

## EXECUTIVE DIGEST

### MOTOR FUEL, CIGARETTE AND MISCELLANEOUS TAXES DIVISION

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#### **INTRODUCTION**

This report contains the results of our performance audit of the Motor Fuel, Cigarette and Miscellaneous Taxes Division, Department of Treasury, for the period October 1, 1991 through September 30, 1994.

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#### **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.

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#### **BACKGROUND**

The Motor Fuel, Cigarette and Miscellaneous Taxes Division administers the motor fuel, motor carrier fuel, tobacco products, public utility property, and severance tax laws. For fiscal year 1993-94, these taxes amounted to approximately \$1.3 billion. The Division had 26 employees as of September 30, 1994 and expended approximately \$1.3 million in fiscal year 1993-94.

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**AUDIT  
OBJECTIVES  
AND  
CONCLUSIONS**

**Audit Objective:** To assess the Division's effectiveness and efficiency in collecting taxes due the State and in performing its licensing function.

**Conclusion:** We concluded that the Division was reasonably effective and efficient in collecting taxes due the State and in issuing licenses to applicants. However, we noted that the Division could increase its effectiveness in collecting taxes by strengthening its procedures related to motor fuel supplier tax returns, severance taxes, motor carrier tax returns, and surety bonds (Findings 1 through 4).

**Audit Objective:** To assess the Division's procedures 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 had reasonable procedures and controls related to auditing tax returns and issuing refunds. However, we noted that the Division could strengthen its procedures for auditing tax returns related to motor fuel supplier tax returns and severance taxes (Findings 1 and 2, respectively).

**Audit Objective:** To assess the effectiveness of the Division's management practices and its internal control structure.

**Conclusion:** We concluded that the Division's management practices were reasonably effective. Also, our assessment

did not disclose any material weaknesses in the internal control structure.

**Audit Objective:** To assess the Division's compliance with applicable statutes, administrative rules, and Department policies and procedures.

**Conclusion:** Our assessment of compliance with statutes, administrative rules, and Department policies and procedures did not disclose any material instances of noncompliance.

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**AUDIT SCOPE  
AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the Motor Fuel, Cigarette and Miscellaneous Taxes Division for the period October 1, 1991 through September 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 audit methodology included analysis of the program activity for each of the various taxes administered by the Division. This analysis included review of the internal control structure and the management practices over the licensing operation, the receipting and recording of tax reports, the auditing of tax returns, the assessment of tax deficiencies, and the refunding of overpayments of taxes. Also, we reviewed procedures used in the determination of surety bond requirements. In addition, we tested controls

over licensing, surety bonds, refunds, the recording of tax revenue, and the auditing of tax returns.

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

Our audit report contains 4 findings and recommendations. The agency preliminary response indicated that the Division either had taken steps or will take action to comply with all the recommendations.

The Division had complied with the 11 prior audit recommendations included within the scope of our current audit.