

## EXECUTIVE DIGEST

# **MOTOR FUEL, IFTA/MOTOR CARRIER, TOBACCO TAXES AND REGISTRATION DIVISION**

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<b>INTRODUCTION</b>	This report, issued in October 2001, contains the results of our performance audit* of the Motor Fuel, IFTA/Motor Carrier, Tobacco Taxes and Registration Division, Department of Treasury.
<b>AUDIT PURPOSE</b>	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*.
<b>BACKGROUND</b>	The Motor Fuel, IFTA/Motor Carrier, Tobacco Taxes and Registration Division administered the motor fuel, motor carrier* fuel, tobacco products, public utility property, and severance tax laws. For fiscal year 1998-99, collections of these taxes totaled approximately \$1.9 billion. The Division was also responsible for maintaining the Department's registration records for business taxpayers. As of October 31, 2000, the Division had 35 employees assigned to tax administration activities and 19 employees assigned to registration activities.

In November 2000, a major reorganization of the Department was implemented. Under the new organization, the Division is no longer a separate organizational unit. The staff formerly assigned to the Division will continue to perform their same administrative functions in two new organizational units, the Customer Contact Division and the Technical Services Division.

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AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS

**Audit Objective:** To assess the Division's effectiveness and efficiency in collecting motor fuel, motor carrier fuel, tobacco products, public utility property, and severance taxes due the State.

**Conclusion:** We concluded that the Division was generally effective and efficient in collecting taxes due the State. However, we noted reportable conditions\* related to delinquent motor carrier tax returns, supplemental motor carrier tax returns, controls over delinquent severance tax returns, and tax return receipts reconciliations (Findings 1 through 4).

**Noteworthy Accomplishments:** In April 1998, the Department implemented a stamp program for cigarettes sold in the State. The Division issued stamps to licensed wholesalers and other organizations that import cigarettes. The stamps are affixed to packs of cigarettes to document that the proper tobacco products tax has been paid. The Department also established an enforcement team that works in conjunction with staff of the Michigan Department of State Police to investigate cases of cigarettes sold without tax stamps. Tobacco products tax collections significantly increased after the stamp program was implemented. For fiscal year 1998-99, tobacco products tax collections increased by approximately \$48 million (8.5%) from the prior fiscal year. The Department's Office

of Revenue and Tax Analysis (ORTA) has concluded that these tax collections would have decreased significantly if the cigarette tax stamp program had not been implemented. Considering the effects of the national tobacco industry settlements on cigarette prices and other economic factors, ORTA has estimated that the stamp program resulted in additional annual tax collections of over \$120 million in fiscal years 1998-99 and 1999-2000.

**Audit Objective:** To assess the effectiveness of the Division's procedures for and controls over auditing tax returns, resolving problems related to tax return errors and omissions, and issuing taxpayer refunds.

**Conclusion:** We concluded that the Division's procedures for and controls over auditing tax returns, resolving problems related to tax return errors and omissions, and issuing taxpayer refunds were reasonably effective. However, we noted reportable conditions related to follow-up of motor fuel tax return errors and discrepancies and fuel hauler reports (Findings 5 and 6).

**Audit Objective:** To assess the Division's effectiveness and efficiency in performing its licensing function related to the taxes it administered.

**Conclusion:** We concluded that the Division was effective and efficient in performing its licensing function related to the taxes it administered.

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AUDIT SCOPE AND  
METHODOLOGY

Our audit scope was to examine the program and other records of the Motor Fuel, IFTA/Motor Carrier, Tobacco Taxes and Registration 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 examinations of program records and activities for the period October 1, 1998 through October 31, 2000.

We analyzed the program activities for each of the various taxes administered by the Division. This analysis included review of internal control and management practices for licensing activities, receipting and recording of tax returns, auditing of tax returns, assessment of tax deficiencies, and overpayment refunding.

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

Our audit report contains 6 findings and 7 corresponding recommendations. The preliminary response prepared by the Department indicated that it agrees with all the recommendations and that it has compiled or will comply with them.

The Division complied with 3 of the 4 prior audit recommendations. One of the prior audit recommendations was rewritten for inclusion in this report.