

EXECUTIVE DIGEST

SALES, USE AND WITHHOLDING

TAXES DIVISION

INTRODUCTION This report, issued December 1996, contains the results of our performance audit of the Sales, Use and Withholding Taxes Division, Department of Treasury.

AUDIT PURPOSE This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND The Division is part of the Department's Bureau of Revenue.

The *Michigan Compiled Laws* address the collection of sales, use*, and withholding taxes (Sections 205.51 - 205.78, 205.91 - 205.111, and 206.351 - 206.365, respectively). The Division is responsible for administering the tax acts associated with sales, use, and withholding taxes.

The Division's mission* is to maximize the collections of the taxes and fees that it administers with the available resources. To accomplish this objective, the Division is organized into four units which perform research, data processing, delinquent account collection, and audit functions.

As of September 30, 1995, the Division had 77 employees and processed tax collections exceeding \$10.6 billion.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the Division's methods to accurately and timely process tax returns and refunds; collect sales, use, and withholding taxes due the State; and maintain the sales, use, and withholding taxes database system.

Conclusion: Our assessment indicated that, overall, the Division was generally effective and efficient. However, the Division could improve the effectiveness and efficiency of its activities in the areas of use tax collections and continuous quality improvement (Findings 1 and 2).

Audit Objective: To assess the adequacy of the Division's internal control structure* related to collecting taxes and issuing refunds.

Conclusion: Our assessment of the Division's internal control structure did not disclose any material weaknesses*. However, the Division could improve its internal control structure in the areas of annual returns, status report accuracy, and interdepartmental adjustments and daily audit logs (Findings 3 through 5).

Audit Objective: To assess the Division's compliance with applicable laws, rules, regulations, and Department policies and procedures.

Conclusion: Our assessment indicated that, in general, the Division complied with applicable laws, rules, and regulations, and Department policies and procedures.

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Sales, Use and Withholding Taxes Division. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures were conducted between the months of August 1995 and January 1996. To accomplish our objectives, we interviewed Division employees and examined relevant sections of State laws, rules, regulations, Department program documents, reports, publications, and policy directives. We also examined relevant literature and reports and evaluations of similar issues in other states.

We tested transactions, tax returns, processing systems, and Division procedures for effectiveness and efficiency, accuracy, and compliance. Also, we discussed transactions, tax returns, and processing systems with Division and other Department personnel.

We conducted a survey of taxpayers for their experiences and opinions regarding their interaction with the Division.

**AGENCY
RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes 5 findings and 5 recommendations. The Division generally agreed with the findings and informed us that it has implemented or is in the process of implementing most of the recommendations.

The Division complied with 2 of the 9 prior audit recommendations included within the scope of our current audit.