

Report on Expenditures of Federal Awards

State of Michigan
Department of Talent
and Economic Development
Talent Investment Agency –
Unemployment Compensation Fund

Year Ended September 30, 2018

State of Michigan
Department of Talent and Economic Development
Talent Investment Agency –
Unemployment Compensation Fund

Year Ended September 30, 2018

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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

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, 2018, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2019.

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 2018-001 and 2018-002.

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
April 19, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited the Unemployment Compensation Fund (Fund) of the State of Michigan Talent Investment Agency's (Agency) 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, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, and 2018-003. Our opinion on the major federal program is not modified with respect to these matters.

The Fund's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan and the views of responsible officials section of the schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the 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, 2018, and the related notes to the financial statements. We issued our report thereon dated April 19, 2019, 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
June 3, 2019

State of Michigan
 Department of Talent and Economic Development
 Talent Investment Agency –
 Unemployment Compensation Fund

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2018

<u>Federal Agency / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Department of Labor – Employment and Training Administration: Unemployment Insurance	17.225	NONE	\$ 785,758,040
Alternative Trade Adjustment Assistance / Trade Benefits	17.225	UI-31349-18-55-A-26	6,248,178
American Recovery and Reinvestment Act – Unemployment Insurance	17.225	NONE	<u>1,363,259</u>
Total Federal Financial Assistance			<u>\$ 793,369,477</u>

See accompanying notes to schedule of expenditures of federal awards.

State of Michigan
Department of Talent and Economic Development
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Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2018

(1) General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of federal financial assistance programs of the Unemployment Compensation Fund (Fund) of the State of Michigan Talent Investment Agency (Agency). 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 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
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

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 200.516(a)? **Yes**
- (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 200.520? **Yes**

State of Michigan
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

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

Findings 2018-001 and 2018-002 are also considered to be financial statement findings.

Section III – Findings and Questioned Costs Relating to Federal Awards

Finding 2018-001

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year: Various

Type of Finding: Material Noncompliance

Compliance Requirement: Special Tests and Provisions, UI Program Integrity – Overpayments

Known Questioned Costs: None

Repeat Finding: Yes

Systemic or Isolated: Systemic.

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.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

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.

Views of Responsible Officials: The Agency agrees with the finding noted above. The Agency will review the system logic for adjustments to benefit offsets and limit their application to only the recovery of benefit overpayments. The estimated completion date is September 30, 2019.

Finding 2018-002

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year: Various

Type of Finding: Material Noncompliance

Compliance Requirement: Special Tests and Provisions, UI Program Integrity – Overpayments

Known Questioned Costs: None

Repeat Finding: Yes

Systemic or Isolated: Systemic.

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.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

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.

Views of Responsible Officials: The Agency agrees with the finding noted above. 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 is to be provided to all adjudication staff regarding employer non-responsiveness by September 30, 2019. In addition, the Agency is assessing monitoring options and will implement an appropriate solution by September 30, 2019.

Finding 2018-003

Federal Agency, Program Title and CFDA Number: U.S. Department of Labor, Unemployment Insurance – 17.225

Federal Award Identification Number and Year: Various

Type of Finding: Material Noncompliance

Compliance Requirement: Reporting

Known Questioned Costs: None

Repeat Finding: Yes

Systemic or Isolated: Systemic.

Criteria: The Agency is required to report quarterly using ETA 581, *Contributions Operations* the volume of State Workforce Agency work, performance in determining the taxable status of employers, and other information pertinent to the overall effectiveness of the tax program.

State of Michigan
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Talent Investment Agency –
Unemployment Compensation Fund

Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

Condition: Certain information reported in ETA 581 did not agree to the Agency's automated system.

Cause: The Agency is unable to accurately collect certain employer information required for reporting in the ETA 581 as a result of errors in the programming logic of the Agency's automated system.

Effect: The Agency is unable to validate the accuracy of certain information reported in ETA 581.

Recommendation: We recommend that the Agency correct programming errors in the automated system to accurately collect certain employer information required for reporting in ETA 581. Once corrected, we recommend the Agency validate the information previously reported and, if necessary, resubmit reports requiring correction.

Views of Responsible Officials: The Agency agrees with the finding noted above. Service requests have been submitted to ensure information reported in ETA 581 is available and accurately reported in the Agency's automated system. Service requests are expected to be completed by September 30, 2019.



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TALENT AND ECONOMIC DEVELOPMENT
LANSING

STEPHANIE BECKHORN
ACTING DIRECTOR

Single Audit Report: Corrective Action Plan

Year Ended September 30, 2018

Finding 2018-001

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: The Agency will review the system logic for adjustments to benefit offsets to limit their application to only the recovery of benefit overpayments.

Position of Responsible Official: Senior Deputy Director, Unemployment Insurance

Anticipated Completion Date: The estimated completion date is September 30, 2019.

Finding 2018-002

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: 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 is to be provided to all adjudication staff regarding employer non-responsiveness by September 30, 2019. In addition, the Agency is assessing monitoring options and will implement an appropriate solution by September 30, 2019.

Position of Responsible Official: Senior Deputy Director, Unemployment Insurance

Anticipated Completion Date: The estimated completion date is September 30, 2019.

Finding 2018-003

Grant Program/CFDA #: Unemployment Insurance/17.225

Corrective Action Plan: A service request has been submitted to ensure information reported on ETA 581 is available and accurately reported in the Agency's automated system. Once corrected, the Agency will validate the information previously reported and, if necessary, resubmit reports requiring correction.

TED is an equal opportunity employer/program.
Auxiliary aids, services and other reasonable accommodations are available upon request to individuals with disabilities.
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Position of Responsible Official: Senior Deputy Director, Unemployment Insurance

Anticipated Completion Date: The estimated completion date is September 30, 2019.



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TALENT AND ECONOMIC DEVELOPMENT
LANSING

STEPHANIE BECKHORN
ACTING DIRECTOR

Summary Schedule of Prior Audit Findings

Finding 2017-001

Grant Program/CFDA #: Unemployment Insurance/17.225

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

Recommendation: The auditor recommended 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.

Current Status: The Agency did not correct the deficiencies noted in the finding.

Reason(s) For Recurrence: The Agency had very limited resources in fiscal year 2018 due to statute priorities.

Corrective Action: During fiscal year 2019, the Agency plans on completing the SQR by September 30, 2019.

Finding 2017-002

Grant Program/CFDA #: Unemployment Insurance/17.225

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

Recommendation: The auditor recommended that 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. The auditor also recommended that the Agency add system parameters to ensure charges to employer accounts are updated for redeterminations of benefit overpayments.

Current Status: The Agency did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: The Agency had very limited resources in fiscal year 2018 due to statute priorities.

Corrective Action: During fiscal year 2019, the Agency plans on completing the SQR by September 30,2019.

Finding 2017-003

Grant Program/CFDA #: Unemployment Insurance/17.225

Condition: Certain information reported in ETA 581 did not agree to the Agency's automated system.

Recommendation: The auditor recommended that the Agency correct programming errors in the automated system to accurately collect certain employer information required for reporting in ETA 581. Once corrected, the auditor recommended that the Agency validate the information previously reported and, if necessary, resubmit reports requiring correction.

Current Status: The Agency did not correct the deficiencies noted in the finding.

Reason(s) for Recurrence: The Agency had very limited resources in fiscal year 2018 due to statute priorities.

Corrective Action: During fiscal year 2019, the Agency plans on completing the SQR by September 30, 2019