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Office of the Auditor General

Report Summary

Performance Audit

*Corporate Income Tax (CIT) and Michigan
Business Tax (MBT)
Department of Treasury*

Report Number:
271-0240-15

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The Business Tax Division (BTD), within the Tax Processing Bureau, is responsible for processing CIT and MBT returns and payments as well as responding to taxpayer inquiries received through correspondence, telephone calls, and Web-based contacts. In fiscal years 2014 and 2015, the combined CIT and MBT tax revenue totaled \$420 million and \$892 million, respectively.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of the CIT and MBT processing controls in identifying exceptions in submitted returns.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department of Treasury did not timely remove access rights to the SAP system for separated or transferred employees. System access still existed for 79% of the BTD users who separated or transferred during the audit period (Finding #1).		X	Agrees
BTD did not ensure that 76% of taxpayers receiving accelerated payments for the Historic Preservation Credit and the Brownfield Redevelopment Credit submitted annual MBT returns (Finding #2).		X	Agrees
BTD should improve procedures to verify that taxpayers claiming funds which were paid on their behalf (flow-through withholding payments) resulted in proper reporting and collection of required tax revenue. We could not verify these payments for 24% of the sampled CIT returns (Finding #3).		X	Agrees
BTD should establish procedures to periodically perform an independent review of annual CIT and MBT returns that fall below the agency's established minimum approval thresholds to ensure the propriety and validity of processed returns (Finding #4).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
The Department of Treasury did not consistently conduct remote monitoring of telephone calls to ensure that taxpayers receive the best possible service from customer service representatives. Quality assurance personnel met only 53% of their goal to remotely monitor incoming calls (<u>Finding #5</u>).		X	Agrees
BTD did not have a process to notify taxpayers when submitted CIT or MBT returns were deactivated and not processed. Taxpayer notifications were not sent for 14% of the sampled deactivated returns (<u>Finding #6</u>).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the efficiency of the Tax Processing Bureau's processing of CIT and MBT returns.			Efficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
BTD should obtain a listing of taxpayers that have an agreement with a State agency for a certificated credit that will or may become available in a future period to assist in the timely processing of MBT returns (<u>Finding #7</u>).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.audgen.michigan.gov

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