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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY .....  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

May 19, 2007

MEMORANDUM

TO: Mike Moody, Director  
Office of Financial Management  
Signature Redacted

FROM: Mark Haas, Chief Deputy Treasurer  
Department of Treasury

SUBJECT: Response to the Performance Audit of the Customer Contact Process  
Period Covered in Audit: October 1, 2002 – July 31, 2005

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The following are our final responses to the recommendations contained in the report of the Auditor General's performance audit of the Customer Contact Process, Department of Treasury.

Recommendation No. 1: Business Registration

We recommend that the Department implement a process to identify and register businesses that failed to register with the Department as required by statute.

Response:

We agree with the finding and have already made substantial improvements in information sharing with MUIA to identify unregistered businesses. The number of Businesses registered has risen from 526,000 on June 30, 2005 to 540,966 on January 25, 2007. Also, the MUIA and the Department of Information Technology Treasury has jointly developed and implemented a new business registration Web Site, which enables businesses to register more efficiently. In additions, we have significantly reduced the backlog of unidentified tax payments in calendar 2006 by 62%. We have contracted for replacement Business Registration and SUW Tax System To be operational by February 2008.

Recommendation No. 2: Refund Interest

We recommend that the Department process SUW refunds and office-corrected refunds within the time frame required to avoid paying interest on the refunds.

Response:

It is correct that the Department is processing SUW refunds and office-corrected refunds at a rate which results in net interest cost to the State. However, the key factor is not the net interest paid out. It is the revenue the State generates in thoroughly reviewing the returns that error-out for review.

In addition, that review process requires time and in many cases cannot be fully controlled by the Department. The amount of interest paid is materially affected by the courts' interpretation of the statutory interest payment requirement that the original receipt date of the request must be used to calculate interest on refunds, even when the request is not accompanied by adequate documentation. Thus, part of the interest paid cannot be influenced by the Department.

For SUW, net interest as calculated by the auditors is approximately \$1 million to \$2 million. For IIT, the net interest as calculated by the auditors is approximately \$500,000. The auditor's calculations include a netting of interest charged against returns with interest earned. Additional netting of the (auditor's calculated) net interest costs by common cash earnings would further reduce the net interest costs and would better reflect the true cost to the State.

Since the audit, the Department has significantly reduced backlogs of such refunds. However, as new error conditions are developed and automation of audit selection continues to improve, the Department expects to continue to manage net interest payments which remain a small portion of overall revenue production.

	<u>SUW Refunds with Interest Added</u>	<u>IIT Refunds with Interest Added</u>
<u>(per OAG Report)</u>		
CY 2004	8,547	16,229
CY 2006	5,778	14,903
% Change	(32%)	(8%)

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IIT Office-Corrected Refunds for the Period January 1, 2006 through December 31, 2006						
	Total number of Office Corrected Returns Issued	Number of refunds With Interest Added	Percent of Refunds With Interest Added	Net Interest	Average Number of Days to Process For Refunds With Interest	Average Number of Days to Process All Refunds
Customer Contact	20,738	11,693	66%	\$184,850	158	109
Return Processing	6,113	3,210	53%	\$321,344	253	169
	<u>26,851</u>	<u>14,903</u>	<u>56%</u>	<u>\$506,194</u>		

  

SUW Refunds for the Period January 1, 2006 through December 31, 2006						
	Total number of Office Corrected Returns Issued	Number of refunds With Interest Added	Percent of Refunds With Interest Added	Net Interest	Average Number of Days to Process For Refunds With Interest	Average Number of Days to Process All Refunds
Customer Contact	5,376	1,285	24%	\$164,056	269	66
Return Processing	6,988	4,493	64%	\$1,727,930	121	88
	<u>12,364</u>	<u>5,778</u>	<u>68%</u>	<u>\$1,891,986</u>		

Recommendation No. 3: Access Controls

We recommend that the Department terminate employee access to all information system applications upon employee departure.

Response:

We agree with the finding and acknowledge that system access for the 13 individuals had only been partially deleted. We have recently implemented new security policies to address such situations in the future. The system access that remained with the 13 former employees did not allow and had not been used by such employees to gain access to any of the Department's applications. We will continue to monitor this issue as part of its Biennial Internal Control Assessment.

c: Robert Kleine  
 Steven Hilker  
 Rick Lowe  
 Therese Regner