



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

May 20, 2009

Mr. Bob Emerson, Director
Office of the State Budget
Department of Management and Budget
P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Emerson:

In accordance with the State of Michigan Financial Management Guide Part VII, Chapter 4, Section 100, attached is a copy of our final plan for compliance with the recommendations in the Auditor General's Performance Audit of the Department of Treasury, Severance and Motor Carrier Fuel Tax Collections. The attached response has been accepted by the State Budget Office, Office of Internal Audit Services.

Sincerely,

Signature Redacted

Mark Haas
Chief Deputy Treasurer
Department of Treasury

Attachment

cc/att: Senator Ron Jelinek, Chair, Senate Appropriations Committee
Representative George Cushingberry, Chair, House Appropriations Committee
Mr. Gary S. Olson, Senate Fiscal Agency
Mr. Mitchell E. Bean, House Fiscal Agency
Mr. Thomas H. McTavish, Office of the Auditor General
Mr. Nate Lake, Office of the Governor
Ms. Therese Regner, Office of the Auditor General
Ms. Donna M. Donovan, Deputy Treasurer
Mr. Larry Steckelberg, Legislative Liaison, Department of Treasury
Mr. Floyd Schmitzer, Department of Treasury
Mr. Rick Lowe, Department of Management and Budget

**OAG Performance Audit of the Severance and Motor Carrier Fuel Tax Collection
Department of Treasury
Summary of Agency Responses
Audit Period October 1, 2004 through October 31, 2007**

1. Audit recommendations the agency complied with: **Finding 1**
2. Audit recommendations the agency agrees with and will comply: **Finding 2**
3. Audit recommendations the agency disagrees with: **None**

OAG Performance Audit of the Severance and Motor Carrier Fuel Tax Collection
Department of Treasury
Agency Responses Detail
Audit Period October 1, 2004 through October 31, 2007

Finding No. 1 Severance Tax

We recommend that the Department develop a comprehensive tax administration process to help ensure taxpayer compliance with applicable severance tax statutes.

Agency Response

The Department has completed implementation of a replacement Severance Tax Processing system database to help ensure taxpayer compliance. The database was placed into production effective March 31, 2009.

The Department is exploring expanding existing reporting requirements of severance taxpayers to provide annual report information identifying production units, well permit numbers, and share percentages in an electronic file that can be downloaded to the Severance Tax Processing system. The electronic annual information return would be available January 2011.

The Department has reviewed the Severance Tax Act and identified areas that if amended would increase the Department's ability to detect underpayment of or nonpayment of severance tax. These areas are currently under review for consideration.

Recommendation No. 2 International Fuel Tax Agreement (IFTA) and International Registration Plan Audits (IRP)

We recommend that the Department of Treasury complete the percentage of audits of interstate motor carriers required by IFTA audit guidelines. We also recommend that the Department of Treasury, in conjunction with the Department of State, assess the opportunity to increase audit efficiency by sharing data and considering statutory revision that would allow for combining audit functions and performing simultaneous audits of IFTA and IRP registrants.

Agency Response:

The IFTA audit team completed 107 audits for calendar year 2008. This represents significant progress, as it is a 50% increase in completed audits as compared to calendar year 2007, and a 22% increase in completed audits compared to calendar year 2006. While the 2008 total still does not meet the IFTA Compact's annual requirement to audit 3% of the licensed population (approximately 175 licensees), it does demonstrate that measurers initiated by the Tax Compliance Bureau are working. Efforts to further increase the number of audits will continue by taking steps to hire additional audit staff for the IFTA audit team. It is the Department's intent to be in compliance with this audit finding by December 31, 2011.