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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

January 30, 2014

Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, MI 48913

Dear Mr. Ringler,

In accordance with the State of Michigan, Financial Management Guide, Part VII, the following is a summary table identifying our response and corrective action plan to address recommendations contained within the Office of the Auditor General's Performance Audit of the Office of Oil, Gas, and Minerals (OOGM), Report Number 761-0300-13, from fiscal year 2009-2010 through fiscal year 2012-2013.

1. Audit recommendations the agency complied with: None

2. Audit recommendations the agency agrees with and will comply:

Reconciliation of Oil and Gas Totals:

We recommend that OOGM and the Department of Treasury (Treasury) coordinate their efforts to reconcile oil production totals and gas sold amounts.

Agency Plan:

Treasury agrees with the recommendation and will comply subject to the enactment of legislative amendments to the severance tax act and, possibly, statutory provisions, administered by OOGM, that will allow that compliance. Although coordination between the OOGM and Treasury has helped Treasury to better understand the oil and gas industry and infrastructure, it has not and, given the current state of the law, cannot address the problems inherent in the Severance Tax Act. In short, the archaic and complex Severance Tax Act is the largest obstacle to a meaningful coordination of our efforts and, more importantly, to Treasury's ability to accurately determine whether the State of Michigan is receiving all of the tax that is due. In addition, the fact that the severance tax is based on the value of the oil and gas and not on the volume or production figures does not allow Treasury to accurately determine if the correct amount of tax is received even if it has the production figures for each well. Treasury also needs additional financial information concerning sales of oil and gas and information that will allow us to determine all of those who should be paying severance tax and whether they are doing so properly. Consequently, without legislative amendments to the Severance Tax Act, and other relevant statutory provisions it will continue to be difficult or even impossible to administer the tax in a manner that will ensure that all tax due is collected.

Treasury personnel, including the Special Taxes Administrator, the Legislative Liaison and a representative from Tax Policy, met in August 2013 concerning steps that are currently being taken to prepare legislation that would update the Severance Tax Act. In addition to other issues that need to be addressed, this new legislation would address the OAG's concerns-which Treasury shares. A representative of other interested Departments, including someone from OOGM, will be involved in developing the legislation.

3. Audit recommendations the agency disagrees with: None

Should you have any questions regarding the summary table or corrective action plan, please contact Doug Miller at (517) 636-4104 or at MillerD14@michigan.gov.

Sincerely,

Signature Redacted

Glenn R. White, Deputy State Treasurer
Tax Administration and Oversight

Cc: Dennis Muchmore, Executive Office
Wendy Siegel, Executive Office
Thomas McTavish, Office of Auditor General
Mary Ann Cleary, House Fiscal Agency
Ellen Jeffries, Senate Fiscal Agency
Earl Poleski, House Appropriations Sub-committee
John Pappageorge, Senate Appropriations Sub-committee
Jeff Farrington, House Standing Committee
Jack Brandenburg, Senate Standing Committee
Tom Saxton, Treasury
Brom Stibitz, Treasury
Michael Eschelbach, Director, Treasury
Scott Lonberger, Director, Treasury
Doug Miller, Administrator, Treasury
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Rick Lowe, Office of Internal Audit Services