



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Tax Compliance Bureau

Department of Treasury

Report Number:
27-140-03

Released:
June 2004

The Tax Compliance Bureau consists of two divisions. The Audit Division is responsible for conducting field audits of business taxpayers. The Discovery and Tax Enforcement Division is responsible for conducting special projects to identify businesses and individuals with tax liabilities due the State and performing special reviews to detect fraud related to individual income tax returns.

Audit Objectives:

1. To assess the effectiveness and efficiency of the Audit Division's audit activities.
2. To assess the effectiveness of the Discovery and Tax Enforcement Division's projects for identifying businesses and individuals with tax liabilities due the State.

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Audit Conclusions:

1. We concluded that the Audit Division's audit activities were generally effective and efficient. However, we noted reportable conditions related to cost-benefit evaluation, audit working paper documentation, and collections records for Bureau activities (Findings 1 through 3).
2. We concluded that the Discovery and Tax Enforcement Division's projects for identifying businesses and individuals with tax liabilities due the State were generally effective. However, we noted reportable conditions related to Internal

Revenue Service (IRS) data and taxes for nonresident entertainers (Findings 4 and 5).

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Reportable Conditions:

The Department of Treasury needs to evaluate the cost benefit of increasing the Audit Division's field audit staff. The Department may need to seek additional appropriations to increase the Audit Division's field audit staff if its evaluation indicates that there would be significant cost benefit for the State. (Finding 1)

The Audit Division did not ensure that its audit working papers contained complete documentation of audit procedures and findings (Finding 2).

The Department's automated accounts receivable system did not provide summaries of collections related to assessments issued by the Tax Compliance Bureau (Finding 3).

The Discovery and Tax Enforcement Division needs to develop additional uses

of the Internal Revenue Service (IRS) data to more effectively identify businesses with tax liabilities due the State (Finding 4).

The Department needs to seek amendatory legislation to require entertainment venues to collect and remit the estimated State taxes due for performances by nonresident entertainers (Finding 5).

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Agency Response:

Our audit report contains 5 findings and 6 corresponding recommendations. The preliminary response prepared by the Department indicated that it agrees with 5 recommendations and that it has complied or will comply with them. The Department's response also indicated that it disagrees with 1 recommendation.

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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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