



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

February 28, 2017

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 Corporate Income Tax (CIT) and Michigan Business Tax (MBT), Report Number 271-0240-15, from January 1, 2012 – April 10, 2015.

1. Audit recommendations the agency complied with:

Finding #1 – Timely removal of system access rights.

We recommend that the Department of Treasury timely remove access rights to the SAP system for separated or transferred employees.

Agency Plan:

The Business Tax Division (BTD) will work to consistently and timely remove SAP access from its employees that have departed. An email notification process was established in January 2015 to provide notice regarding departed employees to both the Support Services Division and the Office of Privacy and Security who work together to accomplish the actual system removal. The Office of Privacy and Security is working with Treasury supervisors and managers and the Treasury HR Office to improve communication and collaboration to ensure timely removal of access rights.

Finding #2 – Process needed to ensure that taxpayers with accelerated payments file MBT returns.

We recommend that BTD ensure that taxpayers receiving accelerated payments for select credits submit annual MBT returns and thereby pay the appropriate taxes.

Agency Plan:

After discussion with the Tax Policy Division, BTD developed a process to follow. BTD implemented the process in December 2015 and sent letters to all taxpayers that received a credit for tax years 2012 and 2013. The letter requests they either file a return or send

an explanation why they are not required to file. The letter gives them 30 days to respond. Pursuant to this policy, BTD will either accept through their written attestation that they are not required to file, receive a return, or compute an assessment for failure to respond to our letter. For those not responding, BTD has sent delinquency notices for tax year 2014.

Finding #3 – Additional procedures needed to verify flow-through withholding payments.

We recommend that BTD improve procedures to verify that taxpayers claiming flow-through withholding payments result in proper reporting and collection of required tax revenue.

Agency Plan:

BTD generally agrees with this recommendation but reiterates the historical reasons that prevented a systematic approach to solving the issue. The tracking of underlying accounts/payments was extremely complicated from a systems implementation standpoint and with limited implementation time and resources, a business decision was made to verify these withholding payments through Tax Compliance Bureau post audit efforts. Additionally, the Department supplied the legislature with a draft bill that would eliminate FTW altogether and as an update, PA 158 of 2016 was signed into law on 6/9/16. This act eliminates the requirement that flow through entities withhold income tax on members' distributive share of income.

Finding #4 – Periodic review procedures needed for processed tax returns under the minimum approval thresholds.

We recommend that BTD establish procedures to periodically perform an independent review of annual CIT and MBT returns that fall below the agency's established minimum approval thresholds to ensure the propriety and validity of processed returns.

Agency Plan:

BTD continues to work with the QA group to create and implement an objective QA process for all returns including those that normally do not queue for approval. BTD implemented a process in June 2016 for front-line supervisors to query each employee's work on a monthly basis and randomly sample several returns that normally would not queue for approval. The samples are reviewed for accuracy, and recorded on a spreadsheet for future use.

Finding #5 – Taxpayer telephone calls should be consistently monitored to help ensure the quality of service.

We recommend that the Department of Treasury consistently conduct remote monitoring of telephone calls to ensure that taxpayers receive the best possible service from CSRs.

Agency Plan:

Since June 2015 the Support Services Division has worked to consistently apply its quality control measures to telephone calls conducted within BTD. Some inconsistencies occurred during the release of SAP system enhancements associated with Registration as

certain QA staff were pulled from their normal duties to assist with system implementation, trouble shooting, and remedies.

Finding #6 – Process needed to ensure taxpayer notification of deactivated returns.

We recommend that BTD implement a process to notify taxpayers when submitted CIT or MBT returns are deactivated and not processed.

Agency Plan:

Although BTD generally agrees that it did not always ensure notification was sent to taxpayers informing them of a voided or deactivated return, this notification is not statutorily required. The vast majority of the returns in question are voided because there is never a filing obligation to begin with. This reality was reflected in the audited sample where 98% of the returns reviewed simply had no filing obligation at all. When there is no filing obligation, there necessarily can be no further delay in the collection of tax revenue or refunds associated with subsequent, proper returns. BTD has reviewed its practices and determined that in the interest of customer service the taxpayer should be notified of a voided or deactivated return. BTD implemented a procedure in January of 2015 to ensure staff consistency in sending notifications.

Finding #7 – Certificated credit documentation needed to timely process MBT returns.

We recommend that BTD obtain a listing of taxpayers that have an agreement with a State agency for a certificated credit that will or may become available in a future period to assist in the timely processing of MBT returns.

Agency Plan:

BTD has established an arrangement as of June 2016 with the MEDC to obtain a list of all certificated credits that have been issued. The MEDC has agreed to send quarterly updates of all new credits that have been approved.

2. Audit recommendations the agency agrees with and will comply: None
3. Audit recommendations the agency disagrees with: None

Should you have any questions regarding the corrective action plan, please contact Scott Lonberger at 517-636-4280 or at LonbergerS@michigan.gov.

Sincerely,



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

cc: Dick Posthumus, Executive Office
Wendy Wisniewski, Executive Office
Doug Ringler, Office of the Auditor General
Rob VerHeulen, House Appropriations Sub-committee

Jim Stamas, Senate Appropriations Sub-committee
Lee Chatfield, House Standing Committee
Arlan Meekhof, Senate Standing Committee
Mary Ann Cleary, House Fiscal Agency
Ellen Jeffries, Senate Fiscal Agency
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