PERFORMANCE AUDIT
OF THE

REVENUE ADMINISTRATIVE SERVICES DIVISION

DEPARTMENT OF TREASURY

July 2001

27-145-00

EXECUTIVE DIGEST

REVENUE ADMINISTRATIVE SERVICES DIVISION

INTRODUCTION

This report, issued in July 2001, contains the results of our performance audit* of the Revenue Administrative Services Division (RASD), Department of Treasury.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

RASD provided support services to the Bureau of Revenue and to the public. RASD received, sorted, stored, and tracked taxpayer documents for the various taxes collected by the Bureau. It also stored supplies and collected and prepared confidential information for shredding. In addition, it served as the major outreach and information provider for the Bureau through its management of the various systems available for taxpayers to request information and forms.

Expenditures for RASD were approximately $3.8 million for fiscal year 1999-2000. RASD's staff consisted of 67 employees as of October 28, 2000.

Effective October 30, 2000, a Department of Treasury reorganization eliminated the Bureau of Revenue and

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

RASD (a unit within the Bureau) as operational units. The Bureau was reorganized as Revenue Administration with three major program areas and two offices: Tax Processing Bureau, Customer Service Bureau, Tax Compliance Bureau, Office of Legal and Hearings, and Office of Policy and Research Development. (These bureaus now are known as centers.) However, the services and processes formerly performed by RASD still exist under the control of Revenue Administration in the new operational units.

AUDIT OBJECTIVES, CONCLUSIONS, AND NOTEWORTHY ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of RASD's procedures and controls for storing, microfilming, and disposing of confidential taxpayer information.

Conclusion: We concluded that RASD's procedures and controls for storing, microfilming, and disposing of confidential taxpayer information were generally effective and efficient. However, our assessment disclosed reportable conditions* related to access to confidential information and confidential records destruction (Findings 1 and 2).

Noteworthy Accomplishments: The Department installed a new document management software program that allows it to retain documents in the warehouse in random order, with the system tracking the exact location for easy retrieval.

Audit Objective: To assess the effectiveness of services provided to taxpayers.

Conclusion: We concluded that RASD generally provided services to taxpayers in an effective manner.

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

However, our assessment disclosed a reportable condition related to Problem Resolution Office reporting (Finding 3).

Noteworthy Accomplishments: Starting in October 1999, the Department conducted a business process reengineering (BPR) project to evaluate the Department's operations. This was a departmentwide initiative that had an ultimate goal to improve customer service by improving the way that the Department did business. As a result of this project, the Department reorganized the Bureau of Revenue effective October 30, 2000. The Bureau was reorganized as Revenue Administration with three major program areas and two offices: Tax Processing Bureau, Customer Service Bureau, Tax Compliance Bureau, Office of Legal and Hearings, and Office of Policy and Research Development. Implementation of the BPR project's findings and recommendations will continue over a period of time and will include an increased focus on efforts to improve customer service through the quantification and measurement of the Department's efforts to provide effective and efficient services.

The Department also reported that it provided training to volunteer groups that prepare State tax returns for elderly and low-income citizens. This helps ensure that the groups are completing forms accurately, which in turn helps ensure the prompt processing of refunds for filers. Further, the Department developed tax preparation videos, with 600 copies distributed to libraries and legislative offices that provide guidance for their constituents.

The Department further reported that it provided additional hours of operation for its taxpayer assistance toll-free telephone line during the 2000 tax season.

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the program and other records of the Revenue Administrative Services Division.

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 audit procedures included the testing of records primarily covering the period October 1997 through August 2000. Our methodology included a preliminary review of RASD's operations to gain an understanding of RASD's activities and to form a basis for selecting certain operations for audit. The preliminary review consisted of discussions with staff regarding their functions and responsibilities and a review of Department and RASD policy directives and operating procedures.

We assessed RASD's mission*, goals*, and objectives*, including efforts to measure its performance compared to expected outcomes*.

We reviewed the overall security controls for transporting, filing, storing, microfilming, and disposing of confidential taxpayer information.

We reviewed records and assessed the operations of various taxpayer services provided by RASD. To evaluate the effectiveness of services provided, we conducted a survey (see supplemental information) to determine taxpayers' satisfaction with the taxpayer assistance toll-free telephone line used to talk to Department representatives about preparing various Michigan income tax forms.

We reviewed and assessed written operating procedures for RASD.

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

AGENCY RESPONSES AND PRIOR AUDIT FOLLOW-UP	Our audit report includes 3 findings and 3 corresponding recommendations. The Department's preliminary response indicated that it agrees with the findings and has complied or will comply with the recommendations. The Department complied with 2 of the 4 prior audit recommendations included within the scope of our current audit. The other 2 recommendations were rewritten for inclusion in this audit report.

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July 25, 2001

Dr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

This is our report on the performance audit of the Revenue Administrative Services Division, Department of Treasury.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; summary of survey responses, presented as supplemental information; 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 TREASURY

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Description of Agency

The Revenue Administrative Services Division (RASD) was part of the Bureau of Revenue, Department of Treasury. RASD consisted of the Tranter Microfilm Unit, Tranter Files Unit, Central Files Unit, Taxpayer Services Unit, and Problem Resolution Office (PRO). RASD provided support services to the Bureau of Revenue and to the public.

The Tranter Microfilm Unit, Tranter Files Unit, and Central Files Unit received, sorted, stored, and tracked taxpayer documents for the various taxes collected by the Bureau of Revenue. These units also stored supplies and collected and prepared confidential information for shredding.

The Taxpayer Services Unit served as the major outreach and information provider for the Bureau of Revenue. The Unit staffed the walk-in taxpayer assistance office in the Department of Treasury building and managed the various systems available for taxpayers to request information and forms. These systems include:

1. The taxpayer assistance toll-free telephone line for taxpayers to talk to a Department representative regarding specific tax inquiries for their Michigan income tax returns.

2. The Computerized Refund Information System (CRIS), which provides information on the status of a taxpayer's refund.

3. The automated Tele-Help System, which provides informative recordings about income tax and tax credit topics.

PRO represents the interests of taxpayers. It trains volunteer groups, legislative offices, and internal staff on tax preparation and taxpayer rights issues. PRO also is responsible for the Tax Practitioner Hotline that provides priority service to tax professionals. Further, it responds to specific requests for tax information on issues that cannot be routinely resolved by the various tax divisions.

Expenditures for RASD were approximately $3.8 million for fiscal year 1999-2000. RASD's staff consisted of 67 employees as of October 28, 2000.

Effective October 30, 2000, a Department of Treasury reorganization eliminated the Bureau of Revenue and RASD (a unit within the Bureau) as operational units. The

Bureau was reorganized as Revenue Administration with three major program areas and two offices: Tax Processing Bureau, Customer Service Bureau, Tax Compliance Bureau, Office of Legal and Hearings, and Office of Policy and Research Development. (These bureaus now are known as centers.) However, the services and processes formerly performed by RASD still exist under the control of Revenue Administration in the new operational units.

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

Audit Objectives

Our performance audit of the Revenue Administrative Services Division (RASD), Department of Treasury, had the following objectives:

1. To assess the effectiveness and efficiency of RASD's procedures and controls for storing, microfilming, and disposing of confidential taxpayer information.

2. To assess the effectiveness of services provided to taxpayers.

Audit Scope

Our audit scope was to examine the program and other records of the Revenue Administrative Services Division. 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.

Audit Methodology

Our audit procedures, performed from June through October 2000, included the testing of records primarily covering the period October 1997 through August 2000. Our methodology included a preliminary review of RASD's operations to gain an understanding of RASD's activities and to form a basis for selecting certain operations for audit. The preliminary review consisted of discussions with staff regarding their functions and responsibilities and a review of Department and RASD policy directives and operating procedures.

We assessed RASD's mission, goals, and objectives, including efforts to measure its performance compared to expected outcomes.

We reviewed the overall security controls for transporting, filing, storing, microfilming, and disposing of confidential taxpayer information.

We reviewed records and assessed the operations of various taxpayer services provided by RASD. To evaluate the effectiveness of services provided, we conducted a survey (see supplemental information) to determine taxpayers' satisfaction with the taxpayer

assistance toll-free telephone line used to talk to Department representatives about preparing various Michigan income tax forms.

We reviewed and assessed written operating procedures for RASD.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 3 findings and 3 corresponding recommendations. The Department's preliminary response indicated that it agrees with the findings and has complied or will comply with the recommendations.

The agency preliminary response which 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 Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Department complied with 2 of the 4 prior audit recommendations included within the scope of our current audit. The other 2 recommendations were rewritten for inclusion in this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY OF PROCEDURES AND CONTROLS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Revenue Administrative Services Division's (RASD's) procedures and controls for storing, microfilming, and disposing of confidential taxpayer information.

Conclusion: We concluded that RASD's procedures and controls for storing, microfilming, and disposing of confidential taxpayer information were generally effective and efficient. However, our assessment disclosed reportable conditions related to access to confidential information and confidential records destruction.

Noteworthy Accomplishments: The Department of Treasury installed a new document management software program that allows it to retain documents in the warehouse in random order, with the system tracking the exact location for easy retrieval.

FINDING

1. Access to Confidential Information

The Department needs to improve employee compliance with prescribed procedures related to internal control* over access to confidential taxpayer information.

Section 205.28(1)(f) of the *Michigan Compiled Laws* requires that, except as otherwise provided, an employee or authorized representative of the Department or anyone connected with the Department shall not divulge any facts or information obtained for a tax administered by the Department. Further, when confidential information was to be discussed with a third party, the Department required that the taxpayer consent to the disclosure of information. The Department defined proper

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

consent as obtaining a verbal authorization or written power of attorney from the taxpayer or verifying that the taxpayer checked the consent box on the tax return.

We noted instances in which the Problem Resolution Office (PRO) did not document taxpayer approval to disclose confidential information to a third party.

PRO responds to specific requests for tax information on issues that cannot be routinely resolved by the various tax divisions. As part of this responsibility, PRO staff may be asked to discuss specifics of a taxpayer's return with a third party. In these instances, PRO staff are required to obtain taxpayer consent before making these disclosures to third parties.

We selected 16 PRO cases to determine if they contained documentation, when necessary, to show taxpayer consent to disclose confidential information to a third party. In 8 cases, it appeared that taxpayer consent was required because a third party was involved. In 7 of the 8 cases, the taxpayer had checked the consent box on the tax return. However, PRO staff had not documented whether they had verified that taxpayer consent was obtained to disclose confidential information to a third party.

Documenting taxpayer consent through power of attorney, verbal authorization, or the checked consent box on the tax return provides the Department with assurance that confidential information was disclosed to third parties only after the taxpayer's consent was obtained.

RECOMMENDATION

We recommend that the Department improve employee compliance with prescribed procedures related to internal control over access to confidential taxpayer information.

AGENCY PRELIMINARY RESPONSE

The Department informed us that it agrees with the finding and has complied with the recommendation by advising staff to always document how an account is handled, whether consent is necessary, and whether disclosure to a third party is authorized and appropriate. Additionally, the Department informed us that it has recently added a confidentiality reminder on all employees' personal computers that appears each time the employees log onto the system. Further, the Department informed us that it

makes a concerted effort to train employees on disclosure laws by holding training classes for all Revenue Administration employees, by sending annual reminders to all employees, and by requiring that all employees sign a confidentiality agreement.

FINDING

2. Confidential Records Destruction

The Department needs to actively oversee the processes for monitoring contractor compliance with requirements for the destruction of confidential records.

The Department used a Department of Management and Budget (DMB) Statewide contract for the shredding of confidential records, such as individual income tax returns. Although the Department relied on DMB as the contract administrator to monitor contractor compliance with the shredding contract, DMB could not document that it had performed any worksite monitoring subsequent to October 1997. Further, our discussions with DMB staff did not disclose anyone who was aware of any post October 1997 monitoring to ensure continued contractor compliance with requirements for the handling of confidential records.

Also, the Department had not followed DMB Administrative Guide procedure 0510.11, which provides a process for agencies to register formal complaints or compliments relative to vendor performance. The process establishes a vendor performance record that DMB can use to justify continuation or termination of a contract or inclusion of the vendor in bidding on future contracts. The Department informed us that it had made some verbal complaints to DMB about the shredding contractor's compliance with contract requirements. For example, the contractor did not respond in a timely manner to the Department's requests to pick up documents for destruction. However, DMB had no record of the complaints because they were not reported in writing as required by procedure 0510.11.

Periodic monitoring of the shredding contractor is necessary to ensure that the contractor complies with contract requirements and preserves the confidentiality of taxpayer information received for shredding. DMB's lack of worksite monitoring and the Department's noncompliance with DMB procedures for reporting contract problems weaken assurances regarding the proper disposal of confidential information sent to the shredding contractor for destruction.

Because the Department has the ultimate responsibility for the safety and security of its records, it must ensure compliance with contract requirements either by performing its own contract monitoring or by making sure that it is performed by someone else.

Subsequent to our audit fieldwork, we were informed that DMB canceled the contract for the shredding of confidential records, effective December 18, 2000. DMB then issued an emergency one-year contract to the only other bidder on the original contract.

RECOMMENDATION

We recommend that the Department actively oversee the processes for monitoring contractor compliance with requirements for the destruction of confidential records.

AGENCY PRELIMINARY RESPONSE

The Department informed us that it agrees with the finding and will comply with the recommendation by verifying that DMB performs appropriate monitoring of the shredding contract. If DMB does not perform the required monitoring, the Department will follow established procedures (DMB Administrative Guide procedure 0510.11) to ensure that the contract for confidential shredding is fulfilled.

EFFECTIVENESS OF SERVICES

COMMENT

Audit Objective: To assess the effectiveness of services provided to taxpayers.

Conclusion: We concluded that RASD generally provided services to taxpayers in an effective manner. However, our assessment disclosed a reportable condition related to PRO reporting.

Noteworthy Accomplishments: Starting in October 1999, the Department conducted a business process reengineering (BPR) project to evaluate the Department's operations. This was a departmentwide initiative that had an ultimate goal to improve customer service by improving the way that the Department did business. As a result of this project, the Department reorganized the Bureau of Revenue effective October 30, 2000. The Bureau was reorganized as Revenue Administration with three major

program areas and two offices: Tax Processing Bureau, Customer Service Bureau, Tax Compliance Bureau, Office of Legal and Hearings, and Office of Policy and Research Development. Implementation of the BPR project's findings and recommendations will continue over a period of time and will include an increased focus on efforts to improve customer service through the quantification and measurement of the Department's efforts to provide effective and efficient services.

The Department also reported that it provided training to volunteer groups that prepare State tax returns for elderly and low-income citizens. This helps ensure that the groups are completing forms accurately, which in turn helps ensure the prompt processing of refunds for filers. Further, the Department developed tax preparation videos, with 600 copies distributed to libraries and legislative offices that provide guidance for their constituents.

The Department further reported that it provided additional hours of operation for its taxpayer assistance toll-free telephone line during the 2000 tax season.

FINDING

3. PRO Reporting

The Department needs to improve its processes for ensuring the timely resolution of taxpayer account problems and the timely and accurate reporting of problem resolution activities within the Problem Resolution Office (PRO).

PRO was responsible for resolving taxpayer account problems on issues that could not be routinely resolved by the various tax divisions. These problems typically were received through the Tax Practitioner Hotline and various Departmental sources.

The Department did not have accurate performance data for management to use in evaluating PRO activities:

a. Although PRO had an informal goal of resolving all problems within 30 days of receiving the problem, PRO management staff stated that they did not evaluate computerized monthly reports to determine how long accounts had been outstanding. We determined that 99 (39.9%) of the 248 accounts pending as of July 31, 2000 were more than 45 days old, with 49 of the accounts being from 1999.

Department staff informed us that sometimes they have to wait for responses from taxpayers to resolve a problem. Thus, in some instances, the length of time to resolve a problem is not within the control of the Department.

b. PRO did not require staff to individually review their own monthly status reports to verify that closed accounts had been removed from the records. Consequently, PRO staff did not consistently and in a timely manner remove closed accounts from the pending files records.

   Our review of 16 items contained on the June and July 2000 Tax Practitioner Hotline logs disclosed that 13 (81.3%) were resolved. Eleven of the 13 were resolved in 1999. However, the 13 items had not been removed from the pending files record system. The reliability of the pending files record system is dependent on the accuracy of the number of pending accounts.

c. PRO did not maintain accurate monthly summary activity reports. These reports summarize activity from the individual reports for the month. However, the number of pending accounts as of the end of a month did not consistently balance with the current month's activities. Also, the detail records did not always agree with the summary totals used on the monthly reports. Use of these records to evaluate changes in activity levels would lead to incorrect conclusions because the records do not accurately reflect monthly activity.

RECOMMENDATION

We recommend that the Department improve its processes for ensuring the timely resolution of taxpayer account problems and the timely and accurate reporting of problem resolution activities within PRO.

AGENCY PRELIMINARY RESPONSE

The Department informed us that it agrees with the finding and has complied with the recommendation by implementing a new logging system in late 2000. The Department also indicated that it advised staff of the importance of maintaining accurate records and of recording the account status of their case loads.

SUPPLEMENTAL INFORMATION

REVENUE ADMINISTRATIVE SERVICES DIVISION
Department of Treasury
Summary of Survey Responses

Summary Overview
We sent surveys to 200 taxpayers. We received 36 responses, a response rate of 18.0%.

Following is a copy of the survey that includes the number of responses received for each item. The total number of responses for each item may not agree with the total number of responses reported above because some respondents provided more than one response to an item and some respondents did not answer all items.

1. Did you or someone in your household call the toll-free line during the period January 2000 through July 2000 to talk to a Department representative for answers to your questions about Michigan income tax and various credit forms?

28	(77.8%)	Yes
8	(22.2%)	No

If you did not call the toll-free line during the specified period, please answer only question 1 and skip the remaining questions.

2. Approximately when did you call the toll-free line and speak with a Department representative regarding your Michigan income tax inquiries? (please check as many as apply)

6	(13.3%)	January 2000
3	(6.7%)	February 2000
11	(24.5%)	March 2000
9	(20.0%)	April 2000
6	(13.3%)	May 2000
5	(11.1%)	June 2000
5	(11.1%)	July 2000

3. For the period January 2000 through July 2000, please indicate the number of times you attempted to talk and actually did talk to a Department representative:

a. Approximate number of times attempted but did not talk to a representative

12	(60.0%)	1
2	(10.0%)	2 to 3
5	(25.0%)	4 to 5
1	(5.0%)	6 or more

b. Approximate number of times talked to a representative

14	(50.0%)	1
8	(28.6%)	2 to 3
6	(21.4%)	4 to 5
0		6 or more

4. What was the general purpose of your call? (please check as many as apply)

10	(26.3%)	To ask a general income tax question
3	(7.9%)	To obtain a copy of a tax form
3	(7.9%)	To obtain a copy of a return
4	(10.5%)	To obtain a copy of a refund check
2	(5.3%)	To have a lost refund check reissued
16	(42.1%)	Other

5. How satisfied were you with the response to and/or assistance resulting from your inquiry?

16	(53.3%)	Very satisfied
6	(20.0%)	Somewhat satisfied
3	(10.0%)	Somewhat dissatisfied
5	(16.7%)	Very dissatisfied

6. How satisfied were you with the length of time it took to resolve your inquiry/request with the department representative?

11	(37.9%)	Very satisfied
10	(34.5%)	Somewhat satisfied
2	(6.9%)	Somewhat dissatisfied
6	(20.7%)	Very dissatisfied

7. Overall, how would you rate the services provided by the Department representative?

9	(32.1%)	Excellent
9	(32.1%)	Good
4	(14.3%)	Fair
2	(7.2%)	Poor
4	(14.3%)	Very Poor

Glossary of Acronyms and Terms

BPR	business process reengineering.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
internal control	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
mission	The agency's main purpose or the reason that the agency was established.
objectives	Specific outputs that a program seeks to perform and/or inputs that a program seeks to apply in its efforts to achieve its goals.
outcomes	The actual impacts of the program. Outcomes should positively impact the purpose for which the program 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.
PRO	Problem Resolution Office.
RASD	Revenue Administrative Services Division.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.