

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

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

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 Unemployment Compensation Fund (Fund) of the State of Michigan Talent Investment Agency (Agency) as of and for the year ended September 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2017.

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 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 items 2017-001 and 2017-002.

Fund's Response to Findings

The Fund's response to the findings 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 Pavlik PLC

Auburn Hills, Michigan
December 8, 2017

Schedule of Findings and Questioned Costs

Finding 2017-001

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: Unapplied offset recoveries attributable to subsequent period adjustments to the original benefit overpayment were used to recover penalties and interest.

Cause: A parameter was not established in the benefit system to prevent the allocation of unapplied recoveries to penalties and interest after overpayment amounts due were 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 a parameter to the automated system to ensure adjustments to benefit offsets are only applied to the recovery of prior overpayment amounts.

Response: The Agency will review the system logic for adjustments to benefit offsets to limit their application to only the recovery of benefit overpayments. The estimated completion date is July 31, 2018.

Finding 2017-002

Criteria: States are prohibited from providing relief from charges to an employer's unemployment compensation account when benefit overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

Condition: The unemployment accounts of employers were not correctly charged for benefit overpayments.

Cause: There were two causes for the incorrect charge of benefit overpayments to employer unemployment accounts. Employer responses received within the required time to respond were not reviewed as part of the Agency's determination that an employer had failed to respond timely and adequately. A system parameter was not established to update charges to employer accounts for subsequent redeterminations of the benefit overpayment amount.

Effect: Charges to employer accounts were not limited to when overpayments are the result of the employer's failure to respond timely or adequately to a request for information. Furthermore, charges to employer accounts will not agree to the amount of overpayment when there are redeterminations of the benefit overpayment amount.

Recommendation: We recommend the Agency implement additional controls to ensure all timely employer responses are considered when determining if an employer has failed to respond timely or adequately. We also recommend that the Agency add system parameters to ensure charges to employer accounts are updated for redeterminations of benefit overpayments.

Response: In response to recent legislative changes, the Agency is reviewing the entire process of determining employer negligence due to failure to respond. The new process will ensure all employer communication is considered when determining eligibility for relief of charges. Training will be provided to all adjudication staff regarding employer non-responsiveness by April 30, 2018. In addition, Service Request 27545 has been submitted to ensure employers accounts are appropriately charged for redeterminations and is expected to be completed by May 18, 2018.