



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
231-0251-12

International Registration Plan Audit Section

Internal Security Division
Department of State

Released:
August 2013

The International Registration Plan (IRP) Audit Section's purpose is to conduct audits of IRP registrants. The IRP is a reciprocity agreement for the licensing of commercial vehicles engaged in interstate operations among member jurisdictions in the United States, the District of Columbia, and provinces of Canada.

Audit Objective:

To assess the effectiveness of the IRP Audit Section's efforts to monitor and enforce registrant compliance with the IRP program.

Audit Conclusion:

We concluded that the IRP Audit Section was moderately effective in its efforts to monitor and enforce registrant compliance with the IRP program. We noted three reportable conditions (Findings 1 through 3).

Reportable Conditions:

The IRP Audit Section did not select IRP registrants for audit in accordance with IRP audit guidelines (Finding 1).

The IRP Audit Section had not developed clearly defined policies and procedures for selecting registrants for audit (Finding 2).

The IRP Audit Section had not established adequate procedures to help ensure the timely issuance of IRP audit reports to IRP registrants (Finding 3).

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Audit Objective:

To assess the efficiency of the IRP Audit Section's efforts to complete audits of IRP registrants.

Audit Conclusion:

We concluded that the IRP Audit Section's efforts to complete audits of IRP registrants were efficient. However, we noted one reportable condition (Finding 4).

Reportable Condition:

The IRP Audit Section should assess the opportunity to increase audit efficiencies by further utilizing the IRP vehicle registration system or other automated information systems (Finding 4).

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Agency Response:

Our audit report contains 4 findings and 4 corresponding recommendations. The Department of State's preliminary response indicates that it agrees with all of the recommendations.

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August 28, 2013

The Honorable Ruth Johnson
Secretary of State
Richard H. Austin Building
Lansing, Michigan

Dear Secretary Johnson:

This is our report on the performance audit of the International Registration Plan Audit Section, Internal Security Division, Department of State.

This report contains our report summary; a description of agency; our 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 response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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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Description of Agency

The International Registration Plan* (IRP) Audit Section is part of the Internal Security Division within the Department of State.

The IRP is a reciprocity agreement for the licensing of commercial vehicles* engaged in interstate operations among member jurisdictions* in the United States, the District of Columbia, and provinces of Canada. The agreement provides for payment of license fees based on the weight of the vehicle and the number of miles traveled in each jurisdiction during the prior registration year.

The IRP Audit Section's purpose is to conduct audits of IRP registrants*. The IRP agreement requires mileage record audits to be conducted for an average of 3% per year of the number of registered fleets*. An IRP audit consists of reviewing mileage documentation provided by the registrant to determine the miles driven in each jurisdiction and calculating any necessary fee adjustments based on the audit results. Registrants who fail to maintain or provide required vehicle mileage records are to be assessed Michigan's full registration fee. Registrants whose actual miles traveled are greater than the miles listed on their registration application are to be assessed additional fees for the difference. Registrants whose actual miles traveled are less than the miles listed on their registration application are granted a credit for the difference. The IRP Audit Section completed 245 and 235 audits for calendar years 2010 and 2011, respectively.

* 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 International Registration Plan (IRP) Audit Section, Internal Security Division, Department of State, had the following objectives:

1. To assess the effectiveness* of the IRP Audit Section's efforts to monitor and enforce registrant compliance with the IRP program.
2. To assess the efficiency* of the IRP Audit Section's efforts to complete audits of IRP registrants.

Audit Scope

Our audit scope was to examine the operations and related records of the International Registration Plan Audit Section. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from May through December 2012, generally covered the period January 1, 2009 through May 31, 2012.

Audit Methodology

We conducted a preliminary review of the IRP Audit Section's operations to formulate a basis for developing our audit objectives and defining our audit scope. Our preliminary review included interviewing IRP Audit Section staff; reviewing applicable laws, regulations, policies, procedures, and other information; analyzing available records and data; and obtaining an understanding of the IRP Audit Section's operational activities and related internal control*. We also reviewed the IRP peer review report and conducted research related to IRP activities and programs in other states.

* See glossary at end of report for definition.

To accomplish our first objective, we interviewed IRP Audit Section personnel and reviewed policies and procedures to determine the methodology used by the IRP Audit Section for selecting registrants for audit, determining the frequency of audits, and applying auditing procedures. We analyzed the IRP vehicle registration system data to determine whether all applicable registrants were subject to audit. We judgmentally selected for review 120 of 598 registrants selected by the IRP Audit Section for audit during our audit period. Because we judgmentally selected the sample, the results cannot be projected to the entire population. We reviewed the entire population of registrants that the IRP Audit Section reviewed for audit consideration but did not select for audit. We reconciled the IRP audit database with the IRP vehicle registration system and the IRP annual reports issued during our audit period to verify the number of audits issued and the completeness of the data in the IRP audit database. We analyzed the IRP audit database and compared the audit start dates with the audit completion dates to determine the timeliness of registrant audits. In addition, we analyzed the IRP audit database to determine the disposition of all audits started by the IRP Audit Section.

To accomplish our second objective, we reviewed policies and procedures to determine the relationship between the IRP and the International Fuel Tax Agreement* (IFTA). We interviewed Department personnel and IFTA auditors to determine if audit efficiency could be increased by sharing data and considering statutory revisions that would allow for combining audit functions and performing simultaneous audits of IRP and IFTA registrants. We reviewed the vendor contract for the IRP vehicle registration system to determine the capabilities of the system. In addition, we observed the audit selection, documentation, and completion processes to determine if the processes were efficient.

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.

* See glossary at end of report for definition.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 4 findings and 4 corresponding recommendations. The Department of State's preliminary response indicates that it agrees with all of the recommendations.

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 plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Bureau of Information Security, Department of State (231-0234-06), in March 2008. Within the scope of this audit, we followed up 4 of the 7 prior audit recommendations. The Department complied with 2 of the 4 recommendations. We repeated 1 prior audit recommendation in Finding 3 of this audit report, and we determined that the 1 other prior audit recommendation was no longer applicable.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS TO MONITOR AND ENFORCE REGISTRANT COMPLIANCE WITH THE IRP PROGRAM

COMMENT

Audit Objective: To assess the effectiveness of the International Registration Plan (IRP) Audit Section's efforts to monitor and enforce registrant compliance with the IRP program.

Audit Conclusion: We concluded that the IRP Audit Section was moderately effective in its efforts to monitor and enforce registrant compliance with the IRP program. Our audit disclosed three reportable conditions* related to random audit selection, audit selection policies and procedures, and timeliness of IRP audit reports (Findings 1 through 3).

FINDING

1. Random Audit Selection

The IRP Audit Section did not select IRP registrants for audit in accordance with IRP audit guidelines. As a result, the IRP Audit Section did not ensure equitable treatment of all registrants subject to the IRP.

Article 1, Section 101(b) of the IRP Audit Procedures Manual states that the purpose of auditing registrants under the IRP is to protect the integrity of the vehicle registration laws of all member jurisdictions and to ensure the equitable treatment of all registrants subject to the IRP. Furthermore, Article 3, Section 302 (a) of the IRP Audit Procedures Manual states that all registrants must be given equal and fair consideration with no preferential treatment.

Section 431 of the Internal Security Division's (ISD's) Internal Security Manual provides that the IRP Audit Section selects registrants for audit based on a statistical random selection from the entire population of registrants. To accomplish this, the IRP Audit Section's process is to obtain a listing of potential registrants to audit from the IRP vehicle registration system. The IRP Audit Section then generates a random number for each potential registrant and sorts the entire

* See glossary at end of report for definition.

listing in numerical order to ensure that the list of potential registrants is random. The IRP Audit Section begins at the top of the random list and reviews registrants in the order listed to determine if the registrants meet the IRP Audit Section's criteria for audit. The IRP Audit Section then continues down the list in order selecting each registrant that meets the criteria until the required number of registrants to audit is obtained.

Our review of the audit selection lists for four years disclosed that the IRP Audit Section did not randomize its 2012 listing of potential registrants to audit. The 2012 listing was instead in order by county. As a result, registrants from 80 (96%) of the 83 counties were not subject to the audit selection process in 2012. The 80 counties not subject to the audit selection process represent 5,960 (97%) of the 6,117 registrants on the 2012 listing.

The IRP Audit Section informed us that it was not aware that the list was not in random order prior to selecting registrants for audit. The IRP Audit Section stated that the random number generator function used to create the list must not have worked effectively.

RECOMMENDATION

We recommend that the IRP Audit Section select IRP registrants for audit in accordance with IRP audit guidelines.

AGENCY PRELIMINARY RESPONSE

The Department of State agrees and will select IRP registrants for audit in accordance with IRP requirements as was demonstrated for 2013 (as well as in years prior to 2012). The Department concurs that in 2012 its random sort functionality did not work correctly. The Department indicated that this was a one-time error in generating a list of registrants and should not be construed as an ongoing problem.

The Department also indicated that the IRP Plan and IRP Audit Procedures Manual do not specify how registrants shall be selected for audit and that its selection process involves a random sample process that is not prescribed in the requirements.

FINDING

2. Audit Selection Policies and Procedures

The IRP Audit Section had not developed clearly defined policies and procedures for selecting registrants for audit. As a result, the IRP Audit Section did not use a consistent methodology to select registrants for audit and did not ensure equitable treatment of all registrants subject to the IRP.

Clearly defined policies and procedures help ensure that employees have detailed knowledge of their responsibilities and serve as a basis to ensure that employees consistently and properly conduct program operations. The IRP Audit Procedures Manual states that the purpose of auditing registrants under the IRP is to protect the integrity of the vehicle registration laws of all member jurisdictions and to ensure the equitable treatment of all registrants. The IRP Audit Procedures Manual further states that all registrants must be given equal and fair consideration with no preferential treatment.

Our review disclosed:

- a. The Internal Security Manual does not define the time period that a registrant may be excluded from audit if that registrant has had an audit that disclosed acceptable registrant records*. Section 431 of the Internal Security Manual provides that the IRP Audit Section is to exclude registrants from audit if the IRP Audit Section has previously performed an audit of the registrants. However, the IRP Audit Section informed us that, in practice, it intended to exclude only those registrants that had audits published within the previous five years that disclosed acceptable registrants records.

The IRP Audit Section did not audit 94 registrants randomly selected for audit consideration because the registrants had acceptable registrant records based on audits completed of these registrants during the previous 6 to 16 years. Instead of selecting these 94 registrants for audit, the IRP Audit Section selected 94 other registrants from its listing of potential registrants to audit. Our review disclosed that 45 (48%) of the 94 registrants had previous audits that the IRP Audit Section published from 11 to 16 years earlier. In addition, we noted that 25 (27%) of the 94 registrants had significant increases in the

* See glossary at end of report for definition.

number of applicable jurisdictions, which indicates that their operations had changed since their previous audits. As a registrant's operations change, there is an increased risk that its internal control and processes change, which also increases the risk that the registrant could now be noncompliant with the IRP.

Clearly defined policies that specify the time period for which a registrant would not be subject to audit after an audit that disclosed acceptable registrant records would help ensure consistency in the methodology that the IRP Audit Section uses to select registrants for audit.

- b. The Internal Security Manual does not state whether the registrant must be currently registered under the IRP at the time of selection or whether the registrant needs to be registered for each of the two years under audit. Section 431 of the Internal Security Manual provides that the IRP Audit Section should select a registrant for audit if the registrant has been registered under the IRP for more than one year.

The IRP Audit Section did not audit 161 registrants randomly selected for audit consideration even though they had been registered with the IRP for more than one year. Instead of selecting these 161 registrants for audit, the IRP Audit Section selected 161 other registrants from its listing of potential registrants to audit. The IRP Audit Section indicated that the 161 registrants were excluded because it did not audit registrants that either were not currently registered at the time of selection or were not registered for the entire two-year audit period. The IRP Audit Section further indicated that it required the registrant to be registered with the IRP for two years because it is more efficient to do a two-year audit of a registrant. However, our review noted that the IRP Audit Section was not consistent in using this practice. We identified 52 registrants that the IRP Audit Section selected for audit that did not meet the stated criteria of being eligible for a two-year audit.

Clearly defined policies that specify criteria would help ensure consistency and equitable treatment in the methodology that the IRP Audit Section uses to select registrants for audit.

RECOMMENDATION

We recommend that the IRP Audit Section develop clearly defined policies and procedures for selecting registrants for audit.

AGENCY PRELIMINARY RESPONSE

The Department agrees and will revise its internal operating procedures for selecting registrants for audit to include further guidance related to prior audit coverage, out-of-business companies, and periods to be covered.

FINDING

3. Timeliness of IRP Audit Reports

The IRP Audit Section had not established adequate procedures to help ensure the timely issuance of IRP audit reports to IRP registrants. Failure to provide timely audit reports to IRP registrants may have delayed the collection of up to \$341,588 (78%) of the \$438,884 in Michigan registration fee assessments issued from January 1, 2009 through May 30, 2012 and may have delayed the registrants' corrective action.

Article X, Section 1025 of the IRP requires that the IRP Audit Section report audit findings to the registrant and to all applicable member jurisdictions upon completion of the audit. The findings include the amount of fees owed by the registrant. From January 1, 2009 through May 30, 2012, the IRP Audit Section issued 855 IRP audits resulting in identified fee increases for Michigan of \$438,884. Our review noted that 605 (71%) of the 855 issued IRP audits were not issued from 91 to 560 days after the audit was completed by audit staff. Of the 605 untimely audit reports issued, 487 (80%) were classified by the IRP Audit Section as having unacceptable registrant records* or unacceptable/full fee registrant records*, which resulted in fee increases of \$341,588. Untimely issuance of audit reports that disclose unacceptable or unacceptable/full fee registrant records delays the potential collection of the fee increases and the registrants' corrective action.

* See glossary at end of report for definition.

The following table summarizes the number of days from when ISD completed the 855 IRP audits until ISD 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 of Registrant Records	Fee Adjustments Owed by IRP Registrants
0 - 90 days	118	79	53	250	\$103,580
91 - 150 days	177	119	82	378	\$174,275
151 - 210 days	64	56	24	144	116,623
211 - 270 days	25	22	5	52	23,846
271 - 330 days	6	0	0	6	926
331 - 560 days	3	15	7	25	19,634
Total	275	212	118	605	\$335,304

We noted a similar situation in our prior audit. Subsequently, ISD established Section 447 of the Internal Security Manual to attempt to address the timely issuance of audit reports. However, this section did not define the number of days considered to be timely and did not provide for procedures to help ensure the timely issuance of IRP audits.

RECOMMENDATION

We again recommend that the IRP Audit Section establish adequate procedures to help ensure the timely issuance of IRP audit reports to IRP registrants.

AGENCY PRELIMINARY RESPONSE

The Department agrees and will again revise its internal operating procedures focused at timeliness and will define a time line for audit staff to follow related to expected efficiency.

The Department indicated that, while it agrees that there was a temporary delay in any collections associated with the billable amounts on these audits, it should be noted that all of these audits were considered timely under IRP Plan requirements.

EFFICIENCY OF EFFORTS TO COMPLETE AUDITS OF IRP REGISTRANTS

COMMENT

Audit Objective: To assess the efficiency of the IRP Audit Section's efforts to complete audits of IRP registrants.

Audit Conclusion: **We concluded that the IRP Audit Section's efforts to complete audits of IRP registrants were efficient.** Our audit disclosed one reportable condition related to audit efficiencies (Finding 4).

FINDING

4. Audit Efficiencies

The IRP Audit Section should assess the opportunity to increase audit efficiencies by further utilizing the IRP vehicle registration system or other automated information systems. By using automated information systems for more audit processes, the IRP Audit Section may reduce the amount of time spent selecting registrants for audit, documenting audits, and ensuring a statistical and representative sample of registrants for audit.

Our review of the IRP Audit Section's audit process disclosed:

- a. The IRP Audit Section did not use the IRP vehicle registration system or other automated information systems to identify registrants that met the IRP Audit Section's criteria for audit or to pull a statistical sample of registrants to ensure that each registrant had an equal chance of the IRP Audit Section selecting it for audit.

The IRP vehicle registration system has the potential to filter out the registrants that do not meet the IRP Audit Section's criteria for audit and to select a random sample of the remaining registrants. However, the IRP Audit Section's process to select registrants for audit is to generate a printed list of registrants from the IRP vehicle registration system, randomize the list, and then eliminate registrants that do not meet the IRP Audit Section's criteria for audit by manually reviewing each registrant's information in the IRP vehicle

registration system. We noted that the IRP Audit Section manually reviewed 259 registrants and 353 registrants in calendar years 2010 and 2011, respectively, to determine if they were eligible for an audit.

- b. The IRP Audit Section did not use the IRP vehicle registration system or other automated information systems to maintain audit documentation that could reduce or eliminate the time and expense of creating and maintaining paper files. The IRP Audit Section maintained paper files of audit documents, including copies of electronic documents printed from the IRP vehicle registration system. In addition, the IRP Audit Section did not retain the detailed mileage records for audited registrants because they either were too large or were original documents. The IRP vehicle registration system is capable of attaching documentation to the electronic audit file, which can allow the IRP Audit Section to view and store documents related to the audit electronically.

RECOMMENDATION

We recommend that the IRP Audit Section assess the opportunity to increase audit efficiencies by further utilizing the IRP vehicle registration system or other automated information systems.

AGENCY PRELIMINARY RESPONSE

The Department agrees to continue to assess opportunities to increase audit efficiencies by better utilizing the new software (and other automated information systems for audit file retention). The Department indicated that it will continue discussions with its contractor to enhance its audit related capabilities with this new system, subject to available funding. The Department also indicated that it already stores its most critical audit related documents in an electronic format as well as the paper-based files referenced by the auditors.

GLOSSARY

Glossary of Acronyms and Terms

acceptable registrant records	Registrant mileage records that are sufficient and in accordance with the IRP.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
fleet	One or more apportionable vehicles designated by a registrant for distance reporting under the IRP.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
International Fuel Tax Agreement (IFTA)	An interstate agreement among states of the United States and provinces of Canada that provides for the collecting and distributing of fuel use taxes paid by interstate motor carriers.
International Registration Plan (IRP)	A registration agreement among states of the United States, the District of Columbia, 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.

ISD	Internal Security Division.
jurisdiction	Any of the 48 contiguous states of the United States, the District of Columbia, and 10 provinces of Canada that are members of the IRP.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
registrant	The owner of a power unit(s) or trailer(s) with prorated license fees.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
unacceptable registrant records	Registrant mileage records that are not in accordance with the IRP.

unacceptable/full fee
registrant records

Registrant mileage records that are not in accordance with the IRP for which ISD imposes an assessment of 100% of the registration fee.

vehicle

A power unit or trailer with prorated license fees that is used for interstate commerce.

