

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

Department of Labor and Economic Opportunity,
Unemployment Insurance Agency,
Office of the Auditor General and
State Budget Office

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 State of Michigan, Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Administration Fund (Fund), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated March 10, 2021.

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) as a basis for designing 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 a 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. As described below, we did identify certain deficiencies in internal control that we consider to be a material weakness.

Finding 2020-001: Material Weakness in Year-End Financial Closing Process – Audit Adjustments

Criteria: Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles, including properly recording all period-end adjusting entries.

Condition: During the audit of the Fund’s financial statements, we proposed, and management accepted, audit adjustments to correct overstatements and understatements of accounts payable and accrued liabilities, as well as a misclassification between revenues from federal agencies and transfers in. An additional understatement of accounts payable and accrued liabilities was also identified by the Fund’s management after the general ledger closing process when a vendor contacted the Fund to seek payment of an outstanding accounts payable invoice (management recorded an adjustment to correct this misstatement). In addition, management did not record the year-end closing entry to record prepaid rent, which is being reported as an unadjusted audit difference.

Cause: The Fund did not have an adequate process in place to ensure an effective review was conducted of all year-end balances to verify the balances were correct and properly supported in all instances. The Fund’s Finance Director vacated that position in October 2020 and this position remained vacant through the year-end closing process.

Effect: There exists a potential for misstatements in the financial statements to go undetected by management. Several adjustments were required to correct the items noted above, which included material adjustments.

Recommendation: We recommend management further strengthen procedures to ensure such instances identified are corrected in the general ledger during normal close procedures.

Views of Responsible Officials and Planned Corrective Actions: The Michigan Department of Labor & Economic Opportunity (LEO) agrees with this finding and will take actions to resolve this issue going forward. This includes updating procedures to improve the accrual accounting for the Michigan Unemployment Insurance Administration Fund.

The Unemployment Insurance Administration Fund's closing procedures for FY20 were significantly impacted by the FY20 pandemic and the substantial amount of additional new funding provided by the U.S. Department of Labor to the Michigan Unemployment Insurance Administration and Benefit funds. LEO management agrees that adequate new controls were not implemented to accurately determine and record the substantial

increase in Accounts Payable and Accrued Liabilities brought about by the new pandemic funding. This was compounded by the fact that the Department's Finance Director retired shortly after fiscal year end; shortly followed by the departure of the Department's Chief Administrative Officer. These staffing decreases strained the existing review processes and likely contributed to errors such as the misclassification of Revenue - Transfer In and the omission of Prepaid Rent.

LEO recently hired a new Chief Administrative Officer, and is in the process of filling the Department's Finance Director vacancy. Once fully staffed, LEO management will immediately begin implementing new strategies, controls, and procedures to address the challenges resulting from the increase in pandemic related funding.

The estimated completion date is August 31, 2021. The responsible party is Greg Rivet, Director of Administrative Services — Michigan Department of Labor and Economic Opportunity.

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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Fund's Response to Finding

The Fund's response to the finding identified in our audit is described above. 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 Sloop & Pavlik PLC

Auburn Hills, Michigan
March 10, 2021