

EXECUTIVE DIGEST

SINGLE BUSINESS TAX DIVISION

INTRODUCTION This report contains the results of our performance audit* of the Single Business Tax 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 responsible for administering the single business tax* (SBT), State education tax* (SET), and real estate transfer tax* (RETT). For SBT, the Division processes tax returns and assesses any additional taxes deemed payable and refunds any overpayment of taxes. For fiscal year 1995-96, net SBT collections amounted to approximately \$2.2 billion. For SET and RETT, the Division records and compiles tax payment information by county and local government. Net SET and RETT collections amounted to approximately \$1.1 billion and \$157 million, respectively.

The Division had 42 employees as of September 30, 1996 and expended approximately \$2.4 million in fiscal year 1995-96.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness and efficiency of the Division's manual and computerized review functions for the SBT, SET, and RETT returns filed.

Conclusion: The Division's manual and computerized review functions for SBT, SET, and RETT returns were generally effective and efficient. However, we noted reportable conditions* regarding SET and RETT receipts, delinquent notices, management information reports, and IRS abstracts* (Findings 1 through 4).

Noteworthy Accomplishments: The Division completely eliminated the large backlog of suspended returns* noted during our prior audit.

Audit Objective: To assess the effectiveness of the Division's procedures to ensure that only proper refunds were issued.

Conclusion: The Division had effective procedures in place to help ensure that only proper refunds were issued.

Audit Objective: To assess the Division's internal control structure*.

Conclusion: Our assessment of the Division's internal control structure did not disclose any material weaknesses*.

However, we noted a reportable condition related to accounting for SET and RETT receipts (Finding 5).

Audit Objective: To assess the Division's compliance with applicable statutes, rules and regulations, and Department policies and procedures, including those pertaining to the collection of the proper amount of SBT, SET, and RETT payments.

Conclusion: Our assessment of the Division's compliance with applicable statutes, rules and regulations, and Department policies and procedures did not disclose any instances of material noncompliance*. However, we noted reportable conditions related to budgetary control, policy and procedures, and records retention (Findings 6 through 8).

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Single Business Tax 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 included examination of the Division's program activities covering the period October 1993 through September 1996.

Our audit methodology included a survey of program activity for the SBT, SET, and RETT programs administered by the

Division. Also, we appraised management practices and tested the internal control structure.

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

Our audit report includes 8 findings and recommendations. The Division generally agreed with 7 of the recommendations and disagreed with 1 recommendation. The Division informed us that it had complied or was in the process of complying with 4 of the recommendations.

The Department complied with 5 of the 9 recommendations from our prior audit of the Division. The other 4 prior audit recommendations are either repeated or rewritten in this report.