



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
071-0525-13

Michigan Business One Stop System

Department of Technology, Management, and Budget

Released:
December 2013

The Michigan Business One Stop System (MBOS) is an on-line system that assists individuals who want to start, operate, or expand a business in Michigan. MBOS assists these individuals with applying for licenses, permits, and registrations that are required for their businesses. In fiscal year 2011-12, 63,389 businesses registered within MBOS. Also in fiscal year 2011-12, MBOS processed 117,928 licenses, permits, and registrations for those businesses and collected \$7.2 million in revenue for those licenses, permits, and registrations.

Audit Objective:

To assess the effectiveness of State departments' efforts to establish an effective project management process over MBOS.

Audit Conclusion:

State departments' efforts to establish an effective project management process over MBOS were not effective. We noted three material conditions (Findings 1 through 3) and one reportable condition (Finding 4).

Material Conditions:

The Department of Technology, Management and Budget (DTMB) and other State departments had not developed a strategic plan for the continued development and use of MBOS (Finding 1).

DTMB and other State departments had not conducted a post implementation review of MBOS (Finding 2).

DTMB and other State departments had not established an effective governance structure for MBOS (Finding 3).

Reportable Condition:

State departments, in conjunction with DTMB, had not implemented a process to periodically review and update MBOS on-line content (Finding 4).

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Agency Response:

Our audit report contains 4 findings and 4 corresponding recommendations. DTMB and other State departments' preliminary response indicates that they agree with all of the recommendations.

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<http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

December 5, 2013

John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
George W. Romney Building
Lansing, Michigan
and
Mr. David B. Behen, Chief Information Officer
Department of Technology, Management, and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Nixon and Mr. Behen:

This is our report on the performance audit of the Michigan Business One Stop System, Department of Technology, Management, and Budget.

This report contains our report summary; a description of system; our audit objective, scope, and methodology and agency responses; our comment, findings, recommendations, and agency preliminary responses; and a glossary of abbreviations and terms.

The agency preliminary responses were taken from the agency's and other State departments' response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies 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 agencies to take additional steps to finalize the plan.

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

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

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

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Description of System

Michigan Business One Stop System (MBOS)

MBOS is an on-line system that assists individuals who want to start, operate, or expand a business in Michigan. MBOS assists these individuals with applying for licenses and permits and with registering their businesses for items such as taxes and incorporation from the various State departments.

In a 2007 study requested by the Governor's office, businesses indicated that working with the various State departments was difficult because of the need to obtain licenses and permits from or to register with multiple departments. The process to obtain licenses and permits or to register was different for each department. Accordingly, in fiscal years 2007-08 and 2008-09, the Department of Technology, Management, and Budget (DTMB) developed and implemented MBOS to simplify the license, permit, and registration processes. The primary objectives* of MBOS were to:

1. Create a single point of entry or "one-stop shop" for individuals or businesses doing business with the State of Michigan.
2. Eliminate, consolidate, and streamline the license and permit process by capturing license and permit data once with the ability to route data to multiple departments and agencies to avoid the reentry of data and the use of duplicate forms.

DTMB capitalized costs of \$11.0 million for equipment and software development that were incurred during the initial development and implementation phase from fiscal year 2007-08 through fiscal year 2010-11. From fiscal year 2007-08 through fiscal year 2011-12, DTMB expended an additional \$10.2 million for maintenance and enhancements to MBOS. DTMB bills the State departments that use MBOS for these costs. In fiscal year 2011-12, 63,389 businesses registered within MBOS. Also in fiscal year 2011-12, MBOS processed 117,928 licenses, permits, and registrations for those businesses and collected \$7.2 million in revenue for those licenses, permits, and registrations.

* See glossary at end of report for definition.

Using MBOS

When an individual establishes a business in Michigan, he/she must obtain a number of required licenses or permits depending on the type of business being established. To determine which licenses or permits are needed, the MBOS Web site provides individuals with the option of researching the requirements for licenses, permits, and registrations through a license search function. The individual may also register within MBOS by obtaining a user identification and entering information about his/her business within MBOS, such as the business name, address, and federal identification number. If the individual registers his/her business, MBOS provides a Web-based business survey designed to identify the licenses, permits, and registrations that are required for the business. Examples of questions in the business survey include:

- Will your business carry food (including bottled water, infant formula, single service chips, etc.)?
- Will your business carry wholesale items that will be dispensed to a patient as a result of a prescription (e.g., oxygen tank)?
- Will your business sell hardy nursery stock and/or perennials?

Based on the responses to the business survey, MBOS generates a task list of licenses, permits, and registrations required for the business and where and how to apply for them. For some licenses, permits, and registrations, the task list directs the individual to apply and pay for the license, permit, and registration directly within MBOS. For other licenses, permits, and registrations, the task list directs the individual to other State department Web sites. Finally, for some licenses, permits, and registrations, the task list directs the individual to the application forms in MBOS that can be completed and mailed along with payment to the licensing department. Individuals can call the customer assistance center with questions about licenses or the use of MBOS.

Department Involvement

DTMB developed, implemented, and provides technical support services for MBOS. DTMB also works with the nine State departments that use MBOS to coordinate meetings and plan for enhancements.

The following departments use MBOS to process licenses, permits, and registrations and/or share the cost of MBOS:

1. Michigan Department of Agriculture and Rural Development
2. Department of Environmental Quality
3. Department of Human Services
4. Department of Insurance and Financial Services
5. Department of Licensing and Regulatory Affairs
6. Department of Natural Resources
7. Department of State
8. Michigan Department of Transportation
9. Department of Treasury

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective of our performance audit* of the Michigan Business One Stop System (MBOS) was to assess the effectiveness* of State departments' efforts to establish an effective project management process over MBOS.

Audit Scope

Our audit scope was to examine the program and other records related to the Michigan Business One Stop System. 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 conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, were conducted from February through November 2013 and generally covered the period March 1, 2009 through July 31, 2013.

Audit Methodology

We conducted a preliminary review of MBOS to formulate a basis for defining the audit objective and scope. We obtained an understanding of the departments' methods and procedures for managing the development and use of MBOS. We used the results of our preliminary review to determine the extent of our detailed analysis and testing.

To accomplish our objective, we reviewed system design and implementation documentation, the MBOS governance structure, and policies and procedures related to the cost recovery method. We reviewed MBOS functionality to obtain an understanding of how it assists with the licensing, permitting, and registering of businesses. We reviewed documentation and interviewed department staff to obtain an understanding of the future direction and plans for MBOS. We also interviewed department staff to assess their level of satisfaction with MBOS. We tested a sample of license and permit

* See glossary at end of report for definition.

application forms and links in MBOS to determine whether they were valid and up to date. Except as described in our audit methodology, our audit did not include a review of the project management process during the initial development and implementation of MBOS in fiscal years 2007-08 and 2008-09.

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

Our audit report contains 4 findings and 4 corresponding recommendations. DTMB and other State departments' preliminary response indicates that they agree with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agencies' written comments and oral discussion at the end of 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 DTMB and other State departments 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 agencies to take additional steps to finalize the plan.

COMMENT, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFORTS TO ESTABLISH AN EFFECTIVE PROJECT MANAGEMENT PROCESS OVER MBOS

COMMENT

Background: In fiscal year 2011-12, the Department of Technology, Management, and Budget (DTMB) had expenditures totaling \$4.9 million related to the Michigan Business One Stop System (MBOS) that were billed to State departments. Of this \$4.9 million, \$2.3 million related to the depreciation of software development and equipment costs and the remaining \$2.6 million related to the operation of the MBOS customer assistance center, maintenance of software licenses, and payroll for employees and contractors assigned to the maintenance and enhancement of MBOS.

Audit Objective: To assess the effectiveness of State departments' efforts to establish an effective project management process over MBOS.

Audit Conclusion: **State departments' efforts to establish an effective project management process over MBOS were not effective.** Our assessment disclosed three material conditions*:

- DTMB and other State departments had not developed a strategic plan for the continued development and use of MBOS (Finding 1).
- DTMB and other State departments had not conducted a post implementation review of MBOS (Finding 2).
- DTMB and other State departments had not established an effective governance structure for MBOS (Finding 3).

Our assessment also disclosed one reportable condition* related to the maintenance of MBOS on-line content (Finding 4).

* See glossary at end of report for definition.

FINDING

1. Continued Development and Use of MBOS

DTMB and other State departments had not developed a strategic plan for the continued development and use of MBOS. Without a strategic plan, the departments cannot ensure that further development and use of MBOS is cost beneficial and meets the needs of the departments and their customers.

Control Objectives for Information and Related Technology* (COBIT) states that management should ensure that strategic plans are aligned with business objectives. COBIT also states that objectives should be clearly communicated so that they are understood by all, with the information technology* (IT) strategic options identified, structured, and integrated with the business plans.

During the implementation of MBOS, nine departments were identified as departments that could use MBOS to assist businesses with applying for licenses, permits, and registrations. However, our review disclosed that those departments and their customers do not use MBOS to apply for most of their licenses, permits, and registrations. Therefore, DTMB and the other State departments should assess why departments and businesses do not fully use MBOS and develop a strategic plan to identify how the system can be improved. For example, our review noted:

- a. Seven of the nine State departments that are responsible for registering businesses or issuing licenses and permits do not use MBOS to process most of their licenses, permits, and registrations. Also, those departments do not fully support further integration* of their licensing and permitting processes into MBOS. For example, the Department of Licensing and Regulatory Affairs (LARA), the department that was expected to use MBOS the most, processed only 29 licenses, permits, and registrations using MBOS during fiscal year 2011-12.
- b. At the time of our audit, two departments, LARA and the Michigan Department of Agriculture and Rural Development (MDARD), were developing new licensing and permitting systems and were not certain whether the new

* See glossary at end of report for definition.

systems should integrate with MBOS. The departments questioned whether integrating the new systems with MBOS would provide value to the departments or their customers.

- c. A survey of businesses that used MBOS disclosed that businesses' overall satisfaction with MBOS was low. The survey, completed in fiscal year 2011-12, identified areas in which businesses thought MBOS could be improved, such as the ease of registration, navigation within the on-line system, and the relevance of information being requested.

DTMB issued a policy directing departments to integrate their processes with MBOS by reducing or eliminating the availability of licenses, permits, and registrations outside of MBOS. However, the departments informed us that the primary reasons the policy had not been consistently implemented was because of the complexity of the departments' license, permit, and registration processes and because the departments' current processes, outside of MBOS, were simpler for businesses to navigate.

As the department with overall responsibility for IT for the State, DTMB should direct the effort to develop the strategic plan for MBOS. However, the development of the strategic plan will require substantial involvement and input from all departments involved with the licensing, permitting, and registration of businesses.

RECOMMENDATION

We recommend that DTMB and other State departments develop a strategic plan for the continued development and use of MBOS.

AGENCY PRELIMINARY RESPONSE

DTMB and other State departments agree with the recommendation and will coordinate the development of a strategic plan to ensure that the system meets the needs of the departments and their customers. The development of the strategic plan will require substantial involvement and input from all participating departments.

FINDING

2. Post Implementation Review

DTMB and other State departments had not conducted a post implementation review of MBOS. As a result, DTMB and the other State departments had not identified which MBOS goals* and objectives had been achieved, and they had not developed an action plan for achieving the goals and objectives that had not been achieved.

COBIT states that management should conduct a post implementation review to confirm outcomes and results, identify lessons learned, and develop an action plan for goals and objectives that have not been achieved. A post implementation review includes assessing the extent to which system requirements have been met, whether benefits have been realized, and the usability of the system. Our review disclosed:

- a. DTMB and other State departments had not determined whether they had achieved the objectives of MBOS. Objectives of MBOS included:
 - Creating a one-stop shop for individuals or businesses doing business with the State of Michigan.
 - Capturing license and permit data once with the ability to route data to multiple departments.
 - Providing the ability to file application forms and pay fees on-line for licenses and permits.

However, we determined that these objectives had not been fully achieved. For example, instead of a one-stop shop for doing business with the State, individuals must submit license and permit applications separately to each responsible department. Also, instead of capturing data once with the ability to route data to multiple departments, individuals frequently must reregister and reenter information into multiple information systems in order to register their businesses and/or apply for licenses or permits. In addition, for some

* See glossary at end of report for definition.

licenses, permits, or registrations, individuals do not have the ability to file all application forms on-line but instead must print and mail the application form and fee to the applicable department.

- b. DTMB and other State departments had not evaluated whether the expected benefits of MBOS had been realized. Goals of MBOS included increased efficiency* in processing licenses and permits, such as a consistent method for obtaining and delivering business information; an increased accessibility to business profile information; and a reduction in technical support costs. In our interviews of State departments, the departments indicated that they had not fully realized these benefits. Therefore, DTMB should identify any benefits that have been realized and assess whether other benefits are still feasible.

RECOMMENDATION

We recommend that DTMB and other State departments conduct a post implementation review of MBOS.

AGENCY PRELIMINARY RESPONSE

DTMB and other State departments agree with the recommendation and will conduct a post implementation review and adhere to COBIT objectives and the State Unified Information Technology Environment (SUITE) methodology.

FINDING

3. Governance Structure

DTMB and other State departments had not established an effective governance structure for MBOS. As a result, the goals and objectives of MBOS were not fully achieved.

COBIT states that management should analyze and articulate the requirements for the governance of IT and put in place and maintain effective enabling structures, principles, processes, and practices with clarity of responsibilities and authority to achieve the enterprise's mission*, goals, and objectives.

* See glossary at end of report for definition.

Our review of MBOS's governance structure disclosed:

- a. DTMB and other State departments had not assigned the responsibility for defining the MBOS objectives and ensuring the achievement of those objectives. Best practices state that an effective governance structure should include an individual responsible for the achievement of program objectives. Our interviews of departments disclosed that, because no one was assigned the responsibility for defining and ensuring the achievement of objectives, departments were uncertain of the future goals and objectives of MBOS and how they will be achieved.
- b. DTMB and other State departments did not define and document the roles and responsibilities of the steering committee and sponsor committee. The MBOS steering committee includes staff from eight departments that use MBOS. DTMB informed us that the steering committee holds a general discussion forum, on an as-needed basis, to discuss proposed changes to MBOS. The MBOS sponsor committee meets monthly and includes executive management from DTMB, the Michigan Economic Development Corporation, the Department of Treasury, and LARA. The sponsor committee discusses general MBOS issues, such as funding, software licensing, and enhancement. We noted that matters presented to the committees by departments were not addressed and resolved in a timely manner. Therefore, defining the roles and responsibilities of the committees is necessary to clearly communicate the authority and expectations for the committees and ensure that all matters are addressed and resolved in a timely manner.
- c. DTMB and other State departments did not reevaluate the method for recovering MBOS costs. As a result, DTMB and other State departments cannot ensure that DTMB recovered MBOS costs in a fair and equitable manner. COBIT states that costing models should be regularly reviewed to help ensure the appropriateness and relevance of the costing models in relation to evolving business and IT activities. DTMB expended \$21.3 million for the development, implementation, maintenance, and enhancement of MBOS from fiscal year 2007-08 through fiscal year 2011-12. DTMB recovers a share of those costs from the departments annually. The amount recovered from each department is based on a 2009 estimate of the number of licenses

and permits that could be processed by each department in MBOS. However, DTMB and the other State departments had not reevaluated and adjusted the recovery method since 2009 to ensure that it is still appropriate based on the extent to which departments are actually using MBOS.

RECOMMENDATION

We recommend that DTMB and other State departments establish an effective governance structure for MBOS.

AGENCY PRELIMINARY RESPONSE

DTMB and other State departments agree with the recommendation and will develop a governance structure that outlines roles and responsibilities ensuring the achievement of objectives. For cost recovery, capitalized and operational costs have been allocated across all agencies through the first quarter of fiscal year 2014-15. DTMB informed us that it and the other departments will reevaluate the cost recovery model and also develop a sustainable future financial model.

FINDING

4. Maintenance of MBOS On-Line Content

State departments, in conjunction with DTMB, had not implemented a process to periodically review and update MBOS on-line content. As a result, license and permit information within MBOS was outdated and inaccurate.

COBIT states that management should ensure the establishment of effective communication and reporting, including mechanisms for ensuring the quality and completeness of information.

MBOS on-line content assists individuals with identifying the licenses and permits that are required for their businesses and also assists them with applying for the licenses and permits. For example, MBOS on-line content includes a business survey, a license search feature that provides general information about licenses and permits, and links to the application forms for the licenses and permits. After individuals have registered their businesses, MBOS generates a business survey. The business survey identifies the licenses and permits that are needed and assigns a task to apply for the selected licenses and permits. For example, if an

individual indicated in the business survey that the business would be serving food, MBOS would assign the task of applying for the food service license. After the task is assigned, MBOS provides a link to the application form for the license or permit.

DTMB informed us that each State department is responsible for notifying DTMB when updates to the on-line content are necessary. However, the State departments did not have a process to ensure that all updates were properly identified and communicated. Our review of 31 of 613 tasks for completing licenses, permits, and registrations and the related process for updating the tasks disclosed:

- a. State departments, in conjunction with DTMB, did not ensure that license and permit applications within MBOS were up to date and accurate. We noted that 12 (39%) of the 31 tasks reviewed had outdated and/or inaccurate application forms in MBOS. For example, we noted inaccurate license and permit application fee amounts, information requested on license and permit application forms that was no longer required by the department, and inaccurate department names on license and permit applications.
- b. State departments, in conjunction with DTMB, did not ensure the validity of links in MBOS. Our review disclosed that 5 (16%) of the 31 tasks reviewed had invalid links to the license search feature and/or to the application forms. The links either did not work or directed the user to outdated information. Without valid links, individuals may not be able to locate the application forms they need to do business.
- c. State departments, in conjunction with DTMB, did not complete a comprehensive review of the MBOS on-line business survey to ensure the completeness and accuracy of tasks assigned in MBOS. Without a comprehensive review of the business survey questions, departments cannot ensure that MBOS recommends the appropriate licenses and permits to a user. A comprehensive review of the business survey is necessary to ensure that changes in laws, regulations, and department policies that impact licenses and permits have been incorporated into the business survey. Our review noted that departments had not completed a comprehensive review of the business survey since MBOS was implemented in fiscal year 2008-09.

RECOMMENDATION

We recommend that State departments, in conjunction with DTMB, implement a process to periodically review and update MBOS on-line content.

AGENCY PRELIMINARY RESPONSE

DTMB and other State departments agree with the recommendation and will develop and implement a process to periodically review and update MBOS on-line content. DTMB informed us that the process will identify the specific review and update frequencies.

GLOSSARY

Glossary of Abbreviations and Terms

Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over IT.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
goal	An intended outcome of a program or an entity to accomplish its mission.
information technology (IT)	Any equipment or interconnected system that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. It commonly includes hardware, software, procedures, services, and related resources.
integration	A process in which separately produced components or subsystems are combined and problems in their interactions are addressed.
LARA	Department of Licensing and Regulatory Affairs.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.

MBOS	Michigan Business One Stop System.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
objective	Specific outcome(s) that a program or an entity seeks to achieve its goals.
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.
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.

