

EXECUTIVE DIGEST

COLLECTION DIVISION

INTRODUCTION

This report, issued in June 2002, contains the results of our performance audit* of the Collection 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 collecting taxes after other divisions in the Department have determined tax delinquencies. The Division is also responsible for collecting unpaid accounts that other State agencies and universities are unable to collect.

Division operations are administered through a central office in Lansing and seven district offices located throughout the State. The Department of Attorney General provides legal assistance for the collection of certain accounts. The Division also contracts with a private collection agency to provide collection services for accounts referred by the Division.

As of January 31, 2001, Division records indicated that the delinquent amounts due for tax accounts and State agency accounts totaled approximately \$2.3 billion and \$386.7

million, respectively. Of these amounts, the Division classified \$989.3 million of the balances due for taxes and \$339.7 million of the balances due for State agency debt as being in active collection status.

For fiscal year 1999-2000, the Division collected \$243.0 million for amounts due for taxes and \$31.6 million for amounts due for State agency debt. The Division's expenditures for fiscal year 1999-2000 totaled \$30.4 million. As of June 30, 2001, the Division had 144 employees.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the Division's effectiveness and efficiency in collecting overdue taxes and State agency debt due the State.

Conclusion: We concluded that the Division was generally effective and efficient in collecting overdue taxes and State agency debt due the State. However, we noted reportable conditions* related to follow-up for installment agreements and tax liens (Findings 1 and 2).

Noteworthy Accomplishments: The Division has made considerable improvement in its operations at the Detroit district office since our prior audit fieldwork. Our prior audit contained a finding regarding the performance of the Detroit district office. This finding detailed five specific areas regarding employee performance standards that were not being met within this office. The current audit methodology included an examination of a sample of accounts assigned to the Detroit office. The examination disclosed no instances in which employee performance standards were not being met. The examination results demonstrated a significant improvement in the effectiveness of the operations of the Detroit district office.

Audit Objective: To assess the effectiveness of the Division's procedures and controls for recording, monitoring, and adjusting accounts receivable for overdue taxes and State agency debt due the State.

Conclusion: We concluded that the Division's procedures and controls for recording, monitoring, and adjusting accounts receivable for overdue taxes and State agency debt due the State were generally effective. However, we noted reportable conditions related to private collection agency accounts and uncollectible accounts (Findings 3 and 4).

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Collection 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 program records and activities for the period May 1, 1994 through May 31, 2001.

We conducted a preliminary review of the Division's operations to gain an understanding of its activities and to form a basis for selecting certain operations for audit.

We interviewed Division staff and evaluated the Division's practices, procedures, and controls. Also, we conducted tests of records related to tax and State agency accounts. In addition, we evaluated records and procedures related to the activities of the private collection agency.

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

Our audit report contains 4 findings and 4 corresponding recommendations. The Department's preliminary response indicated that it agrees with our findings.

The Division complied with the 5 prior audit recommendations.