

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 Compensation Fund, Contingent Fund, and Obligation Trust Fund (Funds) 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 Funds' 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 Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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 Funds, 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.

### Benefit Overpayments

Federal law limits the use of offsets to benefit payments only for the recovery of prior benefit overpayments and prohibits using offsets to recover penalties or interest. We made a selection of offsets to benefit payments during the year to test whether amounts were used to recover interest or penalties. Our testing revealed no instances where an offset of a current year benefit payment was established to recover interest or penalties.

During our review of the benefit system, we also selected a sample of benefit overpayments that were collected using offsets to benefit payments and later had a redetermination reduce the benefit overpayment amount. We noted that when the redetermination reduced the benefit overpayment, the benefit system will use amounts not applied to the reduced benefit overpayment for the recovery of penalties and interest. We recommend that the Agency add parameters to the benefit system to prevent unapplied recoveries from being used to recover penalties and interest.

*Management's Response:* Management agrees with the finding. The details of the unapplied recoveries issue will be reviewed by UITDC in January 2018 and an SQR will be submitted at that time. The estimated completion date of the resulting SQR is July 31, 2018.

### Misrepresentation Penalties

During our testing of misrepresentation penalties, we noted instances where claimants were not charged the correct penalty amount due to both manual and automated calculation errors. We recommend that an internal IT review be performed to identify and correct these exceptions. In addition, we recommend that the Agency provide staff with supplemental training on manual penalty calculations to ensure that all penalties are calculated correctly and consistently.

*Management's Response:* Management agrees with the finding. An SQR has been submitted to address the penalty adjustment calculation. The estimated completion date of the resulting SQR is June 30, 2018. Agency staff will be resuming advanced adjudication training at the end of February 2018. Information on manual calculations for misrepresentation will be covered in this training.

## Employer Penalties

During our testing of employer penalties, we noted instances where the wage penalty for the third quarter of 2017 was not assessed by MiDAS. We recommend that an internal IT review be performed to identify and correct these issues so that all penalties are calculated correctly and consistently in the future.

*Management's Response:* Management agrees with the finding. The Agency determined an interruption in processing dropped some of the employer accounts from the penalty calculation for the third quarter of 2017. SQR 29272 has been submitted to identify the cause of the processing problem and assess the missing penalties. The estimated completion date of the resulting SQR is April 30, 2018.

## Experience Rate Internal Testing

On an annual basis, the tax office performs internal testing to measure the accuracy of employer experience rates calculated by MiDAS. During our review of this testing, the MiDAS generated rates appeared accurate. However, we noted instances where the manually calculated experience rate and information used to calculate that experience rate did not agree to the experience rate calculated by MiDAS. Furthermore, we identified instances where the testing performed by the tax office was not reviewed. We recommend that the Agency implement additional controls to ensure that calculations are performed accurately and appropriately documented.

*Management's Response:* Management agrees with the finding. The Accounting Technicians will be required to attend mandatory refresher rate training prior to the rate testing period to ensure their understanding of what is required. Tax Office Senior Analysts will be trained in calculating tax rates and added to the review testing. Upon completion of the testing review, the results will be shared with the Tax Office Manager for approval before sending to the UITDC-Tax Unit. The entire experience rate testing process, including training, will be completed by December 1<sup>st</sup> of each year.

## **Status of Prior Year Recommendations**

### Reimbursing Receivables Reconciliations

We previously recommended the Agency establish additional unique identifiers to accurately distinguish all activity in the general ledger and facilitate monthly reconciliations, and that those reconciliations be reviewed and approved by management. Management could not reconcile activity in the reimbursing receivable account balances on a timely basis throughout the year, and reconciliations performed did not contain documented evidence of review. We repeat our recommendation in this area.

*Management's Response:* Management agrees with the finding. A control log has been established to ensure all reconciliations have documentation of management review. Management will review the reimbursing process to identify the system tools needed to facilitate the reconciliation process. The review will be completed by the second quarter of 2018.

### Overpayment Reference Material

We previously recommended that the Agency review and make any necessary corrections to the Overpayments FAQ section of Frequently Asked Questions on the UIA website. However, the information was not updated to reflect that any subsequent overpayment due to fraud, after the first fraud occurrence, will have a penalty assessed of four times the amount of the overpayment, regardless of whether the overpayment amount is under or over \$500. We repeat our recommendation in this area.

*Management's Response:* Management agrees with the finding that information regarding subsequent overpayment penalties is not currently included in the Overpayments FAQ information on the UIA website. The website will be updated to reflect the current overpayment penalty information by February 28, 2018.

### Benefit Disbursements

We previously recommended that the Agency provide additional training or resources to ensure staff members review the allocation of charges after benefit redeterminations. During our testing of benefit disbursements, we reviewed the allocation of charges to employers and the non-chargeable benefit account. We noted charges to employer accounts and the non-chargeable benefit account were incorrect for two of the selected benefit disbursements. For one case, charges for benefits were not reevaluated after a redetermination had been issued. In the second case, the benefit disbursement was to a claimant who had previously received benefits charged to the non-chargeable account for the same employer. The benefit system continued to charge benefits to the non-chargeable account and did not perform a separate determination for the selected benefit disbursement. We repeat our recommendation in this area and recommend the Agency review the parameters established in the benefit system for charging the non-chargeable benefit account.

*Management's Response:* Management agrees with the finding. The details of the benefit charge allocation issue will be reviewed by UITDC in January 2018 and an SQR will be submitted at that time. The estimated completion date of the resulting SQR is July 31, 2018.

### Reimbursing Employer Security

We previously recommended that the Agency implement procedures to convert ineligible employers to contributing status in a timelier manner. We noted that the Agency implemented a process to track employers that failed to respond to the 2016 security request letter and that those employers that failed to provide a security after receiving a letter were converted to contributing status. This comment has been adequately resolved and we make no further recommendation in this area.

*No management response required.*