MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

BUREAU OF INFORMATION SECURITY

DEPARTMENT OF STATE

March 2008

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

231-0234-06

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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REPORT SUMMARY

Performance Audit

Bureau of Information Security

Department of State

Report Number:
231-0234-06

Released:
March 2008

The mission of the Bureau of Information Security (BIS), Department of State, is to deter and detect the inappropriate use of Departmental assets, particularly information and records, created and maintained by the Department of State. The Department of State collects personal information as part of administering and enforcing sections of the Michigan Vehicle Code. In addition, the Department of State collects the fees and taxes provided for in the Michigan Vehicle Code and General Sales Tax Act.

Audit Objective:
To assess the effectiveness of BIS's efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs.

Audit Conclusion:
BIS's efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs were moderately effective. We noted two reportable conditions (Findings 1 and 2).

Reportable Conditions:
BIS procedures did not include criteria to identify which fraud cases should be referred to local law enforcement agencies for prosecution (Finding 1).

BIS did not effectively manage its caseload of open investigations to ensure timely completion of investigations involving potential violations of laws, rules, and regulations (Finding 2).

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Audit Objective:
To assess BIS's effectiveness in auditing programs and operations that are intended to safeguard Department of State records and assets.

Audit Conclusion:
BIS was effective in auditing programs and operations that are intended to safeguard Department of State records and assets. However, we noted one reportable condition (Finding 3).

Reportable Condition:
BIS did not effectively plan, document, and budget for its branch office audits (Finding 3).

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Audit Objective:
To assess BIS's effectiveness in administering International Registration Plan (IRP) audits.

Audit Conclusion:
BIS's administration of IRP audits was moderately effective. We noted three reportable conditions (Findings 4 through 6).

Reportable Conditions:
BIS did not select IRP registrants for audit in accordance with IRP audit guidelines (Finding 4).

BIS had not established procedures to help ensure the timely issuance of IRP audit reports to IRP registrants (Finding 5).

BIS did not always impose assessments on registrants who maintained unacceptable mileage records. In addition, BIS had not clearly defined its assessment policies for registrants with unacceptable mileage records. (Finding 6)

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Agency Response:
Our audit report contains 6 findings and 7 corresponding recommendations. The Department's preliminary response indicates that it agrees with all of the recommendations and has complied or will comply with them.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

March 25, 2008

The Honorable Terri Lynn Land
Secretary of State
Richard H. Austin Building
Lansing, Michigan

Dear Secretary Land:

This is our report on the performance audit of the Bureau of Information Security, Department of State.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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DEPARTMENT OF STATE

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GLOSSARY

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Description of Agency

The mission* of the Bureau of Information Security (BIS), Department of State, is to deter and detect the inappropriate use of Departmental assets, particularly information and records, created and maintained by the Department of State.

The Department of State collects personal information*, primarily at the branch offices, as part of administering and enforcing sections of the Michigan Vehicle Code (Sections 257.1 - 257.923 of the *Michigan Compiled Laws*). Personal information is required to register motor vehicles and to license motor vehicles, watercraft, snowmobiles, motorcycles, motor vehicle operators, chauffeurs, and commercial driver operators. In addition, the Department of State collects the fees and taxes provided for in the Michigan Vehicle Code and General Sales Tax Act (Sections 205.51 - 205.78 of the *Michigan Compiled Laws*). In fiscal year 2005-06, the Department of State collected $2 billion in revenue from taxes, services, and licenses and permits. The Department of State branch offices collected 72% of this revenue.

BIS is composed of two divisions:

a. Investigations Division

The Investigations Division is responsible for investigating acts of fraud, criminal activity, and noncompliance pertaining to programs administered by the Department of State; developing methods that assist in the identification and deterrence of fraud in Departmental programs; providing regular fraud control information and training to the Department of State branch office personnel; and providing assistance to law enforcement agencies as requested. In June 2006, the responsibility for inspecting and investigating reports of noncompliance by Michigan's motor vehicle repair facilities and Departmentally regulated dealers was transferred to the Investigations Division from the Bureau of Regulatory Services.

The Investigations Division includes three sections: the Lansing Field Investigations Section, the Detroit South Field Investigations Section, and the Detroit North Field Investigations Section.

* *See glossary at end of report for definition.*

The Investigations Division opened 3,553 and 2,738 new cases in fiscal years 2004-05 and 2005-06, respectively. In addition, the Investigations Division closed 2,595 and 4,239 cases in fiscal years 2004-05 and 2005-06, respectively.

b. Internal Security Division

The Internal Security Division is responsible for developing proactive methods for detecting, reducing, and deterring fraud and creating and implementing policies and procedures to ensure the security of Departmental information and other assets. The Internal Security Division includes three sections: the Internal Review Section, the Branch Review and Record Security Section (BRRS), and the Investigation Support Section (ISS).

The Internal Review Section's purpose is to conduct audits of International Registration Plan* (IRP) registrants. IRP is a registration reciprocity agreement among states of the United States and provinces of Canada providing for payment of license fees on the basis of total distance traveled in all jurisdictions for commercial vehicles that meet specified weight and size categories. An IRP audit consists of reviewing available mileage documentation from the registrant to determine miles driven in each jurisdiction. The Internal Review Section issued 82 and 278 IRP audits in fiscal years 2004-05 and 2005-06, respectively.

BRRS's purpose is to conduct audits of Department of State branch offices, investigate employee fraud, and review access to the Department of State's information systems.

BRRS conducts audits of Department of State branch offices to ensure that the operations comply with internal accounting and administrative controls provided by Departmental directives. As of June 30, 2007, there were 155 branch offices. BRRS issued 14, 20, and 35 branch office audits in fiscal years 2004-05, 2005-06, and 2006-07, respectively. BRRS also conducts special reviews of branch offices to investigate alleged employee fraud and other issues. BRRS issued 19, 13, and 15 special reviews in fiscal years 2004-05, 2005-06, and 2006-07, respectively.

* *See glossary at end of report for definition.*

ISS's purpose is to provide support to staff in the Investigations Division. ISS also acts as the liaison between branch offices, law enforcement, courts, and the public regarding Investigations Division cases as well as concerns and questions. ISS initially receives all complaints, creates a case file in the Case Management System*, completes a certified Record Look Up Request, and closes case investigations that do not require fieldwork by the Investigations Division. ISS closed 6,911 and 4,647 cases in fiscal years 2004-05 and 2005-06, respectively.

BIS also conducts Departmental internal audits of compliance, financial records, and operations. BIS had expenditures of $4.1 million during fiscal year 2005-06 and had 58 employees as of September 30, 2006.

* *See glossary at end of report for definition.*

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Bureau of Information Security (BIS), Department of State, had the following objectives:

1. To assess the effectiveness* of BIS's efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs.

2. To assess BIS's effectiveness in auditing programs and operations that are intended to safeguard Department of State records and assets.

3. To assess BIS's effectiveness in administering International Registration Plan (IRP) audits.

Audit Scope

Our audit scope was to examine the program and other records of the Department of State. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances. Our preliminary review, conducted from May through October 2006, and our audit procedures, conducted from March through August 2007, generally covered the period October 1, 2004 through June 30, 2007.

Audit Methodology

To establish our audit objectives and obtain an understanding of BIS's operations, we conducted a preliminary review that consisted of interviewing management and program staff and reviewing applicable laws, regulations, policies, and procedures. In addition, we reviewed case files and analyzed applicable data for investigations, branch office audits, and IRP audits.

* *See glossary at end of report for definition.*

To assess the effectiveness of BIS's efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs, we reviewed policies and procedures used by the Investigations Division and interviewed Investigations Division personnel located in the Lansing and Detroit offices. We analyzed data from the Case Management System to determine if BIS assigned investigations in accordance with its procedures, completed investigations in a timely manner, and appropriately closed cases upon completion of the investigation. We examined a random sample of 20 cases from the population of 2,568 cases exceeding 120 days to determine if the agency was complying with reporting requirements and was closing cases in a timely manner. We projected the results of our sample to the intended population and the results can be found in Finding 2.

To assess BIS's effectiveness in auditing programs and operations that are intended to safeguard Department of State records and assets, we reviewed the *International Standards for Professional Practice of Internal Auditing*. We interviewed BIS personnel and reviewed policies and procedures related to the selection and auditing of Department of State branch offices. We reviewed BIS's annual audit plan. We selected a sample of 13 branch office audits completed during the audit period and reviewed available documentation for compliance with policies and procedures. We reviewed BIS's goal for the number of branch office audits and compared it to actual audits completed. We used time reporting data to analyze the reasonableness of the goal for the number of branch office audits.

To assess BIS's effectiveness in administering IRP audits, we interviewed Internal Review Section personnel. We reviewed policies and procedures to determine the methodology used by BIS to select registrants for audit, frequency of audits, auditing procedures performed, documentation maintained, and penalties assessed against the registrants. We analyzed IRP registration data to determine whether BIS's selection process ensured that all registrants were subject to audit. We selected a sample of 47 IRP audits completed during our audit period and reviewed available documentation for compliance with policies and procedures. We analyzed the results of BIS's IRP audits for seven years to determine if the rate of noncompliance by IRP registrants has decreased.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement

as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 7 corresponding recommendations. The Department's preliminary response indicates that it agrees with all of the recommendations and has complied or will comply with them.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Department of State to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

Within the scope of this audit, we followed up 3 of the 6 prior audit recommendations from our May 1999 performance audit of the International Registration Plan, Department of State (23-251-98). We also followed up all 5 of the 5 prior audit recommendations from our February 2001 performance audit of the Bureau of Legal Services, Department of State (23-233-00). The Department of State complied with 4 of the 8 prior audit recommendations included within the scope of our current audit. The other 4 recommendations were rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS IN INVESTIGATING POTENTIAL VIOLATIONS OF LAWS, RULES, AND REGULATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Bureau of Information Security's (BIS's) efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs.

Conclusion: BIS's efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs were moderately effective. Our assessment disclosed two reportable conditions* related to procedures for prosecution of fraud cases and investigation caseload management (Findings 1 and 2).

FINDING

1. Procedures for Prosecution of Fraud Cases

   BIS procedures did not include criteria to identify which fraud cases should be referred to local law enforcement agencies for prosecution. As a result, BIS inconsistently pursued prosecution of potential fraud cases, diminishing the threat of legal action as a deterrent to fraud.

   BIS's Investigations Manual states that, in cases in which sufficient facts can be established, it is expected that prosecution will be sought. However, with the high number of fraud cases and limited staff, it is unreasonable for BIS to pursue all fraud cases. Therefore, BIS should develop guidance for determining which cases should be referred for prosecution. For example, BIS could formalize procedures to identify cases to refer for prosecution based on the severity of the crime, whether the potential suspect has been located and resides in Michigan, the number of prior offenses, the number of individuals affected by the crime, and the dollar magnitude of the crime.

   BIS investigates felony violations of the Michigan Vehicle Code (Section 257.903 of the *Michigan Compiled Laws)*, including false certification of applications for driver

* *See glossary at end of report for definition.*

license, dealer license, vehicle certification of title, vehicle registration, vehicle inspection, self-insurance, personal information, and commercial driver training school. From October 1, 2004 through March 22, 2007, BIS closed 9,259 cases. BIS investigators identified potential fraud in 6,941 (75%) of the 9,259 cases. However, BIS did not seek prosecution for 6,729 (97%) of the 6,941 fraud cases. Without criteria to identify which cases to refer for prosecution, BIS could not determine which of the 6,729 cases it should have referred to local law enforcement agencies for prosecution.

The low rate of prosecution may not serve as an effective deterrent to committing fraud. Furthermore, successful prosecution could result in additional revenue to the State if the fines prescribed in Section 257.902 of the *Michigan Compiled Laws* were assessed by the courts.

RECOMMENDATION

We recommend that BIS develop procedures that include criteria to identify which fraud cases should be referred to local law enforcement agencies for prosecution.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it will comply by formalizing current procedures to consistently identify and refer cases for prosecution based on the severity of the crime. The Department notes that existing practices already use some of the criteria (e.g., the number of individuals affected and the dollar magnitude) referenced by the Auditor General.

FINDING

2. Investigation Caseload Management

BIS did not effectively manage its caseload of open investigations to ensure timely completion of investigations involving potential violations of laws, rules, and regulations. As a result, BIS had 2,568 cases open for more than 120 days as of March 2007, as shown in the following table:

Length of Time Since Cases Were Received	Number of Cases
120 days to 1 year	596
1 to 2 years	1,095
2 to 3 years	738
3 years or more	139
Total	2,568

BIS uses the Case Management System (CMS) to monitor cases assigned to the Investigations Division. BIS investigates violations such as vehicle fraud; illegal use of address; driver license or personal identification obtained with questionable identity or documents; unlicensed vehicle repair facilities; and cheating on licensing examinations. CMS includes details on each investigation, including the date received, date assigned, date closed, case type, investigator assigned, and disposition code. BIS can obtain reports from CMS to aid in monitoring investigations.

For parts a. and b. of this finding, we selected a random sample of 20 cases from the CMS population of 2,568 cases exceeding 120 days. The purpose of the sample was to determine if the agency was complying with reporting requirements and was closing cases in a timely manner. Our review of CMS data disclosed:

a. BIS did not monitor the status of open investigations to ensure that the case was closed when the investigation was complete or to ensure that valid reasons existed for the investigation to remain open.

   BIS procedures state that investigators should close a case within 120 days of receiving the case. If a case remains open past 120 days, procedures require that the investigator submit a monthly supplemental report noting the status of the investigation and the reason that the case should remain open.

We determined that investigators did not complete the required monthly supplemental reports for any of the 20 cases reviewed. BIS informed us that because the number of open cases has significantly increased, it has become inefficient for the investigators to complete supplemental reports.

Establishing an effective method to monitor open investigations would improve the efficiency* of investigations.

b. BIS did not finalize and close cases in a timely manner. BIS delayed preparing the final investigation reports for 9 of 20 cases reviewed, which delayed closing the cases. Investigators had completed the 9 investigations and could have prepared the final investigation report and closed the cases from 2 to 23 months earlier.

Based on our sample results, we are 95% confident that the true but unknown rate of occurrence that BIS delayed closing cases was at least 22.72% but not more than 67.28%.

BIS procedures require a final investigation report be prepared and submitted to the supervisor for review, approval, and updating of CMS.

c. BIS did not monitor the distribution of cases assigned to investigators to ensure an efficient use of staff resources.

BIS procedures state that case assignments will be based on the jurisdiction of the complaint, number of cases in the same area, investigator workstation, investigator caseload, and priority of assignment.

For the 3,247 open investigations, 27 individuals had a caseload that ranged from 26 to 348 cases, with an average caseload of 120. Thirteen of the 27 individuals had more than 100 open cases, with an average caseload of 184.

BIS should monitor case assignments and redistribute cases to investigators as appropriate. BIS informed us that it developed reports during the audit to monitor caseload activity.

* *See glossary at end of report for definition.*

RECOMMENDATION

We recommend that BIS effectively manage its caseload of open investigations to ensure timely completion of investigations involving potential violations of laws, rules, and regulations.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has complied with the recommendation but disagrees with components of the detailed findings. The Department informed us that it initiated a major organizational change, added supervision, implemented new procedures, and designed new management reports to effectively manage its caseload of open investigations.

Related to the detailed findings, the Department believes that the Auditor General's reporting of information associated with the sample of cases reviewed is deficient in relation to *Government Auditing Standards*. These standards state, ". . . when sampling significantly supports auditors' findings, describe the sample design and state why it was chosen, including whether the results can be projected to the intended population." The audit report fails to include specific information on the sample design as listed in the auditing standards. In addition, the Department believes that insufficient sampling was completed by the Auditor General to validate, with acceptable confidence, the condition reported in part b. The Auditor General projects results from a sampling of 20 cases to the entire population, drawing the conclusion in the report that "BIS did not finalize and close cases in a timely manner." The Department believes that a sampling of 20 out of a total of 2,568 cases results in a margin of error plus or minus 21.83%, which the Department views as an unacceptable level of confidence in projecting results to the entire population.

The Department informed us that the sampling result reported in part a. of the finding was anticipated as it discontinued preparing the referenced information as it pursued other management strategies to resolve case management issues.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

The Office of the Auditor General is in compliance with all *Government Auditing Standards.* On pages 11, 16, and 17 of this report, we described our sample design, why it was chosen, and whether the results were projected. In addition, we selected an appropriate sampling approach that enabled us to obtain sufficient,

competent evidence in accordance with auditing standards. Furthermore, the Department's statement that a sample of 20 items ". . . results in a margin of error plus or minus 21.83%, which the Department views as an unacceptable level of confidence in projecting results to the entire population" misinterprets our sample results. The 21.83% figure cited in the Department's response relates to the precision of the audit sample results rather than the confidence level. As stated in the audit finding, our sample methodology provided us with a 95% confidence level that the true but unknown rate of occurrence that BIS delayed closing cases was at least 22.72% but not more than 67.28%.

EFFECTIVENESS IN AUDITING PROGRAMS AND OPERATIONS

COMMENT

Audit Objective: To assess BIS's effectiveness in auditing programs and operations that are intended to safeguard Department of State records and assets.

Conclusion: BIS was effective in auditing programs and operations that are intended to safeguard Department of State records and assets. However, our assessment disclosed one reportable condition related to branch office audits (Finding 3).

FINDING

3. Branch Office Audits

BIS did not effectively plan, document, and budget for its branch office audits. As a result, BIS could not effectively evaluate its progress in achieving branch office audit goals.

Effective planning can improve the audit process and the development of realistic goals for evaluating the outcomes.

For parts b. and c. of this finding, we selected two random samples of branch office audits and special reviews issued during the audit period. We selected 13 branch office audits and 6 special reviews to review for compliance with audit procedures,

documentation, and timeliness. The ratio of audit types was generally based on the time that the auditors spent on each type of audit.

Our review of the branch office audit planning process, branch office audit documentation, and time reporting data disclosed:

a. BIS did not use its time reporting system to help plan the number of branch office audits to complete annually. As a result, BIS did not consistently meet its annual goal for the number of branch office audits completed.

   Internal Security Manual section 320 states that the time reporting system can be used to project hours for a risk-based audit plan. However, BIS did not use the time reporting system to calculate a utilization rate or average audit hours or to perform other quantitative analyses to help determine the number of branch office audits to complete annually.

   For fiscal year 2004-05, BIS completed 14 of 77 planned branch office audits and 19 special reviews. For fiscal year 2005-06, BIS completed 20 of 67 planned audits and 13 special reviews. For fiscal year 2006-07, BIS completed 35 of 50 planned audits and 15 special reviews. (BIS's planned audits for fiscal year 2006-07 were for four auditors; however, one auditor left after seven months.) A quantitative analysis using time reporting data could help BIS identify an achievable goal for the number of branch office audits that BIS can complete. Identifying and measuring a realistic goal can provide a useful evaluation of BIS's effectiveness.

b. BIS's working papers did not document the objectives, scope, and timing of each of the 13 branch office audits we reviewed. Documented audit objectives, scope, and timing help ensure that the auditor has clearly identified the purpose and parameters of the audit.

   Section 2200 of the *International Standards for Professional Practice of Internal Auditing* states that internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing, and number of audit staff.

c. BIS had not established a time budget of hours necessary to complete each of the 13 branch office audits we reviewed. A time budget identifies the resources expected to be used for each audit, provides measurement criteria for evaluating the auditors' performance, and helps define management's expectations for the audit scope.

Internal Security Manual section 320 states that the time reporting system can be used to develop time budgets for individual audits.

RECOMMENDATION

We recommend that BIS effectively plan, document, and budget for its branch office audits.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it will comply by further reviewing the sufficiency of planning documentation supporting the completion of branch office audits. The Department informed us that it has become increasingly effective in its risk-based branch office audit planning strategy and believes that a realistic goal was established and achieved in the most recently completed year.

EFFECTIVENESS IN ADMINISTERING INTERNATIONAL REGISTRATION PLAN (IRP) AUDITS

COMMENT

Audit Objective: To assess BIS's effectiveness in administering International Registration Plan (IRP) audits.

Conclusion: BIS's administration of IRP audits was moderately effective. Our assessment disclosed three reportable conditions related to the IRP audit selection process, timeliness of IRP audit reports, and IRP audit assessments (Findings 4 through 6).

FINDING

4. IRP Audit Selection Process

BIS did not select IRP registrants for audit in accordance with IRP audit guidelines. As a result, BIS excluded an estimated 4,700 new IRP registrants from potential audit selection between October 1, 1998 and December 31, 2006.

The IRP requires BIS to perform audits, over a five-year review period, equal to at least 15% of the number of IRP registrants renewed annually. BIS's audits of IRP registrants consist of reviewing available mileage documentation from the registrant to determine the number of miles driven in each jurisdiction.

The IRP Audit Procedure Manual states that the purpose of auditing IRP registrants is to protect the integrity of the vehicle registration laws of all jurisdictions party to the IRP. The IRP Audit Procedure Manual further states that all registrants must be given equal and fair consideration with no preferential treatment.

In June 1999, BIS determined that the population of all active IRP registrants for the 1997 and 1998 registration years was 3,298 registrants. BIS randomly selected 1,403 of these registrants for audit. BIS completed these audits from January 2000 through December 2005. From January 1, 2006 through June 30, 2007, BIS did not conduct any new IRP audits. Instead, it conducted only follow-up audits of IRP registrants who were previously audited and whose mileage records were unacceptable. As a result, BIS's audit selection process did not include and give equal consideration to the approximately 4,700 new registrants.

BIS informed us that it elected to use its audit resources to only conduct follow-up audits that it considered to be high risk to comply with an audit recommendation made in our performance audit of the IRP issued in May 1999. However, that prior audit recommendation did not suggest that BIS only conduct follow-up audits.

RECOMMENDATION

We recommend that BIS select IRP registrants for audit in accordance with IRP audit guidelines.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has implemented a new audit selection strategy that will give consideration to new IRP registrants while still completing the high-risk follow-up audits over an extended period of time. The Department informed us that it was informed in July 2005 by the peer review team reviewing the Michigan IRP program on behalf of IRP, Inc. (the national authority on IRP program and audit issues) that the audit selection practices now questioned by the Auditor General are in compliance with IRP audit requirements. The Department also informed us that the finding focuses on a period in which the Department had to manage numerous follow-up audits which is not anticipated in the future due to other program changes.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

The IRP Peer Review Compliance Guide does not require an analysis of the process used to select registrants for audit. We contacted a member of the IRP audit committee who agreed that BIS's exclusion of new registrants from October 1, 1998 through December 31, 2006 resulted in those registrants not receiving equal and fair consideration for audit.

FINDING

5. Timeliness of IRP Audit Reports

BIS had not established procedures to help ensure the timely issuance of IRP audit reports to IRP registrants. Failure to provide timely audit reports to IRP registrants delayed the collection of $180,494 for registration fee adjustments and may have delayed the registrants' corrective action.

Article XVI, Section 1604 of the IRP requires that BIS provide audit findings to the registrant and all applicable jurisdictions upon completion of the audit. The findings are to include the amount of fees owed by the registrant. Also, Article XVII, Section 1700 of the IRP allows assessment of fees up to three years after the close of the registration year. Therefore, BIS's practice is to complete IRP audits and issue audit reports within three years of the close of the registration year. However, BIS had not established procedures that require the timely issuance of IRP audit reports after completion of the audit.

BIS generally completed IRP audits within 40 hours. However, BIS averaged 188 days from the audit completion date to the report issue date. Based on the condition of the registrant's mileage records, BIS classified its IRP audits as unacceptable (the registrant's mileage records are not in accordance with the IRP), unacceptable/full fee (the registrant's records are not in accordance with the IRP and BIS imposes an assessment of 100% of the registration fee), and acceptable (the registrant's mileage records are in accordance with the IRP). From October 1, 2004 through June 30, 2007, BIS issued 450 IRP audits.

The following table summarizes the number of days from when BIS completed the 450 IRP audits until BIS issued the audit report:

Number of Days From When the Audit Was Completed Until the Audit Was Issued	Unacceptable Registrant Records	Unacceptable/Full Fee Registrant Records	Acceptable Registrant Records	Total Audits	Fee Adjustments Owed by IRP Registrants
0 - 90 days	25	38	116	179	$103,310
91 - 150 days	8	17	27	52	$ 23,162
151 - 210 days	7	11	34	52	25,282
211 - 270 days	8	6	31	45	17,627
271 - 330 days	8	7	35	50	13,625
331 - 1,246 days	12	15	45	72	100,798
Total	43	56	172	271	$ 180,494

BIS issued 179 (40%) of 450 audits within a reasonable time frame of 90 days. However, for the other 271 audits, BIS issued 43 audits with unacceptable registrant records between 93 and 701 days after completing the audit; BIS issued 56 audits with unacceptable registrant records and a full fee assessment imposed between 92 days and 646 days after completing the audit; BIS issued 171 audits with acceptable registrant records between 91 and 693 days after completing the audit; and BIS issued 1 audit with acceptable registrant records 1,246 days after completing the audit.

BIS informed us that it delayed the issuance of some IRP audit reports because it had already issued enough reports to meet the IRP requirement that BIS audit at least 15% of renewed IRP registrants over a five-year review period. BIS informed us that it issued these reports in the subsequent five-year review period.

RECOMMENDATION

We recommend that BIS establish procedures to help ensure the timely issuance of IRP audit reports to IRP registrants.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that audit issuance procedures will be reviewed and revised in reference to program requirements and the new recommended criterion of the Auditor General. The Department informed us that it was informed in July 2005 by the peer review team reviewing the Michigan IRP program on behalf of IRP, Inc. that the audit issuance practices questioned in this finding are in compliance with IRP audit requirements. The Department also informed us that the delay in issuing IRP audit reports relates to a historical resource/workload issue that was fully resolved by management in July 2007.

The Department also notes that the Auditor General has not provided any information supporting their conclusion that 90 days is an "acceptable" time frame for completion of this work. The Department believes that the 90-day standard was determined solely by the Auditor General after the audit period was already over. Had this 90-day criteria been established as an official standard during the audit period (and/or been endorsed by IRP, Inc.), the Department informed us that it could have chosen to allocate additional staff and resources to meet these time frames; although the cost to do so would very likely have exceeded the estimated $180,494 in delayed collections as quoted in the audit report.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Our audit provided an assessment of BIS's administration of IRP audits, whereas the IRP peer review provided an assessment of compliance with the requirements of the IRP. The IRP peer review did not include a review of whether IRP audit reports were issued in a timely manner.

BIS conducts IRP audits within an average of 40 hours. The length of IRP audit reports are typically three pages. In comparison, BIS generally conducts audits of branch offices within an average of 109 hours and issues reports within an average of 52 days from the beginning of the audit. Therefore, it is reasonable to expect that IRP audits could be issued within 90 days.

FINDING

6. IRP Audit Assessments

BIS did not always impose assessments on registrants who maintained unacceptable mileage records. In addition, BIS had not clearly defined its assessment policies for registrants with unacceptable mileage records. Waiving of assessments and the inconsistent use of assessments reduce the effectiveness of the IRP audits and may contribute to continued noncompliance with IRP mileage documentation requirements.

Article XV, Section 1501 of the IRP requires registrants to maintain detailed vehicle mileage records documenting the number of miles traveled in each jurisdiction. These mileage records are used to allocate vehicle registration fees to each jurisdiction. The IRP Audit Procedure Manual section 603 and Article XV, Section 1502 of the IRP provides that, if a registrant fails to maintain required mileage records, the registrant may be subject to an assessment based on an estimate of liability. In addition, the registrant may be assessed 100% of the registration fee for the base jurisdiction*.

BIS completed 178 first-time audits and 272 follow-up audits during our audit period. Our review disclosed:

a. BIS determined that 81 of 178 registrants audited for the first time either did not submit mileage records or did not maintain acceptable mileage records. BIS assessed a 100% registration fee totaling $70,821 for 34 (42%) registrants, calculated fee adjustments totaling $85,158 for 21 (26%) registrants, and did not impose any assessment for 26 (32%) registrants. The 26 registrants were given a second opportunity to improve future mileage records with no assessment imposed.

   BIS informed us that its practice has been to assess 100% of the registration fee for registrants who refuse to submit mileage records for audit and to initially waive the 100% registration fee for registrants who submit unacceptable mileage records. Because there is such a variance in the fees assessed for an unacceptable audit, BIS needs to clearly define its assessment policies.

* *See glossary at end of report for definition.*

b. BIS determined that 81 of 272 registrants subject to a follow-up audit still did not maintain the required mileage records. BIS assessed 100% registration fees totaling $109,584 for 61 (75%) registrants, calculated fee adjustments of $8,242 for 16 (20%) registrants, and did not impose any assessment for 4 (5%) registrants. The 4 registrants were given a third opportunity to improve future mileage records with no assessment imposed.

Internal Security Manual section 431(3) provides that, when the registrants' mileage records of a previous audit are determined to be unacceptable, a follow-up audit is required. BIS informed us that if the registrant fails to comply with the IRP requirements in the follow-up audit, the registrant may be assessed the 100% registration fee. However, the manual does not identify when the 100% registration fee should be assessed.

BIS informed us that it had not developed a procedure regarding its assessment practice because of the many situations that affect the determination and calculation of assessments. BIS also informed us that the auditor is responsible for determining the need for and the calculation of an assessment.

RECOMMENDATIONS

We recommend that BIS impose assessments on registrants who maintain unacceptable mileage records.

We also recommend that BIS clearly define its assessment policies for registrants with unacceptable mileage records.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it will comply by reviewing existing practices, formalizing policy, and publishing information intended to further clarify its policy position to registrants. The Department informed us that it was informed in July 2005 by the peer review team reviewing the Michigan IRP program on behalf of IRP, Inc. that the assessment practices now questioned by the Auditor General are in compliance with IRP audit requirements.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Our audit provided an independent assessment of BIS's administration of IRP audits, whereas the IRP peer review provided an assessment of compliance with the requirements of the IRP. The IRP gives jurisdictions latitude regarding the use of audit assessments.

As part of a performance audit, we communicate to management through audit recommendations opportunities for improvement. Because the IRP gives jurisdictions latitude regarding the use of audit assessments and because of the large variance in fees assessed for unacceptable audits, the establishment of a clearly defined assessment policy would provide an opportunity for BIS to improve the administration of its IRP audits.

GLOSSARY

Glossary of Acronyms and Terms

base jurisdiction	The jurisdiction where the registrant has an established place of business, where distance is accrued by the fleet, and where operational records of such fleet are maintained or can be made available.
BIS	Bureau of Information Security.
BRRS	Branch Review and Record Security Section.
Case Management System (CMS)	A database program used to monitor referrals within the Investigations Division.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
International Registration Plan (IRP)	A registration agreement among states of the United States and provinces of Canada that provides for payment of license fees on the basis of total distance operated in all jurisdictions for commercial vehicles that meet specified weight and size categories.
ISS	Investigation Support Section.
mission	The agency's main purpose or the reason that the agency was established.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

personal information	Information that identifies an individual, including the individual's photograph or image, name, address (but not zip code), driver license number, social security number, telephone number, digitized signature, and medical and disability information.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL