

EXECUTIVE DIGEST

COLLECTION DIVISION

INTRODUCTION

This report contains the results of our performance audit of the Collection Division, Department of Treasury, for the period October 1, 1990 through April 30, 1994.

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 Collection Division is responsible for collecting taxes after other divisions in the Bureau of Revenue have determined tax delinquencies. The division is also responsible for collecting unpaid accounts that other State agencies and universities are unable to collect. To assist in its collection efforts, the division contracts with a private collection agency to collect amounts due the State.

As of December 31, 1993, division records showed that the amounts due for taxes and State agency accounts totaled approximately \$1.38 billion (\$451 million classified by the

division as collectible) and \$324 million (\$239.4 million classified by the division as collectible), respectively. For fiscal year 1992-93, the division expended approximately \$15.4 million to collect \$197.1 million of delinquent taxes and \$23.4 million of unpaid accounts. The division's staff consisted of 133 employees as of April 30, 1994.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the division's efforts to collect amounts due the State.

Conclusion: We concluded that the division had made substantial progress since the prior audit in controlling the rapid increase in uncollected taxes. However, the division needs to increase its collection efforts to more effectively collect amounts due the State (Finding 1). Also, the division could enhance the effectiveness of its collection efforts for installment agreements by establishing dollar limits on allowable costs considered by the division to be reasonable and necessary living expenses and establishing a reasonable length of time for the full repayment of debts through installment agreements (Finding 2). In addition, the division should ensure that the Detroit district office complies with employee performance standards relating to collection efforts (Finding 3) and maximize the collection efforts on State agency accounts (Finding 4).

Audit Objective: To assess the division's compliance with applicable statutes, rules, regulations, and department policies and procedures as they relate to recording, collecting, canceling, and adjusting assessments; the use of

tax warrants and levies; and the reporting requirements on collection activity.

Conclusion: We concluded that the division complied with applicable laws and regulations.

Audit Objective: To assess the adequacy of internal controls for handling district office mail receipts.

Conclusion: We concluded that the district offices did not have proper internal controls over mail receipts (Finding 5).

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Collection Division for the period October 1, 1990 through April 30, 1994. 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 methodology included interviewing various personnel and reviewing reports and procedures to gain an understanding of central office and field operations and to form a basis for selecting certain operations for audit. We conducted tests of records related to tax and State agency accounts to determine the effectiveness and efficiency of the division's collection efforts. We tested for compliance with applicable statutes, rules, policies, and procedures for collecting delinquent taxes and unpaid debts due the State,

and for referring accounts to the private collection agency and the Department of Attorney General.

We tested accounts assigned to and reimbursements made to the private collection agency and determined compliance with the contract provisions and division policies and procedures. We also tested tax accounts involving the use of tax warrants and determined the disposition of the warrants and tax proceeds. In addition, we examined records related to tax clearance certificates to determine that clearance requests were processed on a timely basis allowing a smooth transition of a business from seller to buyer.

**AGENCY
RESPONSES**

The agency preliminary response is included in its entirety at the end of our report. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the department to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.