



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

July 17, 2019

Rick Lowe, 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. Lowe,

In accordance with the State of Michigan, Financial Management Guide, Part VII, the following is our corrective action plan to address recommendations contained within the Office of the Auditor General's Performance Audit of the Selected Activities of the Bureau of Local Government Services, Report Number 271-0290-16, from October 1, 2013 – October 31, 2016.

1. AUDIT RECOMMENDATIONS THE AGENCY COMPLIED WITH:

Finding #1 Identify Telephone Companies that Require a State Assessment:

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

Agency Plan:

Beginning in 2017, process improvements were implemented to better identify telephone companies subject to state assessment. These improvements included a comprehensive canvass, through questionnaires, of all Public Service Commission licensees holding tariffs in the State of Michigan. The Bureau continues to audit all new licensees having tariffs and developed a procedure to conduct routine recanvass of all licensees having tariffs who are currently not state-assessed.

Finding #3 Monitoring of Contractor Needed:

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.

Agency Plan:

The Bureau has developed procedures to better monitor its contractor in order to ensure that accurate calculations are provided. As part of the current process, the contractor provides staff with copies of the spreadsheets listing data and value calculations for state assessed

property. These third-party calculations are reviewed and verified against the submissions made by railroad, railcar loaning and telephone companies. Staff prepares independent calculations based on the taxpayer filings to verify that the derived valuations from the contract are correct. The implemented monitoring process will ensure the correct computation of the tax roll used to state assess railroads, car loaning and telephone companies.

Finding #7 APR Reviews Necessary:

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 Plan:

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

Finding #8 Ensure CAPs are Received:

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 Plan:

The Bureau improved its processes to help ensure it obtains CAPs for deficiencies noted in the audit reports of local units. Second letters are now being sent on all CAP's that have not been received as required. The Bureau places a phone call to most of the local units after the second letter as an additional step to help improve compliance.

Finding #9 Ensure Municipalities Submit Qualifying Statements:

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 Plan:

The Bureau established a new annual procedure starting in July of 2018 to send an email 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 email 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.

2. AUDIT RECOMMENDATIONS THE AGENCY AGREES WITH AND WILL COMPLY:

Finding # 2 Review of Annual Property Reports:

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 Plan:

The Bureau will 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. The Bureau is in the process of replacing the staff member primarily responsible for this area and, as part of the hiring process, will initiate a review of documented procedures. The Bureau anticipates these process improvements will be fully implemented by January 1, 2020, to coincide with the development of the 2020 assessments for railroad, railcar loaning and telephone companies.

Finding #4 SOC Report Necessary:

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.

Agency Plan:

The contract that was the subject of Finding #4 is in the process of being renegotiated, with requests for proposals due July 19, 2019. The successful bidder will be required to provide a SOC 2 Type 2 report. The Bureau will work with a security officer to review the SOC 2 Type 2 reports from the vendor to ensure compliance.

Finding #5 Ensure Local Units Remit Required Taxes:

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

Agency Plan:

a. The Bureau recently hired 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. The Bureau will complete this action by March 1, 2020.

Finding #6 IF Tax Report Audits Needed:

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

Agency Plan:

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 exploring 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.

3. AUDIT RECOMMENDATIONS THE AGENCY DISAGREES WITH: NONE

Should you have any questions regarding the corrective action plan, please contact Heather Frick at (517)335-7465 or at FrickH@michigan.gov.

Sincerely,

Signature Redacted

Joyce A. Parker, Deputy State Treasurer
State and Local Finance

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