



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
72 (Rev. 04-15) GOVERNOR

NICK A. KHOURI
STATE TREASURER

February 4, 2016

Jeffrey S. Bankowski, 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. Bankowski:

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 Collections, Report Number 271-0153-14, from October 1, 2012 – September 30, 2014.

1. Audit recommendations the agency complied with:

Collecting Referred Delinquent Debt

Finding #2

We recommend that the Office timely pursue delinquent debts.

Agency Plan:

The Office of Collections has completed the update and formalization of procedures as of June 2015. The updated formal procedures in conjunction with training and management oversight will assist with ensuring timely collection of delinquent debts.

Revenue officers statewide were trained on the new procedures on July 30, 2015 and full implementation was effective August 1, 2015. Procedures for the enforcement officers were finalized with full implementation on September 1, 2015.

Finding #4

We recommend that the Office comply with legislative reporting requirements related to collection activities performed by the contractor.

Agency Plan:

The Office has modified the reporting query to ensure all collection activity performed by the contractor is included in the annual legislative report.

Finding #5

We recommend that the Office consistently follow Department procedures for supervisory review of delinquent tax accounts.

Agency Plan:

The Office of Collections has evaluated procedure PC-49093 and has updated the procedure to reflect best practices as of June 2015. Supervisors statewide were trained on the new procedure on July 30, 2015 and full implementation was effective August 1, 2015.

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

Collecting Referred Delinquent Debt

Finding #1

We recommend that the Department ensure that the automated system for managing SUW tax returns and payment information is programmed to accurately identify delinquent assessment balances.

Agency Plan:

Assessments with potentially incorrect balances were placed on hold in April 2015. Subsequent actions have been taken to address the issue and as of December 2015, 98% of incorrect assessments have been resolved. The Department is continuing to work towards correcting inaccurate assessments. Monies applied as a result of this issue will be refunded to the taxpayer as appropriate.

Finding #3

We recommend that the Office consistently monitor the contractor to ensure that it performs the services specified in the contract.

Agency Plan:

The Office has resolved the identified issues or is conducting research to determine how to resolve the identified issues.

- a. The Office has completed the evaluation of contract monitoring processes and will have improved processes implemented by March of 2016. Contract Compliance Inspectors did attend training in August 2015, which included training regarding effective contract monitoring.
- b. The Office has completed evaluating procedures to ensure the contractor actively processes cases and will have improved procedures implemented by June of 2016.
- c. The Office has implemented reconciliation processes for the amount of commissions billed by the contractor with the amount of debts collected by the contractor for debts other than Driver Responsibility fees as of May 2015. The Office has evaluated and implemented a new process to reconcile commissions billed by the contractor for Driver Responsibility Fees as of September 2015.

Identifying Unregistered Businesses

Finding #6

We recommend that the Office provide sufficient program management and oversight of the Unregistered Business Program (UBP) to ensure the identification and registration of businesses owing delinquent taxes.

Agency Plan:

- a. As indicated in the preliminary response, the Office disagrees with part a. of the finding. The Office established measurable goals and objectives upon inception of the UBP program. The mission of the program is to identify businesses operating in the State of Michigan that did not have an SUW tax license. It was anticipated that implementation of the UBP program would generate an additional \$11 million in tax revenue over time and lead to improved compliance of tax laws.

- b. The Office has formalized policies and procedures and has submitted them for publication as of October 2015. Updated formal procedures, along with training and management oversight, will assist the Office to consistently identify unregistered businesses, track field visit data, and effectively monitor and manage field activity.
- c. Cities and towns representing 61% of the 1,169 Michigan zip codes had been visited by a Treasury officer, concentrating on the most populated areas and areas where unregistered business activity was suspected. The Treasury officers are not wholly dedicated to the UBP; Treasury Officers are also involved in the collection of complex tax cases that may require a significant amount of time, thus reducing hours spent on the UBP. The Office has completed reviewing processes to monitor and manage UBP field activity and has implemented new processes as of October 2015. Updated formal processes, along with training and management oversight will assist in monitoring and managing UBP field activity and ensuring consistency across the State.
- d. The Office has updated and formalized policies and procedures and has submitted them for publication as of October 2015. The Office is in the process of updating and formalizing policies and procedures and will be completed by the end of FY 2015. Updated formal procedures, along with training and management oversight will assist in ensuring accurate and complete information is gathered during field visits and appropriately documented. Further, the Office will research and explore the potential for a cost effective, more efficient replacement to the UBP database currently being used by the end of June 2016.
- e. As indicated in the preliminary response, the Office disagrees with part e. of the finding. The Office does track expenditures, such as management and staff wages as well as associated travel costs and will continue to do so. The Treasury officers and management staff are not wholly dedicated to the UBP; Treasury Officers are also involved in the collection of complex tax cases.

Finding #7

We recommend that the Office fully implement effective security and access controls over the UBP database.

Agency Plan:

The OAG did not perform tests for inappropriate activity and, therefore, did not identify any inappropriate activity as a result of security and access control weaknesses within MARCS. Additionally, the Office has not identified any inappropriate activity.

Presently, the ability to change information in the Access database is limited to users who can sign into the State of Michigan Network and restricted to only users who have access to the network folder containing the Access database. In addition, this database is not used to post financial transactions and is only used as a reporting mechanism.

- a. The Office of Collections has added additional user controls to the database in order to further prevent unauthorized access or changes as of August 1, 2015.
- b. As of December 2015 the Office has implemented the maximum encryption and security controls for the Access database.
- c. The Office of Collections is currently researching the potential for a cost effective, more efficient replacement to the Access database currently being used by March of 2016.

Ensuring Appropriate MARCS Security and Access Controls

Finding #8

We recommend that the Office fully establish and implement effective security configurations for the MARCS application and database.

Agency Plan:

The Office has resolved the identified issues or is conducting further research to determine how to resolve the identified issues. The OAG did not perform tests for inappropriate activity and, therefore, did not identify any inappropriate activity as a result of security and access control weaknesses within MARCS. Additionally, the Office has not identified any inappropriate activity.

- a. The Office has resolved all significant vulnerable security configurations.
- b. The Office is working with DTMB on a process to monitor the security settings on the database managed by the contractor. We will finalize the process by June of 2016.

Finding #9

We recommend that the Office fully implement effective user access controls over the MARCS application and database.

Agency Plan:

The Office has resolved or is working on resolving all identified issues, as well as implementing additional compensating and system controls over MARCS access. The OAG did not perform tests for inappropriate activity and, therefore, did not identify any inappropriate activity as a result of security and access control weaknesses within MARCS. Additionally, the Office has not identified any inappropriate activity.

- a. The Office has completed a project as of April 2015 to modify MARCS programming to ensure that inactive users are disabled promptly.
 - b. (1) The Office has reduced developer access to the database and has created a process to monitor two system administration accounts that are required to maintain the database as of April 2015.
(2) The Office has implemented compensating controls for shared accounts as of April 2015.
(3) As of April 2015, the Office has modified processes to ensure that users are granted the proper level of access.
 - c. The Office has limited high level MARCS access to one developer and has revoked high level system privileges in the production environment as of April 2015.
 - d. The Office has implemented an annual review of user access.
 - e. Access has been reduced for MARCS programmers for all but one production software platform. We are evaluating coding changes for the remaining software platform and will complete research by the April of 2016.
3. Audit recommendations the agency disagrees with:
None

Should you have any questions regarding the summary table or corrective action plan, please contact Ann Good, Director, Office of Collections at 517-636-5300 or at gooda@michigan.gov.

Sincerely,

Signature Redacted

Joseph L. Fielek, Deputy State Treasurer
Financial and Administrative Services

Cc: Jarrod Agen, Executive Office
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