

Ms. Michelle Beebe, Senior Deputy Director
State of Michigan Talent Investment Agency – Unemployment Insurance
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 Unemployment Administration Fund (Fund) of the State of Michigan Talent Investment Agency as of and for the year ended September 30, 2017, 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, we considered the Fund's 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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's 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 Fund, 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 8, 2017
Auburn Hills, Michigan

Current Year Recommendations

Control Deficiencies

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

Payroll

During our current year payroll testing, we noted three employees for which proper documentation supporting the validity and existence of the employees could not be located. It is required procedure to retain documentation of a driver's license and social security card for all employees. For one employee, the social security documentation was retained in the employee's personnel file but a copy of the driver's license could not be located. For two other employees, neither the social security documentation nor driver's license could be located. We recommend management ensure required identification documentation is retained for all employees.

Management's Response: Management agrees with the finding. The HR team began the process of conducting an internal review of all Employer Eligibility Verification Form (I-9) files this past summer and the project was put on hold due the implementation of the new payroll system SIGMA. The HR team initiated this review because TED (a newly created department) inherited personnel and I-9 files from other State departments – some of which were missing important information. This finding further supports the need to expedite the internal I-9 review with a target date for completion of May 1, 2018. Please note that the current process for new hires to TED requires obtaining the aforementioned documentation upon hire and storing them in a separate folder designated for I-9's and supporting documentation.

During our current year payroll testing, we noted three instances in which the payroll submissions for three individuals did not receive supervisor approval in the DCDS system in a timely manner (approval occurred approximately two weeks after payroll processing). The payroll submissions did receive timely certifier sign off and HR release sign off. For one of these payroll submissions, the payroll was certified by the employee whose payroll was being submitted for approval, which is acceptable because the employee has a certifier authority level appropriate for his position. We recommend all payroll submissions receive appropriate supervisor approval before being certified and released.

Management's Response: Management agrees with the finding. With the implementation of the new payroll system SIGMA-TELL there is a functionality in the works that would allow reports to be run for uncertified timesheets. When this report is fully functioning HR will be using this report to notify supervisors of timesheets still pending their approval. Additionally, the SIGMA-TELL system has an "Out of Office" function that supervisors are to use that allows another supervisor to be assigned as the payroll approving manager in their absences. Supervisors are reminded to utilize this function to avoid delays in timesheet certifications. Moreover, with the new payroll processing we have eliminated the "timekeeper" role and the time sheets come directly to HR after the manager approval. If HR finds errors in the review process time sheets are rejected back to the employee and manager for corrections and resubmission rather than a timekeeper or HR making the changes. Finally, HR provides

reminders to supervisors on the importance of their role as approver and the importance of using the "Out of Office" function. The target full completion date is July 1, 2018.

Journal Entry Approvals

During our current year review of journal entries, we noted two journal entries that did not have evidence of required approval by the Federal Funds Manager. One entry was related to a federal cash draw and one was related to an expenditure for inter-agency billings. We recommend that all journal entries include evidence of proper approval.

Management's Response: Management agrees with the finding and is addressing it through the new accounting system (SIGMA) which provides evidence of proper approval through electronic workflow. Effective immediately, adjustments are being made for implementation of SIGMA workflow. The estimated date of compliance is July 1, 2018.

Federal Cash Draws

During our current year review of federal cash draw transactions, we noted one abnormally large draw in March. Upon inquiry, management indicated this large cash draw resulted because the previous cash draw had not properly posted. This resulted in the current draw including all expenditures since the last draw as well as all expenditures included in the last draw, resulting in advance funding. The Cash Management Improvement Act Agreement (Agreement) indicates that "The amount of funds requested shall be based on the amount of liabilities recorded for direct administrative costs since the last request for funds." The Agreement also indicates that "The State shall request funds at bi-weekly intervals, such that funds are deposited on the day of clearance for payroll payments." Management identified this matter after it occurred and did not draw any additional federal funds until the advance funding had been utilized. We recommend management implement additional controls over the federal cash draw process to ensure all activity properly posts in the system.

Management's Response: Management agrees with the finding and is implementing corrective actions designed to ensure compliance with the Cash Management Improvement Act Agreement. A spreadsheet has been created to monitor funds drawn versus expenditures reported in SIGMA. Before funds are drawn the spreadsheet is updated and reviewed to make sure the proper amount of funds is drawn and recorded. The estimated date of full compliance is March 1, 2018.

Skilled Trades Program Liabilities

During our current year review and testing of liabilities related to the Skilled Trades Program managed by the Workforce Development Agency, we identified that the Skilled Trades Program liabilities were overstated by approximately \$3.7 million due to these liabilities being tracked and accumulated using a different process than other grants managed by the Workforce Development Agency. We recommend the process for tracking and accumulating grant expenditures and year-end liabilities for the Skilled Trades Program be consistent with other grants managed by the Workforce Development Agency with appropriate controls to ensure proper cut-off and liability recording.

Management's Response: Management agrees with the finding and is moving the Skilled Trades Program grants to the grant system. The estimated date of full compliance is September 1, 2018.

Status of Prior Year Recommendations

Federal Draws

During our prior year audit, we noted that the Cash Management Improvement Act Agreement (Agreement) indicates that “The State shall request funds for all direct administrative costs such that they are deposited on the dollar-weighted average date of clearance of payroll.” The Agreement also states that “The State shall request funds at bi-weekly intervals, such that funds are deposited on the day of clearance for payroll payments.” During our testing of federal draws, we noted one draw that was made one week later than the scheduled draw date, which is not in accordance with the Agreement. We recommended all federal draws be requested such that funds are deposited on the day of clearance for payroll payments, consistent with the Agreement. This comment has been adequately resolved and we make no further recommendation in this area.

Payroll Testing

During our prior year payroll testing, we noted one employee who incurred time for two agencies in the pay period tested – the Fund and another agency. The employee recorded sick time during the pay period tested. Management indicated that there is a true-up process completed at the end of each quarter to allocate employees’ sick and vacation time for the quarter to each agency based on the percentage of normal hours worked for each agency during the quarter. We noted this true-up process was not completed for this employee for the quarter related to the pay period tested. Therefore, this employee’s payroll expenditures were not properly allocated between the two agencies. We recommend management continue to review the listing of employees who require true-ups each quarter and continue to review to ensure all true-ups were properly performed. No such instances were noted in our current year audit and we make no further recommendation in this area.

We also noted one employee’s time card did not have proper supervisor approval within the DCDS system. The time card did have a certifier signoff and HR release signoff. We recommended all time cards receive appropriate supervisor approval before being certified and released. No such instances were noted in our current year audit and we make no further recommendation in this area.