staff currently use the Consolidated Lead Evaluation and Reporting (CLEAR) program to confirm the property is, in fact, actual real property and owned by the employer.

Recommendation 2:

Currently, CU electronically verifies lien statuses for Michigan counties which provide this capability. CU continues to research and monitor the electronic verification status of the remaining counties as they automate their processes. By March 31, 2018, and annually thereafter, CU will send a survey to all Michigan counties inquiring about their ability to exchange lien information electronically. Based on the survey responses, the Agency will begin incorporating counties who can exchange lien information electronically within 90 days of the survey response date. The 2018 electronic lien exchange update is expected to be fully completed by July 31, 2018. CU will continue to monitor counties quarterly to ensure they have received and released UI liens in a timely manner. Finally, CU supervision will sample quarterly and verify that lien recording and discharge information is properly documented in UIA's records by CU staff.

FINDING #3 – Use of Information

We recommend that UIA ensure that it primarily targets the high-risk industries for field audits.

We also recommend that UIA maintain documentation of its review of the 1099 data leads and its biweekly bankruptcy filing searches.

Final Response:

UIA agrees and has fully complied.

Recommendation 1:

Field Audit management issues audit leads and verifies that the employer is in one of the high-risk targeted industries based on prior audit results. Furthermore, UI implemented a new procedure that requires Field Audit Administration to conduct a quarterly review of the completed audits to ensure that the identified targeted industries are being audited.

Recommendation 2:

The 1099 Departmental Analyst reviews the leads that are received from the IRS to determine they are not non-profit or non-labile employers. As long as the company has not been audited within the last three years, these leads may become cases for UI to pursue. The Field Audit manager conducts monthly meetings with the 1099 Departmental Analyst to ensure the leads are being properly set up. 1099 and Tax Status staff meet monthly to ensure 1099s are being pursued and processed. Finally, training is provided to the 1099 Departmental Analyst to ensure leads are properly evaluated.

Biweekly bankruptcy checks are being made through PACER by the bankruptcy examiner who maintains the supporting documentation for UI's records. The Collections manager reviews the supporting documentation with the bankruptcy examiner to ensure the required search information is maintained in MiDAS.

FINDING #4 – SUTA Tax Account Actions

We again recommend that UIA timely initiate actions affecting contributing employers' SUTA tax accounts.

We also again recommend that UIA ensure that master employer files contain up-to-date information.

Final Response:

UIA agrees and has partially complied.

Recommendation 1:

The monthly production requirements of SUTA investigators have been increased. SUTA and Tax Status units meet bimonthly to see if there are any measures of improvement that can be gleaned from the investigations that have been submitted. The goal is to increase the timeliness of the investigations and determinations being issued. The SUTA Workgroup developed an improvement report in December, 2017 and the management approved recommendations will be implemented by February 1, 2018.

Recommendation 2:

UI staff use skip tracing techniques to obtain the correct address for employers that have not updated their address with Unemployment Insurance. MiDAS now generates queues that facilitate returned mail work items. . A team of 13 individuals is currently working the queues to obtain updated addresses of the employers. In addition, staff are utilizing various other means, including the internet, CLEAR and the Department of Treasury's database, to obtain the correct address for the employer. Once the address is obtained, the database is updated and mail is resent to the employer for their perusal and/or response. This process is expected to be fully completed by June 1, 2018.