



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

July 8, 2014

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

Dear Director:

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 Sales, Use, and Withholding Taxes Process within the Tax Processing Bureau, Report Number 271-0201-13, from October 1, 2009 to July 31, 2013.

1. Audit recommendations the agency complied with: None
2. Audit recommendations the agency agrees with and will comply:

1) Accounts with Annual return errors:

We recommend that the Bureau follow-up unreconciled SUW taxpayer accounts in a timely manner.

Agency Plan:

The Bureau is currently developing a new SUW processing system that will be operational January 2015, and will include significant enhancements including the following:

- Improved business rules - the system will have increased functionality and automation associated with its business rules resulting in a greater amount of returns being processed by the system without manual intervention.
- Improved work lists and reporting – improved works lists and reporting will provide greater ability to prioritize staff work and effectively manage backlogs.

- Improved computed assessment process – computed assessments currently require significant resources. New functionality will result in a higher accuracy for computed assessments, fewer cancelations and therefore, more staff time available for account reconciliation.

Additionally, in an effort to mitigate the current backlog, staff is currently dedicating a portion of approved overtime for processing unreconciled annual returns.

2) **Monitoring of Adjustments:**

We recommend that the Bureau monitor manual SUW taxpayer account adjustments in accordance with Bureau's policy.

Agency Plan:

The Bureau is reviewing procedures to ensure consistent and regular monitoring of staff adjustments not subject to the systematic approval process. Additionally, the following actions will improve the oversight of manual adjustments and return processing in general:

- Supervisory review – the Bureau is currently instituting a manual, random review process to confirm that any staff adjustments made are properly supported and explained with system notations.
- Formal quality assurance - a recent reorganization of the Bureau included the establishment of a bureau-wide quality assurance section that will eventually provide separate, objective quality assurance reviews for SUW and all other major taxes administered within the Bureau.
- System replacement - the current, legacy system allows manual adjustments to occur for a variety of account scenarios. However, the Bureau is developing a new SUW processing system that will generally limit staff's ability to make manual adjustments based upon filed, return information only. This will both reduce the need for staff adjustments and make manual adjustment monitoring easier.

3) **Annual Returns**

We again recommend that the Bureau improve controls to help ensure and verify that all registered SUW taxpayers file the required annual return.

Agency Plan:

The Bureau is currently developing a new SUW processing system that will be operational on January 1, 2015, and will include an automated, annual return delinquency process to address this finding. The annual delinquency will send notices to any SUW taxpayer registered that has not filed the annual return by the due date.

3. Audit recommendations the agency disagrees with: None

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

Sincerely,

Signature Redacted

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

cc: Dennis Muchmore, Executive Office
Wendy Wisniewski, Executive Office
Doug Ringler, Office of the Auditor General
Mary Ann Cleary, House Fiscal Agency
Ellen Jeffries, Senate Fiscal Agency
Earl Poleski, House Appropriations Sub-committee
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