

## EXECUTIVE DIGEST

# LEGAL AND HEARINGS DIVISION

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### INTRODUCTION

This report, issued in March 2000, contains the results of our performance audit\* of the Legal and Hearings Division, Department of Treasury.

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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 Legal and Hearings Division is responsible for conducting informal conferences\* with taxpayers who disagree with notices of intent to assess additional tax. The Division also hears cases involving non-intent matters, including denial of claim for refund, claim for exemption from certain school taxes, notice of tobacco seizure, and denial of applicable tax credit certification for community foundations and institutions of higher learning.

The informal conferences conducted by the Division are the first stage of the appeal process. If a taxpayer disagrees with the determination made by the Department

in the informal conference process, the taxpayer may appeal to either the Michigan Court of Claims or the Michigan Tax Tribunal.

The Division also provides research and training to tax divisions and prepares Revenue Administrative Bulletins, Letter Rulings, and administrative rules. In addition, the Division processes applications from community foundations seeking the Single Business Tax and Individual Income Tax Credits, approves applications from Michigan institutions of higher learning for the Michigan College Tuition and Fees Credit, and certifies homeless shelters for the Homeless Shelter/Food Bank Credit.

The Division administers the Disclosure Program\* for the transmittal of confidential tax return information by the Department to various federal, State, and local governmental entities. The Division is responsible for ensuring that taxpayer information is safeguarded and disclosed only for purposes provided for in Section 205.28 of the *Michigan Compiled Laws* and under the terms of the Internal Revenue Service agreement.

The Division had 15 full-time employees as of September 30, 1998 and expended approximately \$892,400 in fiscal year 1997-98.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To assess the effectiveness of the Division's taxpayer appeals, tax research, and disclosure processes.

**Conclusion:** The Division was generally effective in the administration of its taxpayer appeals, tax research, and disclosure processes. However, we noted reportable

conditions\* in the areas of the disclosure of taxpayer information, continuous quality improvement process, records of results of the appeal process, active case reconciliation, accounts in tax divisions, and internal control\* (Findings 1 through 6).

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

**Conclusion:** The Division was generally in compliance with applicable statutes, rules and regulations, and Department policies and procedures.

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AUDIT SCOPE AND  
METHODOLOGY

Our audit scope was to examine the program and other records of the Legal and Hearings 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 review and testing of Division records and procedures was primarily limited to the period August 1, 1995 through July 31, 1998 for the taxpayer appeals process and the period October 1, 1997 through July 31, 1998 for the tax research and disclosure processes.

Our audit methodology included an assessment of the mission\*, goals\*, and objectives\* of the Division as specified in its strategic plan, including discussions with Division personnel related to the overall goals and objectives of the Division.

We reviewed the Division's determinations made for initialized cases, its monitoring of active and inactive cases, and its controls for reconciling records of active cases with the Collection Division's assessment records.

We examined the Division's activities associated with the review of community foundations for the Single Business Tax and Individual Income Tax Credits, Michigan institutions of higher learning for the Michigan College Tuition and Fees Credit, and homeless shelters for the Homeless Shelter/Food Bank Credit.

We reviewed the Division's procedures and internal controls for processing disclosure requests.

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

Our audit report contains 6 findings and 6 corresponding recommendations. The Department generally agreed with the recommendations. However, the Department stated that, in some instances, a faulty computer system was the cause of problems and that a new, redesigned system would allow the Department to address the audit recommendations.

The Department did not comply with the 3 prior audit recommendations included within the scope of our current audit. We repeated the 3 prior audit recommendations in this report.