



OAG

Office of the Auditor General

Report Summary

*Performance Audit
Selected Activities of the
Bureau of Local Government Services
Department of Treasury*

Report Number:
271-0290-16

Released:
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The Bureau of Local Government Services is responsible for supervising the administration of State property tax laws, auditing and overseeing the accounting and audits of local units, reviewing applications for the issuance of debt, and monitoring and approving local unit deficit elimination plans. In fiscal year 2017, the Bureau expended \$18.7 million. As of September 30, 2017, the Bureau had 80 full-time and 6 limited-term employees.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of the Bureau's efforts to ensure that taxes and credits for property of selected public utilities are properly assessed, applied, and paid to the General Fund.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
We identified 100 licensed telephone companies that the Bureau overlooked for potential assessments. For 5 of the 6 needing an assessment, the uncollected property tax was approximately \$477,000 for assessment years 2014 through 2016 (Finding #1).		X	Agrees
The Bureau did not conduct reviews or audits for report accuracy, obtain documentation to verify eligibility for tax credits, or validate report changes of 10% or more for all applicable items tested during its review of annual property reports for railroad, railcar loaning, and telephone companies (Finding #2).		X	Agrees
Lack of contractor monitoring resulted in errors in the calculation of true cash value, assessed value, capped value, or taxable value for 68% of 40 railroad, railcar loaning, and telephone company tax rolls reviewed (Finding #3).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not require its contractor to obtain a System and Organization Controls (SOC) 2, type 2 report, which assesses the operating effectiveness of controls. A SOC 2, type 2 report would provide the Bureau with a high level of assurance that the contractor's controls are operating effectively for the approximately \$50 million in property taxes collected annually (<u>Finding #4</u>).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of the Bureau's efforts to ensure that local units of government (local units) accurately and promptly pay selected required taxes to the School Aid Fund (SAF).			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau could not determine if it collected and deposited into the SAF the required taxes for 2,126 (39%) of the 5,426 active tax exemption certificates (<u>Finding #5</u>).		X	Agrees
The Bureau did not identify 12 local units with active industrial facilities (IF) tax certificates in its audit plan, did not complete an audit of 68% of the local units identified in its audit plan, and did not ensure that it received the annual IF tax report for 29% of the local units (<u>Finding #6</u>).		X	Agrees

Audit Objective			Conclusion
Objective #3: To assess the Bureau's effectiveness related to reviewing and conducting audits of local units.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not review 30% of the auditing procedures reports (APRs) that it identified with deficiencies or 100% of APRs that it identified with no deficiency, yet had randomly sampled for review. This could result in unidentified errors or the Bureau's failure to request further documentation, such as a deficit elimination plan (<u>Finding #7</u>).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not receive a corrective action plan for 13% of the 38 local unit audits that it identified with deficiencies from October 1, 2014 through June 30, 2016 and 5% of the 38 local unit audits that it identified with deficiencies from July 1, 2016 through October 31, 2016 (<u>Finding #8</u>).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess the Bureau's effectiveness related to reviewing and approving the local units' issuances of debt and deficit elimination plans.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not receive qualifying statements from 4,427 municipalities. The Department of Treasury uses the qualifying statement to determine if a municipality's fiscal health would sustain the issuance of debt (<u>Finding #9</u>).		X	Agrees

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