

Office of the Auditor General
Performance Audit Report

**Selected Activities of the
Bureau of Local Government Services**

Department of Treasury

May 2019

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

*Performance Audit
Selected Activities of the
Bureau of Local Government Services
Department of Treasury*

Report Number:
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May 2019

The Bureau of Local Government Services is responsible for supervising the administration of State property tax laws, auditing and overseeing the accounting and audits of local units, reviewing applications for the issuance of debt, and monitoring and approving local unit deficit elimination plans. In fiscal year 2017, the Bureau expended \$18.7 million. As of September 30, 2017, the Bureau had 80 full-time and 6 limited-term employees.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of the Bureau's efforts to ensure that taxes and credits for property of selected public utilities are properly assessed, applied, and paid to the General Fund.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
We identified 100 licensed telephone companies that the Bureau overlooked for potential assessments. For 5 of the 6 needing an assessment, the uncollected property tax was approximately \$477,000 for assessment years 2014 through 2016 (Finding #1).		X	Agrees
The Bureau did not conduct reviews or audits for report accuracy, obtain documentation to verify eligibility for tax credits, or validate report changes of 10% or more for all applicable items tested during its review of annual property reports for railroad, railcar loaning, and telephone companies (Finding #2).		X	Agrees
Lack of contractor monitoring resulted in errors in the calculation of true cash value, assessed value, capped value, or taxable value for 68% of 40 railroad, railcar loaning, and telephone company tax rolls reviewed (Finding #3).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not require its contractor to obtain a System and Organization Controls (SOC) 2, type 2 report, which assesses the operating effectiveness of controls. A SOC 2, type 2 report would provide the Bureau with a high level of assurance that the contractor's controls are operating effectively for the approximately \$50 million in property taxes collected annually (Finding #4).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of the Bureau's efforts to ensure that local units of government (local units) accurately and promptly pay selected required taxes to the School Aid Fund (SAF).			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau could not determine if it collected and deposited into the SAF the required taxes for 2,126 (39%) of the 5,426 active tax exemption certificates (Finding #5).		X	Agrees
The Bureau did not identify 12 local units with active industrial facilities (IF) tax certificates in its audit plan, did not complete an audit of 68% of the local units identified in its audit plan, and did not ensure that it received the annual IF tax report for 29% of the local units (Finding #6).		X	Agrees

Audit Objective			Conclusion
Objective #3: To assess the Bureau's effectiveness related to reviewing and conducting audits of local units.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not review 30% of the auditing procedures reports (APRs) that it identified with deficiencies or 100% of APRs that it identified with no deficiency, yet had randomly sampled for review. This could result in unidentified errors or the Bureau's failure to request further documentation, such as a deficit elimination plan (Finding #7).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not receive a corrective action plan for 13% of the 38 local unit audits that it identified with deficiencies from October 1, 2014 through June 30, 2016 and 5% of the 38 local unit audits that it identified with deficiencies from July 1, 2016 through October 31, 2016 (<u>Finding #8</u>).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess the Bureau's effectiveness related to reviewing and approving the local units' issuances of debt and deficit elimination plans.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not receive qualifying statements from 4,427 municipalities. The Department of Treasury uses the qualifying statement to determine if a municipality's fiscal health would sustain the issuance of debt (<u>Finding #9</u>).		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

May 16, 2019

Ms. Rachael Eubanks
State Treasurer
Department of Treasury
Richard H. Austin Building
Lansing, Michigan

Dear Ms. Eubanks:

This is our performance audit report on Selected Activities of the Bureau of Local Government Services, Department of Treasury.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

ENSURING TAXES AND CREDITS OF SELECTED PUBLIC UTILITIES ARE PROPERLY ASSESSED, APPLIED, AND PAID TO THE GENERAL FUND

BACKGROUND

Section 207.4 of the *Michigan Compiled Laws* requires the Department of Treasury (Treasury) to annually determine the true cash value (TCV) and taxable value (TV) of property having situs* in Michigan, such as railroad, railcar loaning, and telephone companies. Public utility companies electronically submit an annual property report that the Bureau of Local Government Services' Property Services Division (PSD) reviews for completeness. The annual property report includes various tables and schedules with information such as prior year reportable costs, property losses and additions, current year reportable costs, and credit data used to reduce the amount of tax due to the State. PSD also calculates the State average tax rate (SATR) and obtains approval for its use from the State Tax Commission (STC).

PSD provides information from the annual property reports and the SATR to its contractor who calculates each company's TCV, assessed value (AV), capped value (CV), gross tax due, and net tax due. PSD updates the tax rolls based on the values computed by its contractor. The STC certifies the tax rolls and, if applicable, companies remit tax payments to Treasury for deposit into the General Fund.

AUDIT OBJECTIVE

To assess the effectiveness* of the Bureau's efforts to ensure that taxes and credits for property of selected public utilities are properly assessed, applied, and paid to the General Fund.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- The Bureau properly calculated and documented the SATR.
- The Bureau performed the State's assessment on all 27 railroad and 957 railcar loaning companies as required.
- The Bureau ensured that taxes collected were deposited into the General Fund.
- Reportable conditions* related to identifying telephone companies requiring a State assessment (Finding #1), reviewing annual property reports (Finding #2), monitoring the contractor (Finding #3), and obtaining and reviewing a System and Organization Controls (SOC) report* (Finding #4).

* See glossary at end of report for definition.

FINDING #1

Process improvements needed to identify telephone companies that require a State assessment.

The Bureau should improve and document its process to identify telephone companies that require a State assessment. Treasury did not collect property tax revenue estimated at \$477,000 from five telephone companies for assessment years 2014 through 2016 and did not have sufficient data to determine the amount owed by a sixth company.

Section 207.4(1) of the *Michigan Compiled Laws* requires the annual assessment of TCV and TV of telephone company property having situs in Michigan. A telephone company is defined as one that provides certain services, either directly or indirectly, to the public in Michigan. These services include switching and/or routing of two-way information that is transmitted over landlines and/or landline transmission of two-way information that are voice and/or data and/or broadband.

We compared licensed telephone companies that were assessed by the State for assessment years 2014 through 2016 with the Michigan Public Service Commission's October 25, 2016 list of 254 licensed telephone companies. We identified 100 licensed telephone companies that the Bureau had not identified for possible State assessment. Upon our request, the Bureau researched each company and determined that 6 (6%) of the 100 required a State assessment.

The Bureau informed us that 5 of the 6 companies owing approximately \$477,000 were added to the 2017 tax roll, and the remaining company would be added to the 2018 tax roll. At the time of our audit, the Bureau did not have data to estimate the amount owed by this company.

The Bureau stated that it had a process in place during our audit period and these procedures did result in the discovery of assessable property. However, the Bureau could not provide us with documentation of procedures performed or the related identification of assessable property.

RECOMMENDATION

We recommend that the Bureau improve and document its process to identify telephone companies that require a State assessment.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation. An audit of state-assessed telephone companies occurred in 2011 and 2012. Process improvements have been implemented for 2017 and 2018 to include a comprehensive canvass using questionnaires sent to all Public Service Commission licensees holding tariffs in the State of Michigan to determine whether the license holder owned state-assessable real and/or personal property. Most of the licensees that were not on the roll were either resellers who used real and/or personal property of other licensees, or were not, for a given past assessment year, yet engaged in two-way voice

or data communication. PSD proactively took appropriate action through the State Tax Commission. PSD developed and implemented a process which includes a comprehensive canvass, through questionnaires, of all new licensees having tariffs, and a procedure to conduct routine recanvas of all licensees having tariffs who are currently not state-assessed.

FINDING #2

Improvements of policies and procedures needed for review of annual property reports.

The Bureau should improve the policies and procedures for its review of annual property reports for railroad, railcar loaning, and telephone companies. This will help to ensure that property taxes due to the State are complete and accurate.

Railroad, railcar loaning, and telephone companies submit annual property reports that list property owned and applicable credits used to determine the amount of tax due to the State. Bureau staff are required to review and electronically approve the companies' annual property reports prior to the determination of the tax due. Section 207.3 of the *Michigan Compiled Laws* states that PSD has the right to inspect and examine the books, papers, or account of any corporation, firm, or individual owning property to be assessed.

We reviewed a sample of annual property reports for 11 railroad, 17 railcar loaning, and 12 telephone companies. We noted that the Bureau did not:

- a. Conduct procedures, such as audits, site inspections, or desk reviews, to verify the accuracy of the annual property reports submitted and to ensure that applicable property was included in the annual property reports.

The Bureau's policy does not address procedures for railroad and railcar loaning companies. In regard to telephone companies, the Bureau's policy requires a random inspection for 20% of a telephone company's real property.

The Bureau informed us that it conducted an audit in 2012 and believes the cost to complete the audit was more than the additional tax collected. We believe that because the additional tax collected benefits future years, it would likely exceed the cost of the audit.

- b. Obtain documentation to verify eligibility for all 11 (100%) railroads that received tax credits for maintenance or improvement of rights-of-way.

Section 207.13(4) of the *Michigan Compiled Laws* states that railroad companies must demonstrate to the State board of assessors that the highest priority of expenditures for the maintenance or improvement of rights-of-way has been given to rail lines that handle hazardous materials, especially those that are located in urban or residential areas.

The Bureau informed us that it conducted a review of the largest credits for railroads in approximately 2008 and very few issues were noted.

- c. Document its review for all 26 (100%) of 26 annual property reports with changes of 10% or more.

The Bureau informed us that its review process includes a comparison of the current property report with the prior report and changes of 10% or more are investigated. However, its limited resources impacted the documentation of this review.

RECOMMENDATION

We recommend that the Bureau improve the policies and procedures for its review of annual property reports for railroad, railcar loaning, and telephone companies to help ensure the completeness and accuracy of their property taxes.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation. Treasury notes that unlike the assessment of locally assessed real and personal property, most site and property inspections are not an effective audit procedure for personal property as the property may be located outside the state or may constantly be in motion both inside and outside the state, and the value of any given item is permissible to be apportioned among many states. Treasury agrees to implement process improvements including a systematic program of site inspections of telephone company real property and other audit procedures, including better documented desk audit procedures, procedures to verify the claimed Michigan credits for railroads and railcars and procedures to verify the prioritization of maintenance of rights-of-way carrying hazardous materials. We note, however, that although the site inspections of telephone company real property and desk audit procedures can be improved and/or documented with existing staff, additional audit activities require staff and resources which are not currently available. Additional legislative appropriations would be necessary to increase the resources available for audit activities.

FINDING #3

Monitoring of contractor needed to ensure accuracy of tax rolls.

The Bureau did not monitor its contractor to ensure the correct calculation of property value data used by the State to assess railroad, railcar loaning, and telephone companies, resulting in reporting inaccurate information on Treasury's tax rolls.

Section 207.4 of the *Michigan Compiled Laws* requires Treasury to annually determine the true cash value (TCV) and taxable value (TV) for the property of railroad, railcar loaning, and telephone companies having situs in Michigan. Section 211.27a of the *Michigan Compiled Laws* defines TV as the lesser of the company's assessed value (AV) or capped value (CV). Treasury requires its contractor to calculate the TCV, AV, CV, and TV in accordance with the valuation methodologies established by Treasury.

68% of the 40 tax rolls reviewed contained errors in the calculation of TCV, AV, CV, or TV.

We reviewed 40 tax rolls and noted that the contractor did not calculate the TCV, AV, CV, or TV in accordance with methodologies established by Treasury. We noted various errors, including using incorrect multipliers and values, omitting values, using values obtained from the wrong tax year*, and inconsistently determining losses and additions for construction in progress.

We summarized the results of these calculation errors and the related effect on gross tax in the following table:

Type of Company	Number Reviewed	Number in Error	Percentage in Error	Amount of Overstatement (Understatement)				
				TCV	AV	CV	TV	Gross Tax
Railroad	11	10	91%	\$ 6,284,000	\$ 3,142,000	\$ 349,185	\$ 349,185	\$ 17,154
Railcar loaning	17	12	71%			\$ 547,153		
Telephone	12	5	42%			(\$ 110,203)		
Total	40	27	68%					

After discussions with its contractor, the Bureau informed us that these errors resulted from insufficient edits, human error, and lack of monitoring.

RECOMMENDATION

We recommend that the Bureau monitor its contractor to ensure the correct calculation of information on the tax rolls used by the State to assess railroad, railcar loaning, and telephone companies.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

Treasury provided us with the following response:

Treasury agrees with the recommendation. PSD has developed procedures to better monitor its contractor. PSD agrees that data entry errors were present in the calculation of the assessments of some of the railroads as a result of the vendor manually entering and not utilizing an automated software routine. Treasury will review the methodology for the calculations for the TCV, AV, CV and TV and continue to implement the established monitoring process to ensure the correct computation of the tax roll used to state assess railroads, car loaning and telephone companies.

FINDING #4

SOC report necessary.

The Bureau should require its contractor to obtain and provide a SOC 2, type 2 report prepared by an independent service auditor that would provide the Bureau with valuable internal control* information needed to assess and address the risks associated with an outsourced service. Also, the Bureau should implement a process for reviewing the SOC report upon receipt.

Certain SOC reports provide assurance of the design and effectiveness of system controls and the security, availability, processing integrity, confidentiality, and privacy of the system. A SOC 1, type 2 engagement is conducted by an independent auditor to report on management's description of a service organization's system and the suitability of the design and operating effectiveness of those controls over financial reporting. A SOC 2, type 2 engagement provides an assessment of the operational controls over areas that may include security, availability, processing integrity, confidentiality, and privacy of the system.

The State of Michigan Financial Management Guide (Part VII, Chapter 1, Section 1000) requires oversight of a third party service organization's (TPSO's) internal control system when those services have a material effect on the department's operation and reporting. Contracts with TPSOs must include provisions allowing the State to evaluate relevant aspects of the TPSO's internal control system, how the assessment will be conducted, and the parties responsible for the associated costs.

Although Treasury required an annual independent third party security audit report of the contractor's system security and data privacy, the report that Treasury received did not appear to be prepared by an independent third party. Also, the report did not include a review of areas such as processing integrity. We noted errors involving processing integrity during our review of the contractor's calculations (Finding #3). A SOC 2, type 2 report is required to be prepared by an independent service auditor and may include testing the operating effectiveness of certain controls related to trust criteria, such as processing integrity. The contractor is responsible for data collection and reporting services including compilation, input, output, and analysis of assessment data and applicable tax credit applications from State-assessed entities. This information is the basis for the annual collection of approximately \$50 million in property taxes.

RECOMMENDATIONS

We recommend that the Bureau require its contractor to obtain and provide a SOC 2, type 2 report prepared by an independent service auditor that would provide the Bureau with valuable internal control information needed to assess and address the risks associated with an outsourced service.

We also recommend that the Bureau implement a process for reviewing the SOC report upon receipt.

** See glossary at end of report for definition.*

**AGENCY
PRELIMINARY
RESPONSE**

Treasury provided us with the following response:

Treasury agrees with the recommendations. A policy did not exist at the time of the contract execution requiring that a SOC 1 Type 2 and/or a SOC 2 Type 2 report be provided by the vendor annually. However, the Department of Technology, Management, and Budget and Treasury do acknowledge the recommendation that SOC 1 Type 2 and/or SOC 2 Type 2 reports (or acceptable alternative report) be provided if the results of a risk assessment determines these reports are necessary. Treasury did require and received an annual third-party Security Audit report of the contractor's system security and business continuity. Of significance, the contract was created when the State of Michigan did not have language in the contracts requiring SOC reports. Since the contract does not contain language requiring SOC reports, the vendor can decide not to accept the additional statement of work to complete the SOC reports without violating the contract terms. The contract vendor has informed Treasury that it anticipates conducting a SOC 1 and SOC 2 report moving forward.

ENSURING PAYMENT OF SELECTED REQUIRED TAXES TO THE SAF

BACKGROUND

Local units of government (local units) assess the taxes that payers then remit to the assessing local unit. The local units submit the tax payments either directly to Treasury or to the county. If remitted to the county, the county must submit the tax payments to Treasury. Treasury deposits the tax revenue into the applicable funds, such as the School Aid Fund (SAF). Treasury monitors the taxes remitted by the local units. Treasury collects the following taxes, which are deposited into the SAF:

- Commercial facilities (CF) tax.
- Commercial rehabilitation (CR) tax.
- Eligible tax reverted property specific tax (ETRPST).
- Industrial facilities (IF) tax.
- Iron ore (IO) tax.
- Neighborhood enterprise zone (NEZ) tax.
- Nonferrous metallic minerals extraction severance (NMMES) tax.
- Obsolete property rehabilitation (OP) tax.
- Real estate transfer (RET) tax.
- State education tax (SET).
- Trailer coach parks (TCP) tax.

AUDIT OBJECTIVE

To assess the effectiveness of the Bureau's efforts to ensure that local units accurately and promptly pay selected required taxes to the SAF.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- The Bureau ensured that required taxes were appropriately deposited into the SAF.
- The Bureau completed monthly reconciliations of the bank deposits with the amount recorded in the Michigan Administrative Information Network* (MAIN) for SET, which accounted for approximately 85% of the tax revenue deposited into the SAF during our audit period.
- Reportable conditions related to improvements to ensure that local units remit required taxes (Finding #5) and audits of IF tax reports (Finding #6).

** See glossary at end of report for definition.*

FINDING #5

Improvements needed to ensure that local units remit required taxes.

The Bureau should improve its processes to ensure that local units remit required taxes to Treasury for deposit into the SAF.

Various sections of the *Michigan Compiled Laws* require local units to collect and remit the taxes described in the background on page 19 of this report to Treasury. Further, the various sections require Treasury to deposit the taxes received into the SAF.

The Bureau, in conjunction with a local unit, issues tax exemption certificates that exempt the taxpayer from ad valorem* real and/or personal property taxes for a specified period. In lieu of the ad valorem tax, the certificate requires the taxpayer to pay one or more of the commercial facilities (CF), commercial rehabilitation (CR), industrial facilities (IF), neighborhood enterprise zone (NEZ), or obsolete property rehabilitation (OP) taxes to the local unit. The local unit assesses and receives iron ore (IO), real estate transfer (RET), and trailer coach parks (TCP) taxes from the taxpayer and remits all or a portion of the taxes to Treasury as required by specific statute.

Our review noted:

- a. The Bureau did not compare the number of active exemption certificates with the amount of payments received to ensure that the local units remitted taxes for all active exemption certificates.

We obtained the CF, CR, IF, NEZ, and OP tax exemption certificates that were active during tax years 2014 through 2016 to determine if the local units remitted the required specific tax to Treasury. We identified 2,126 (39%) of 5,426 active certificates for which the Bureau did not receive a payment from the local units. Treasury informed us that inactive certificates may be misclassified as active and that some taxpayers with active certificates may not have a tax due. The following table presents by type of tax the number of active exemption certificates for which payment cannot be determined by Treasury for tax years 2014 through 2016:

	CF Tax	CR Tax	IF Tax	NEZ Tax	OP Tax	Total
Total number of active certificates	23	111	4,012	1,057	223	5,426
Total number of active certificates for which the local unit may not have submitted payment	21	95	883	986	141	2,126
Percentage of certificates potentially not paid	91%	86%	22%	93%	63%	39%

We were unable to efficiently calculate the amount of taxes due, if any, for the 2,126 active exemption certificates; however, we noted that the taxes collected for the 3,300 paid active exemption certificates was \$82.1 million and the IF tax accounted for 97% of that total.

* See glossary at end of report for definition.

- b. The Bureau did not have analytical procedures in place to determine if local units remitted the proper amount of IO, RET, and TCP taxes to Treasury. During fiscal years 2014 through 2016, local units remitted taxes to Treasury of \$760.1 million, \$24.2 million, and \$9.1 million for RET, IO, and TCP taxes, respectively. However, the Bureau did not review taxes remitted or follow up with the local units that did not remit taxes to Treasury.

For example, we analyzed TCP tax and noted that Treasury did not collect TCP tax from 10 (12%) of 83 counties during the audit period. The Bureau could not provide documentation that substantiates that these 10 were not required to pay TCP tax.

The Bureau informed us that Treasury has the responsibility to record the collection of taxes and does not believe the responsibility includes ensuring that the local units remit the State share of taxes to Treasury.

RECOMMENDATION

We recommend that the Bureau improve its processes to ensure that local units remit required taxes to Treasury for deposit into the SAF.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation and the need for enhanced review of SAF collections. Accordingly:

- a. *The Bureau recently hired an auditor and is in the process of creating and implementing an audit program to ensure local units remit the state share of these specific taxes to Treasury. The Bureau anticipates the audit program will be fully implemented by January 1, 2020.*
- b. *The Bureau will study the feasibility of creating a program to ensure each local government unit required to remit the state share of RET, IO and TCP taxes does so. It remains the Bureau's position that the correct calculation of those taxes for, and the collection of them from, individual taxpayers is beyond the scope of its responsibilities.*

FINDING #6

Improvement in IF tax report audits needed.

The Bureau needs to improve its processes related to identifying, auditing, and monitoring the receipt of IF tax reports. Improvements would help ensure that IF tax revenue is properly reported and collected.

The Bureau requires local units with active IF tax certificates to annually submit an IF tax report. The Bureau's audit procedure requires an audit of the IF tax report to ensure that the Bureau receives the correct amount of IF tax from the local units. In addition, the audits ensure that the IF tax report contains a list of all certificates as identified in Treasury's Electronic Local Government Information and Taxation Evaluation System* (ELITES), the certificates contain accurate identifying information, and the rates and percentages used to calculate the IF tax are accurate. The Bureau is required to audit the certificates according to specified time frames.

We reviewed 456 local units with 3,591 active IF tax certificates that required an audit during tax years 2014 and 2015. We noted that the Bureau did not:

- a. Identify 12 local units with active IF tax certificates in its audit plan.
- b. Complete an audit of 300 (68%) of the 444 local units identified in its audit plan.
- c. Ensure that it received the annual IF tax report for 132 (29%) local units, with 833 active IF tax certificates.

The Bureau obtained its initial population of IF tax reports beginning in tax year 2013 and informed us that it updates this population each year. However, the Bureau could not explain why the 12 local units were not included in its population. The Bureau also informed us that it did not have the resources to ensure that all IF tax reports were submitted and to complete all audits in its audit plan.

RECOMMENDATION

We recommend that the Bureau improve its processes related to identifying, auditing, and monitoring the receipt of IF tax reports.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation and the need to enhance auditing of IFT's. The Bureau recently hired an auditor and is in the process of expanding the IFT audit program to include an element to achieve greater filing compliance. The Bureau anticipates the audit program will be fully implemented by January 1, 2020. The Bureau is currently in the process of replacing ELITES, a critical component of the IFT audit process, with a system with enhanced ability to identify each local unit with active exemption certificates.

* See glossary at end of report for definition.

REVIEWING AND CONDUCTING AUDITS OF LOCAL UNITS

BACKGROUND

The Bureau's Community Engagement and Finance Division (CEFD) is responsible for conducting financial audits of selected local units on a contractual basis; reviewing internal control of selected local units; and monitoring the local units for compliance with the State's uniform chart of accounts, national accounting and auditing standards, and policies established by the State. As of September 30, 2017, 1,856 local units existed in Michigan. CEFD or independent certified public accountants (CPAs) are required to audit more than 800 local units on an annual basis and more than 1,000 local units on a biennial basis.

Section 141.424(3) of the *Michigan Compiled Laws* requires local units to file a copy of their financial audits with the State Treasurer within 6 months of the local units' fiscal year-end. CEFD monitors this requirement by requiring the local units to submit auditing procedures reports (APRs) and their financial audit reports to ELITES. CEFD uses ELITES to identify local units that did not submit their APRs and financial audit reports. CEFD sends a delinquency notice to the local units requiring the submission of the APRs and financial audit reports.

ELITES grades APRs based on responses to questions related to internal control, compliance, and other financial information. CEFD completes a desk review for a sample of APRs based on the grade received from ELITES. Depending on the deficiency identified on the APR, CEFD contacts the local unit for a corrective action plan (CAP) and determines if the CAP addresses deficiencies noted and is appropriately implemented.

AUDIT OBJECTIVE

To assess the Bureau's effectiveness related to reviewing and conducting audits of local units.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- The Bureau sent required letters to all primary local units identified in ELITES as not having submitted an APR and financial audit report.
- The local units' audit frequency (annual or biennial) in ELITES was accurate for the 54 local units we tested. Also, our review of 96 local unit records noted that the Bureau ensured that the fiscal year-end used to calculate the required date of audit submission was accurate in ELITES.

- The Bureau appropriately verified that licensed CPAs conducted the financial audits for each of the 96 local unit audits we reviewed.
- The Bureau ensured that reported deficiencies were identified on the CAPs and suggested corrective action was reasonable for the 66 local units we reviewed that submitted a CAP.
- Reportable conditions related to reviewing APRs (Finding #7) and receiving CAPs (Finding #8).

FINDING #7

APR reviews necessary.

The Bureau did not always review the local units' APRs to ensure that the related audit reports did not contain deficiencies or fund deficits. As a result, errors could go unidentified and the local units would not be required to submit further documentation, such as a deficit elimination plan.

We noted that the Bureau did not review:

- a. 12 (30%) of 40 APRs with identified deficiencies in ELITES. Our review of selected questions on the APRs noted that 1 (8%) of the 12 APRs had a deficiency related to a deficit and may have required a deficit elimination plan.
- b. 10 (100%) of 10 APRs with no deficiencies that were randomly sampled for review by ELITES. Our review of selected questions on the APRs noted that 1 (10%) of the 10 APRs had a deficiency related to a deficit and may have required a deficit elimination plan. Subsequent to our review and as of April 2017, the Bureau performed 4 (40%) of the 10 reviews.

The Bureau relies on business rules programmed into ELITES to help ensure that it is in compliance with Bureau policy. The ELITES business rules require that all APRs with identified deficiencies be reviewed to determine, for example, if a fund deficit exists and if CAPs are effective. The business rules also require that a random sample of APRs with no identified deficiencies be reviewed to ensure that local units complete APRs accurately.

The Bureau stated that it upgraded ELITES and is still learning the APR assignment process.

RECOMMENDATION

We recommend that the Bureau review the local units' APRs to ensure that the related audit reports do not contain deficiencies or fund deficits.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation. The use of ELITES was new for this process at the time of the original audit. At that time CEFD was not fully utilizing the features of the new system. CEFD is now considering all ELITES randomly selected APR's for review.

FINDING #8

Process improvements needed to ensure that CAPs are received.

The Bureau should improve its processes to help ensure that it obtains CAPs for deficiencies noted in audit reports of local units. This impacts the Bureau's ability to monitor and track the status of local unit deficiencies.

The Bureau sends a letter to the local unit requesting the CAP when a deficiency is reported in its audit. If the local unit does not respond to the first request, a second letter is sent. Staff review the CAP to determine if the corrective action addresses the reported deficiency. If a CAP is not received or the CAP does not sufficiently address the deficiency, staff contact the local unit for follow-up.

We reviewed 76 audit reports with deficiencies and noted:

- a. In 5 (13%) of 38 audit reports received from October 1, 2014 through June 30, 2016, a second letter requesting the CAP was not sent. The Bureau did not receive the required CAPs for these local units.
- b. In 2 (5%) of 38 audit reports received from July 1, 2016 through October 31, 2016, a second letter requesting the CAP was not sent. The Bureau did not receive the required CAPs for these local units.

Prior to July 2016, staff manually entered the date for the letters to be generated. The Bureau informed us that staff must not have entered a date for the letter to be generated in the 5 exceptions noted in part a. In July 2016, CEFD changed its ELITES business rules to generate the letters on a date calculated by ELITES. However, CEFD informed us that the date field can be edited or deleted. For the 2 exceptions noted in part b., staff deleted the system-generated dates and did not enter new dates.

RECOMMENDATION

We recommend that the Bureau improve its processes to help ensure that it obtains CAPs for deficiencies noted in audit reports of local units.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation. Second letters are now being sent on all CAP's that have not been received as required. CEFD places a phone call to most of the local units after the second letter as an additional step to help improve compliance.

REVIEWING AND APPROVING LOCAL UNITS' ISSUANCES OF DEBT AND DEFICIT ELIMINATION PLANS

BACKGROUND

CEFD monitors the local units' issuances of debt and general financial conditions by reviewing qualifying statements, prior approval applications, deficit elimination plans, and audit reports. CEFD requires each municipality* to submit a qualifying statement that it evaluates within 30 business days of receipt through an automated process to determine compliance. If the municipality does not meet statutory requirements or file a qualifying statement, it may need to submit a separate prior approval application to be considered for debt issuance. For every debt issuance, the municipality is required to file a security report that contains an official statement and legal counsel's opinion on the legality of borrowing. If CEFD determines that the qualifying statement is in compliance, the municipality may proceed to issue municipal securities. If the qualifying statement is received more than 6 months after the end of the municipality's fiscal year, a late fee of \$100 shall accompany the first application filed after that date.

CEFD also determines when local units are required to submit a deficit elimination plan. When a local unit has a deficit in any of its funds, CEFD will assess the local unit's financial health to determine if a deficit elimination plan is required. CEFD's goal* is to obtain a reasonable and achievable deficit elimination plan from the local unit to assist it in regaining and maintaining financial health. CEFD requires the local unit to submit the deficit elimination plan within 30 days of its request. CEFD approves and certifies the plan after it determines that the plan is reasonable and achievable. For General Fund deficits, the local unit is required to submit monthly financial data showing compliance with its approved plan. For plans that are not initially approved, CEFD will work with the local unit to establish a plan that is achievable. CEFD can withhold 25% of the local unit's statutory revenue-sharing payments if the local unit does not submit the requested plan.

AUDIT OBJECTIVE

To assess the Bureau's effectiveness related to reviewing and approving the local units' issuances of debt and deficit elimination plans.

CONCLUSION

Moderately effective.

* See glossary at end of report for definition.

**FACTORS
IMPACTING
CONCLUSION**

- The Bureau reviewed 96% of qualifying statements received from municipalities within 30 business days of receipt.
- The Bureau ensured that municipalities reconsidered for issuing debt were reviewed in a timely manner and submitted the required security reports.
- The Bureau ensured that municipalities that submitted prior approval applications were reviewed in a timely manner and, if applicable, fees were collected and the municipalities' security reports were submitted.
- The Bureau monitored the receipt of deficit elimination plans and withheld a portion of the local units' statutory revenue-sharing payments for plans that were not submitted in a timely manner.
- Reportable condition related to ensuring that municipalities submit qualifying statements (Finding #9).

FINDING #9

Improvements needed to ensure that municipalities submit qualifying statements.

The Bureau did not ensure that all municipalities submitted qualifying statements. These statements are a tool that Treasury uses to assess the fiscal health of municipalities and must be approved prior to issuing debt. As a result, some municipalities could issue debt without proper authorization from Treasury.

We compared the total population of community colleges, intermediate school districts (ISDs), schools, and active audits in ELITES with the total population of qualifying statements in ELITES from October 1, 2014 through October 31, 2016. Our comparison noted a difference of 4,427 municipalities that had submitted an audit and were active in ELITES or were a community college, ISD, or school and had not submitted a qualifying statement.

The following chart details the number of municipalities by type that did not submit a qualifying statement when compared with active audits and school data:

Type of Municipality	Number of Missing Qualifying Statements
Authority	1,422
City	35
Community college	4
County	8
Drainage district	1,489
Hospital finance authority	66
ISD	16
Library	351
Road commission	52
School/School academy	111
Township	751
Village	122
Total	4,427

Section 141.2103 of the *Michigan Compiled Laws* states that a municipality is a county, township, city, village, school district, ISD, community college district, metropolitan district, port district, drainage district, district library, or another governmental authority or agency in this State that has the power to issue a security. Also, Section 141.2303 of the *Michigan Compiled Laws* states that, accompanying the audit report, a municipality shall file a qualifying statement on a form and in the manner provided by Treasury.

The Bureau informed us that many municipalities do not submit qualifying statements unless they are planning to issue debt. The Bureau also informed us that there is no statutory penalty for failing to complete and submit a qualifying statement.

RECOMMENDATION

We recommend that the Bureau ensure that all municipalities submit qualifying statements to provide Treasury with assurance that municipalities have the fiscal health to issue debt.

AGENCY PRELIMINARY RESPONSE

Treasury provided us with the following response:

Treasury agrees with the recommendation. We also agree that while municipalities are statutorily required to annually submit a qualifying statement, there is no statutory penalty that can be levied for non-compliance. This makes ensuring that all municipalities submit a qualifying statement an unattainable outcome. Furthermore, since the purpose of the qualifying statement is to assess a municipality's fiscal health in order to determine if they can issue debt without further approval from Treasury, we believe it would be more efficient and no less effective to amend the statute to only require a qualifying statement be submitted if the municipality is planning to issue debt. In an effort to address this finding, CEFD established a new annual procedure starting in July 2018 to send an e-mail to counties, townships, cities, and villages that are delinquent in submitting a qualifying statement. If within 30 days the qualifying statement is not received, a second e-mail is sent. For 2018 this effort increased compliance from 42% to 66%. For all municipalities, as of October 1, 2018, 2,504 qualifying statements had been submitted, the most ever in its 16-year history. While this was effective in increasing compliance, it utilized both CEFD and municipality staffing resources and provided negligible benefit as in most instances, municipalities planning to issue debt have already submitted their qualifying statement.

AGENCY DESCRIPTION

The Bureau's mission* is to provide information and counsel to officials in local units, State agencies, and taxpayers regarding:

- The administration of State laws requiring the taxation of real and personal property.
- A uniform system of financial accounting and auditing by local units.
- Prudent fiscal management.

Our audit included selected activities of the following two divisions of the Bureau:

a. Property Services Division (PSD)

PSD provides staff support for the STC, administers property tax exemptions, audits the IF tax and reconciles such tax receipts with the State's accounting system, and monitors the collection of State taxes remitted by local units that are deposited into the SAF and General Fund. These taxes include:

- Commercial facilities (CF) tax.
- Commercial rehabilitation (CR) tax.
- Eligible tax reverted property specific tax (ETRPST).
- Industrial facilities (IF) tax.
- Iron ore (IO) tax.
- Neighborhood enterprise zone (NEZ) tax.
- Nonferrous metallic minerals extraction severance (NMMES) tax.
- Obsolete property rehabilitation (OP) tax.
- Property tax from railroad, railcar loaning, and telephone companies.
- Real estate transfer (RET) tax.
- State education tax (SET).
- Trailer coach parks (TCP) tax.

PSD received and reviewed exemption applications for 9 different tax exemptions, including:

- Air pollution control facilities.
- Commercial facilities.
- Commercial rehabilitation properties.
- Industrial facilities.
- Neighborhood enterprise zone properties.
- New personal property exemption.
- Obsolete properties.
- Principal residence exemption.
- Water pollution control facilities.

* See glossary at end of report for definition.

b. Community Engagement and Finance Division (CEFD)

CEFD's audit section is responsible for performing effective and efficient financial audits of selected local units on a contractual basis; conducting reviews of the internal control of selected local units; and monitoring local units' compliance with the State's uniform chart of accounts, national accounting and auditing standards, and policies established by the State. CEFD monitors compliance through site visits and reviews of the local units' financial audits. CEFD is responsible for reviewing approximately 680 reports annually and 1,470 reports biennially. Through this monitoring, the Bureau assesses a local unit's financial condition and provides financial analysis to assist in determining the action necessary to restore a local unit to fiscal health. As of September 30, 2017, there were 1,856 local units in Michigan: 83 counties, 280 cities, 253 villages, and 1,240 townships.

CEFD's Municipal Finance Section monitors the issuance of debt by local units; reviews qualifying statements, prior approval applications, security reports, deficit elimination plans, and audit reports to determine the local units' general financial condition; and promotes compliance with State law through the issuance of bulletins, manuals, and numbered letters. During fiscal year 2017, the Municipal Finance Section reviewed 2,146 qualifying statements, of which 1,324 received approval to borrow.

In fiscal year 2017, the Bureau expended \$18.7 million. As of September 30, 2017, the Bureau had 80 full-time and 6 limited-term employees.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes of selected activities of the Bureau. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2013 through October 31, 2016.

METHODOLOGY

We conducted a preliminary survey of the Bureau to formulate a basis for defining our audit objectives and scope. During our preliminary survey, we:

- Interviewed Bureau management and personnel regarding their functions and responsibilities.
- Reviewed applicable State laws, regulations, and procedures.
- Reviewed a random sample of 11 APRs to determine if ELITES appropriately classified the APRs based on established parameters.
- Completed a limited review of Treasury's process to review and approve tax exemption certificates.
- Reviewed 20 randomly sampled CAPs that Treasury received from local units to determine if the CAPs were applicable and reasonable.
- Verified that the Bureau reviewed at least 10% of the 7,045 qualifying statements and qualifying statement reconsiderations that it received during the audit period.

OBJECTIVE #1

To assess the effectiveness of the Bureau's efforts to ensure that taxes and credits for property of selected public utilities are properly assessed, applied, and paid to the General Fund.

* See glossary at end of report for definition.

To accomplish this objective, we:

- Verified the 106 telephone companies that were assessed by the State during tax years 2014 through 2016 to local and long distance telephone companies regulated by the Michigan Public Service Commission to ensure completeness of the assessments by the Bureau.
- Verified the 27 railroad companies that were assessed by the State during tax years 2014 through 2016 to the Michigan Railroad Association to ensure completeness of the assessments by the Bureau.
- Reviewed the State's contract for State-assessed property data collection and reporting services to determine if it required a SOC report.
- Interviewed applicable staff and reviewed policies and procedures related to reviewing railroad, railcar loaning, and telephone companies' annual property reports to ensure that the reports submitted are complete and accurate.
- Reviewed 40 of 1,328 railroad, railcar loaning, and telephone companies' annual property reports submitted to the Bureau for tax years 2014 through 2016 to determine if vendor calculations were complete, accurate, and properly supported. We randomly sampled 25 and judgmentally sampled 15 annual property reports to ensure that we obtained sufficient audit coverage. Therefore, we could not project our results to the entire population.
- Verified, for each of the 11 railroad companies selected in the random sample described in the preceding bullet, that the railcar loaning companies identified in the annual property reports as traveling on Michigan railroad tracks were assessed by the State as required.
- Obtained an understanding of the process to calculate the SATR and verified the Bureau's 2016 calculation to appropriate supporting documentation.

OBJECTIVE #2

To assess the effectiveness of the Bureau's efforts to ensure that local units accurately and promptly pay selected required taxes to the SAF.

To accomplish this objective, we:

- Reviewed 13 of 130 2015 IF tax reports audited by the Bureau to determine that the Bureau's review was complete and accurate. We judgmentally selected our sample. Therefore, we could not project our results to the entire population.

- Traced a sample of 10 of 15,268 transactions representing taxes received from local units from October 1, 2013 through September 30, 2016 to determine if the taxes were properly recorded in the SAF. We judgmentally selected the sample to ensure sufficient audit coverage of the various taxes. Therefore, we could not project our results to the entire population.
- Verified CF, CR, IF, NEZ, and OP tax exemption certificates that were active during tax years 2014 through 2016 to determine if the local units submitted the required specific taxes to Treasury.
- Verified IO, RET, and TCP tax revenue recorded in the SAF by county to identify the counties that had not paid the applicable tax from October 1, 2013 through September 30, 2016.
- Verified 497 local units with 3,767 active IF tax certificates during tax year 2014 and/or 2015 to determine if the Bureau included the local units in its IF tax audit population, received the IF tax reports from the local units, and completed planned audits of the local units' IF tax reports.

OBJECTIVE #3

To assess the Bureau's effectiveness related to reviewing and conducting audits of local units.

To accomplish this objective, we:

- Randomly sampled 96 of the 5,972 primary and non-primary local unit audits received from October 2013 through October 2016 to determine if the audits were conducted by an independent CPA and in accordance with applicable standards; the financial statements were prepared in accordance with generally accepted accounting principles* (GAAP); the APRs were completed accurately; and the Bureau monitored the local units for timely submission of their audits and, if necessary, sent letters to local units whose audit reports were not submitted. Our sample was randomly selected from varying populations and, therefore, could not be projected to the entire population.
- Reviewed, using the random sample described in the preceding bullet, each of the 72 non-primary units that ELITES identified to determine if an audit report was submitted or was included in the primary unit's audit.

* See glossary at end of report for definition.

- Reviewed each of the 10 APRs randomly sampled by ELITES from July 2016 through October 2016 to determine if the Bureau's review was completed in a timely manner.
- Received from the Office of the Great Seal lists of non-primary local units created under 25 separate public acts. We reviewed 154 non-primary local units from the lists and determined that 147 were in existence as of April 10, 2017. We verified the 147 non-primary local units to ELITES to determine if they were included in ELITES and if audit reports were submitted. We judgmentally sampled 154 non-primary local units to ensure that we obtained sufficient audit coverage. Therefore, we could not project our results to the entire population.
- Randomly sampled 80 of 832 audits submitted by local units from October 1, 2014 through October 31, 2016 that required a CAP to determine if the Bureau requested the CAP from the local unit, ensured the CAP addressed all audit findings, and reviewed the CAPs received for reasonableness. Our sample was randomly selected to eliminate any bias and to enable us to project the results to the entire population.
- Reviewed audit guidance provided by the Bureau to local units and their CPAs for appropriateness.
- Reviewed the current uniform chart of accounts to determine that the Bureau updated it in a timely manner.
- Analyzed 104 audits of local units started by the Bureau from October 1, 2013 through October 31, 2016 and determined that the fee charged and collected was appropriate.

OBJECTIVE #4

To assess the Bureau's effectiveness related to reviewing and approving local units' issuances of debt and deficit elimination plans.

To accomplish this objective, we:

- Compared community colleges, ISDs, schools, and active audits in ELITES with the total population of qualifying statements in ELITES from October 1, 2014 through September 30, 2016 to determine if qualifying statements were submitted.
- Randomly sampled 45 of 6,379 qualifying statements submitted by the local units from October 1, 2013 through September 30, 2016 to determine if the Bureau appropriately approved or denied the qualifying statement, notified the local unit of its decision in a

timely manner, collected the filing fee as applicable, and ensured that the local unit submitted a security report as applicable.

- Randomly sampled 6 of 520 deficit elimination plans requested by the Bureau from October 1, 2013 through September 30, 2016 to determine if it received the deficit elimination plans and enforced lack of timeliness penalties.
- Randomly sampled 5 of 529 qualifying statements reconsidered from October 1, 2013 through September 30, 2016 to determine if the Bureau's review was timely and the local units submitted the required security reports.
- Randomly sampled 4 of 333 prior approval applications received from October 1, 2013 through September 30, 2016 to determine if the Bureau's review was timely and, if applicable, it collected the filing fee and received the local units' security reports.

We selected random samples to eliminate bias and to enable us to project the results to the respective populations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 9 findings and 10 corresponding recommendations. Treasury's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of the audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

ad valorem tax	A tax based on the assessed value of an item, such as real estate or personal property.
APR	auditing procedures report.
AV	assessed value.
CAP	corrective action plan.
CEFD	Community Engagement and Finance Division.
CF	commercial facilities.
CPA	certified public accountant.
CR	commercial rehabilitation.
CV	capped value.
effectiveness	Success in achieving mission and goals.
Electronic Local Government Information and Taxation Evaluation System (ELITES)	A system to facilitate the electronic filing of all division forms, process the forms based on identified business rules, and store data for further analysis and/or the development of financial dashboards.
ETRPST	eligible tax reverted property specific tax.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
goal	An intended outcome of a program or an entity to accomplish its mission.
IF	industrial facilities.

internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
IO	iron ore.
ISD	intermediate school district.
local unit	local unit of government.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and 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. Our assessment of materiality is in relation to the respective audit objective.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supported accounting, purchasing, and other financial management activities through fiscal year 2017.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
municipality	A county, township, city, village, school district, intermediate school district, community college district, metropolitan district, port district, drainage district, district library, or another governmental authority or agency in this State that has the power to issue a security. A municipality does not include this State or any authority, agency, fund, commission, board, or department of this State.
NEZ	neighborhood enterprise zone.
OP	obsolete property rehabilitation.
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.

PSD

Property Services Division.

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.

RET

real estate transfer.

SAF

School Aid Fund.

SATR

State average tax rate.

SET

State education tax.

situs

Property, real and personal, of the persons, corporations, companies, copartnerships, and associations subject to taxation under Public Act 282 of 1905, owned, used, and occupied by them within Michigan, and also the proportion of their rolling stock, cars, and other property used partly within and partly outside of Michigan as provided under the act. For telegraph companies and telephone companies only, for tax years that begin after December 31, 2005, situs is only the tangible property, real and personal, owned, used, and occupied by them within Michigan.

STC

State Tax Commission.

**System and Organization
Controls (SOC) report**

Designed to help organizations that provide services to user entities build trust and confidence in their delivery processes and controls through a report by an independent CPA. Each type of SOC report is designed to meet specific user needs:

- SOC 1 (Report on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting) - Intended for user entities and the CPAs auditing their financial statements in evaluating the effect of the service organization's controls on the user entities' financial statements.

- SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) - Intended for a broad range of users that need information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.

There are two types of SOC 1 and SOC 2 reports:

- Type 1 - Reports on the fairness of management's description of a service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description, as of a specified date.
- Type 2 - Includes the information in a type 1 report and also addresses the operating effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.
- SOC 3 (Trust Services Report for a Service Organization) - Intended for those needing assurance about a service organization's controls that affect the security, availability, or processing integrity of the systems a service organization employs to process user entities' information, or the confidentiality or privacy of that information, but do not have the need for or the knowledge necessary to make effective use of a SOC 2 report.
- SOC for Cybersecurity. Intended to communicate relevant information about the effectiveness of an organization's cybersecurity risk management programs.

tax year	An annual accounting period for keeping records and reporting property, income, and expenses. An annual accounting period is a calendar year, 12 consecutive months beginning January 1 and ending December 31.
TCP	trailer coach parks.
TCV	true cash value.
TPSO	third party service organization.
Treasury	Department of Treasury.
TV	taxable value.



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