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Office of the Auditor General

Report Summary

Performance Audit

Principal Residence Exemption

Department of Treasury

Report Number:
271-0245-14

Released:
December 2014

The principal residence exemption (PRE) allows owners who occupy their property as their principal residence to claim an exemption from the 18-mill school operating tax. The Department of Treasury administers PRE under Section 211.7cc of the *Michigan Compiled Laws* and conducts PRE audits within the counties that elect not to perform their own audits.

Audit Objective			Audit Conclusion
Objective 1: To assess the effectiveness of the Department's efforts to ensure compliance with selected PRE requirements.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department did not ensure that its vendor complied with all of the provisions of the PRE audit services contract related to data security. Therefore, the Department could not ensure that the vendor appropriately secured the Department's confidential data (Finding 1).		X	Agrees

Audit Objective			Audit Conclusion
Objective 2: To assess the effectiveness of the Department's efforts to collect the State's share of interest related to denied PREs.			Moderately effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department had not established procedures to ensure that local governmental units remitted the proper amount of PRE interest to the Department. We estimated that the local governmental units owed the State \$1.9 million of PRE interest (Finding 2).		X	Agrees

Audit Objective			Audit Conclusion
Objective 3: To assess the effectiveness of the Department's efforts to monitor the local tax assessment rolls for accuracy in comparison with the PRE determinations.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Our audit report does not include any findings related to this audit objective.	Not applicable	Not applicable	Not applicable

Audit Objective			Audit Conclusion
Objective 4: To assess the effectiveness of the Department's efforts to properly record PRE expenditures.			Not effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department did not properly charge expenditures to the Principal Residence Property Tax Exemption Audit Fund. Therefore, the Department understated PRE Fund expenditures by \$1.4 million, overstated General Fund/general purpose expenditures by \$0.4 million, and overstated State restricted fund expenditures by \$1.0 million for the period October 1, 2011 through June 30, 2014 (<u>Finding 3</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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