



# OAG

Office of the Auditor General

## Report Summary

### Performance Audit

### Office of Collections

### Department of Treasury

Report Number:  
271-0153-14

Released:  
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The Office of Collections is the centralized collection agency for delinquent taxes administered by the Department of Treasury and delinquent non-tax debts owed to various State agencies. The Office performed collection activities on 1.4 million delinquent accounts in fiscal year 2014 and collected an average of \$431 million each year during fiscal years 2012 through 2014. The Office contracts with a collection agency for collection services for which it pays a commission based on the amount of delinquent debt received by the State as a result of the collection efforts. The Office and contractor utilize the Michigan Accounts Receivable Collection System (MARCS) to assist in the collection process.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness and efficiency of the Office's efforts to collect referred delinquent debt.			Moderately effective and efficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department of Treasury did not ensure that the automated system for managing sales, use, and withholding (SUW) tax returns and payment information was programmed to accurately identify delinquent assessment balances. Inaccurate programming caused the Office to issue 76,000 SUW tax assessments with an incorrect balance and incur at least \$142,000 in avoidable processing costs ( <u>Finding #1</u> ).	X		Agrees
The Office did not timely pursue delinquent debts, which could result in State revenue being delayed or uncollected ( <u>Finding #2</u> ).	X		Agrees
The Office did not consistently monitor the contractor to ensure that it performed the services specified in the contract. Monitoring would help ensure the completion of required activities to maximize the collection of delinquent debts and the accuracy of billings for services provided ( <u>Finding #3</u> ).		X	Agrees
The Office did not comply with legislative reporting requirements related to collection activities performed by the contractor. Failure to report collections data could prevent the Legislature from having the information it needs to make decisions about the value and effectiveness of the Office ( <u>Finding #4</u> ).		X	Agrees

<b>Findings Related to This Audit Objective (Continued)</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
The Office did not consistently follow Department procedures for supervisory review of delinquent tax accounts. As a result, the Office could not ensure that delinquent tax accounts were processed timely and appropriately to maximize revenue for the State ( <u>Finding #5</u> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #2: To assess the effectiveness and efficiency of the Office's efforts to identify businesses operating in the State of Michigan without a current SUW tax license.			Moderately effective and efficient
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
The Office did not provide sufficient program management and oversight of the Unregistered Business Program (UBP) to ensure the identification and registration of businesses owing delinquent taxes ( <u>Finding #6</u> ).	X		Partially Agrees
The Office did not fully implement effective security and access controls over the UBP database to help prevent or detect inappropriate access to and modification of taxpayer and business data ( <u>Finding #7</u> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #3: To assess the effectiveness of the Office's efforts to ensure appropriate security and access controls over MARCS.			Moderately effective
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
The Office did not fully establish and implement effective security configurations for the MARCS application and database to help prevent or detect inappropriate modification of MARCS data ( <u>Finding #8</u> ).	X		Agrees
The Office did not fully implement effective user access controls over the MARCS application and database to help prevent or detect inappropriate access to delinquent account data ( <u>Finding #9</u> ).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>

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