State of New York
Office of the State Comptroller
Division of Management Audit and State Financial Services

DEPARTMENT OF TAXATION AND FINANCE

ASSESSMENT RECEIVABLE OVERPAYMENTS

REPORT 97-S-14

H. Carl McCall

Comptroller

State of New York
Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 97-S-14

Mr. Michael Urbach
Commissioner
Department of Taxation and Finance
State Campus, Building 9
Albany, NY 12227

Dear Mr. Urbach:

The following is our audit report on the Department of Taxation and Finance's assessment receivable overpayment processing.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

June 10, 1998

Executive Summary

Department Of Taxation And Finance Assessment Receivable Overpayments

Scope of Audit

The New York State Department of Taxation and Finance (Department) is charged with administering the State's tax law. In carrying out its responsibility, the Department identifies and assesses taxpayers who have underpaid their tax liabilities, and establishes an Assessment Receivable (A/R) for these individual taxpayers. The Department collected over $3.4 billion in assessments during fiscal years 1995 and 1996, and its total A/R balance as of March 31, 1997 was $2.6 billion. If a taxpayer's A/R is overpaid, either because the taxpayer overpaid the assessment or because the Department redetermined the assessment, the taxpayer is due a refund. The Department must submit requests for refunds to the Office of the State Comptroller (OSC) for approval before paying them. Between April 1, 1995 and June 30, 1997, the Department requested the payment of 184,133 refunds totaling nearly $106 million. The Department uses its computerized Case and Resource Tracking System (CARTS) to record assessments, adjustments to assessments, assessment payments, and refunds resulting from overpayments. Before the Department refunds an overpayment to a taxpayer, CARTS attempts to apply the overpayment to any outstanding liability that exists for that taxpayer.

Our audit addressed the following question about Department controls over the processing of A/R overpayments and refunds for the period April 1, 1995 through June 30, 1997:

- Are controls over A/R overpayments adequate to ensure the accuracy and integrity of overpayments and any resulting refunds?

Audit Observations and Conclusions

We found that, generally, Department controls over A/R overpayments and the resulting refunds are adequate to ensure the accuracy and integrity of the overpayments and any resulting refunds. However, we identified some areas in which the Department could improve A/R overpayment processing and enhance controls over aspects of related operations.

The Department calculates interest on all A/R overpayment refunds from the date the taxpayer made the payment. However, legal counsel from both the Department and from OSC agree that, for those A/R overpayment refunds that result from a taxpayer protest, the Department should pay interest only from the date the taxpayer filed the protest. However, CARTS does not allow for the easy identification of protest-related overpayments. We determined, with the help of the Department's Information Systems Management Unit, that the Department could save about $800,000 in interest annually by paying interest from the protest date. We recommend the Department consider developing the means to identify such overpayments so it can calculate the appropriate interest due on them. (See pp. 3-6)

Prior to refunding, CARTS uses the taxpayer identification number (ID) on the overpayment record to search for any outstanding liabilities the taxpayer may have. However, the taxpayer may have outstanding liabilities listed under more than one ID (e.g., a personal ID and a business ID). Since CARTS does not search for liabilities listed under a different ID, Department staff perform a manual search for such liabilities for individual overpayments over $500. While this manual review process is generally effective in offsetting overpayments against other taxpayer liabilities, we believe the Department could further improve review procedures. To identify additional liabilities under another ID, we recommend the Department apply the $500 threshold to the taxpayer's total overpayments, rather than the taxpayer's individual overpayments. Further, the Department currently applies a tax return refund against an assessment, adjusts the assessment, and then refunds the balance to the taxpayer. We recommend the Department consider applying any remaining overpayment against outstanding liabilities under another ID before refunding the balance to the taxpayer. (See pp. 6-8)

In some instances, taxpayer payments cannot be credited to a taxpayer's account. For example, payments may be for assessments for which records have not yet been created, payment documents may not have been properly prepared, or the taxpayer may not have an identifiable tax liability. Such payments are posted to a suspended account until they can be resolved. As of June 1997, Department records showed suspended payments totaling nearly $58 million. Our tests did not identify any payments that were incorrectly posted. However, since the employees who work on resolving suspended payments also certify the appropriateness of overpayments without supervisory review, the Department sustains a risk that an employee could post a payment inappropriately without risk of detection. An inappropriately posted payment could result in paying a refund to the wrong taxpayer. We recommend the Department strengthen controls over the processing of suspended payments by separating incompatible duties, instituting supervisory review or establishing other compensating controls. (See pp. 11-13)

Comments of Department Officials

Department officials generally agreed with our recommendations.

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Introduction

Background

The New York State Department of Taxation and Finance (Department) is charged with the responsibility of administering the State's tax law. In carrying out its responsibility, the Department identifies and assesses taxpayers who have underpaid their tax liabilities. In such cases, the Department establishes an Assessment Receivable (A/R) for the individual taxpayer. During fiscal years 1995 and 1996, the Department collected over $3.4 billion in taxpayer assessments. As of March 31, 1997, the Department's total A/R balance was $2.6 billion.

If the A/R is overpaid as a result of a taxpayer overpayment or the Department's redetermination of the assessment liability, the taxpayer is due a refund. The New York State Finance Law requires the Department to submit requests for refunds to the Office of the State Comptroller for pre-audit and approval before the refunds can be paid. During the period April 1, 1995 through June 30, 1997, the Department requested the issuance of 184,133 A/R overpayment refunds totaling nearly $106 million.

The Department uses its computerized Case and Resource Tracking System (CARTS) to record assessments, any adjustments to assessments, taxpayer payments on assessments and refunds resulting from taxpayer overpayments. Before an overpayment is refunded to a taxpayer, CARTS attempts to apply the overpayment to any outstanding assessment that exists for that taxpayer.

Audit Scope, Objective and Methodology

We audited the Department's controls over the A/R overpayment process for the period April 1, 1995 through June 30, 1997. The objective of our audit was to assess whether controls over A/R overpayment processing are adequate to ensure the accuracy and integrity of the overpayments and the resulting refunds.

To accomplish our audit objective, we interviewed Department officials and reviewed the A/R process, including the calculation of interest on A/R overpayment refunds, the resolution of suspended payments, and the process of applying overpayments to outstanding liabilities prior to issuing a refund. We also selected a sample of A/R overpayment refunds. We reviewed the selected refunds to identify the reason for each overpayment and to determine if adequate documentation existed for each overpayment refund.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those Department operations that are included within our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules, and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by agency management. We believe that our audit provides a reasonable basis for our findings, conclusions, and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest potential for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address in detail those activities that may be functioning properly.

Response of Department Officials

Draft copies of this report were provided to Department officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Taxation and Finance shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein and where recommendations were not implemented, the reasons therefor.

Processing Assessment Receivable Overpayments

In carrying out its responsibility of administering the State's tax law, the Department identifies and assesses taxpayers who have underpaid their tax liabilities. The Department creates the assessment on CARTS and uses CARTS to record any subsequent payments against the assessment. The A/R may become overpaid if a taxpayer overpays the assessment or if the Department makes a redetermination of the liability amount. Once the assessment is overpaid, CARTS automatically searches for other liabilities the taxpayer may owe. If CARTS identifies another liability during this search period (cycling period), the overpayment is applied against that liability. If there are no other outstanding liabilities, CARTS automatically selects the overpayment for refunding.

After CARTS has selected the overpayments to be refunded, the transactions are sent to the Office of the State Comptroller (OSC) Refund Audit Group for audit and payment. OSC reviews selected transactions to ensure that an overpayment actually exists for the taxpayer and verifies that there are no open assessments under that taxpayer's identification number. Upon approval by OSC, the refunds are issued to the appropriate taxpayer.

The results of our audit show that controls over the Department's A/R processing are generally sufficient to ensure the accuracy and integrity of overpayments and the resulting refunds. However, we did identify some areas where the Department could further improve controls over its A/R overpayment processing.

Interest on A/R Overpayment Refunds

The Department calculates interest on all A/R overpayment refunds from the date the taxpayer made the payment. During the period April 1, 1995 through June 30, 1997, the Department paid almost $12 million in interest on A/R overpayment refunds.

Article 22, Section 688(c) and Article 27, Section 1088 of the New York State Tax Law (Law) prescribe the procedures for paying interest on tax return refunds. Under these sections of the Law, the Department computes interest from the later of the return due date or filing date of the return if the refund is not paid within the prescribed period (45 days for personal income tax refunds and 90 days for corporate tax refunds). When a taxpayer does not claim a refund on an original return, the Department does not incur interest on the refund owed the taxpayer until either 45 or 90 days from the date the taxpayer files a claim for credit or refund. However, the Law does not mention overpaid assessments specifically.

Therefore, we requested a legal opinion from both the Department's Counsel and OSC's Counsel. The Department's Counsel's Office stated that, in its opinion, such overpayments would generally be treated the same as overpayments of tax. According to the Department's Counsel, the Department treats the making of a protest as a claim for credit or refund; that is, interest accrues from the date of filing of the claim for refund or credit (the protest date in the case of an A/R overpayment). OSC's Counsel agrees with the Department's Counsel's opinion.

However, as stated earlier, the Department pays interest on all A/R overpayment refunds from date the taxpayer made the payment. According to Department officials, the design of CARTS does not allow for the identification of the cause of an overpayment. As a result, there is no way to easily identify the overpayments that result from a taxpayer protest and require a different interest calculation.

At our request, the Department's Information Systems Management Unit (ISM) staff developed a special program which, through a process of elimination, identified refunds resulting from the resolution of a taxpayer protest. Of the 184,133 refunds the Department issued from April 1, 1995 through June 7, 1997, ISM identified 26,004 refunds that resulted from taxpayer protests. We analyzed this data to determine how many days of interest the Department paid on each refund. We also determined how many days of interest the Department would have paid had it calculated interest from the date of protest. Our analysis shows that the Department could have saved more than $1.6 million in interest during this period if it had calculated interest according to the method outlined in the opinion rendered by the Department's Counsel. If the Department modified its current interest calculation method, New York State could realize annual savings of approximately $800,000.

We did find that the Department has taken other steps to reduce the amount of interest it pays on A/R overpayment refunds. In September 1996, Department staff performed an analysis of the 45-day cycling time and recommended that it be reduced to 30 days. The results of this analysis showed that the Department could have saved approximately $98,000 in interest during the fiscal year ended March 1996 had the cycling period been only 30 days. When Department officials recognized this savings opportunity, they reduced the cycling time to 30 days beginning in September 1997.

We acknowledge the Department's efforts to reduce the cycling time, and thereby reduce the interest the Department pays on A/R overpayment refunds. However, we recommend that the Department consider developing and implementing a procedure to identify overpayments caused by taxpayer protests so it can calculate interest on these overpayments from the appropriate date. Implementing our recommendation, in combination with the Department's reduction of the cycling time, would substantially reduce the amount of interest the Department pays on A/R overpayment refunds.

Recommendation

1. Consider developing and implementing a process to identify overpayments caused by taxpayer protests. For such cases, calculate interest from the protest date rather than from the date the taxpayer made the payment.

   (Department officials agree in principle with this recommendation and acknowledge that significant interest savings can be achieved. However, they state that given other critical priorities (e.g., Year 2000 compliance), they cannot commit the resources required to make the programming changes at the present time. In addition, Department officials state that they will explore the possibility of changing the statutes governing interest payments to allow payment of interest on A/R overpayments from the payment date, notwithstanding the opinion of the Tax Department's Counsel who indicated that interest on A/R overpayments should be calculated from the protest date. In our judgment, before Department officials seek to change the statutes governing interest payments, they must first consider that the impact of their proposed change goes well beyond the processing of A/R overpayments that result in a refund. As stated in our report, we estimate that the State could save $800,000 annually in interest associated with A/R overpayment refunds, by calculating interest from the date of the protest. However, there are many A/R overpayments that do not result in a refund to the taxpayer, but that are used to offset other liabilities the taxpayer may owe. If all A/R overpayment processing is considered, and not merely those overpayments that result in a refund, the interest savings to the State could amount to millions of dollars annually. Therefore, when studying this issue, we believe that the Department needs to consider all overpayments and the associated interest savings that could be realized by using the protest date as opposed to the date the payment was made.)

Offsetting A/R Overpayments Against Outstanding Liabilities

Article 8, Section 171 of the Law establishes many of the powers and duties of the Commissioner. Sections 171(a) and 171(c)-(f) establish the refund offset process which provides for the application of a refund (or overpayment) due a taxpayer against other liabilities of the same taxpayer. In accordance with the Law, the Department attempts to apply an A/R overpayment against any outstanding assessments that exist for the taxpayer prior to refunding the overpayment.

CARTS uses the taxpayer identification number (ID) on the overpayment record to search for the taxpayer's liabilities. However, the taxpayer can have other liabilities listed under a different ID. For example, an individual may have both a personal ID and a business ID. CARTS will not identify liabilities listed under the different ID for offsetting purposes. To mitigate the risk of refunding an overpayment to a taxpayer with outstanding liabilities, the Department's Assessment Receivable Management Unit (Unit) manually searches for other liabilities the taxpayer may have under a different ID. The Unit performs this search for those overpayments greater than $500.

We found that Department procedures were generally effective in offsetting refunds over the $500 threshold against outstanding liabilities, and we encourage the Department to continue these efforts. However, as a result of our audit test described below, we also recommend several changes to the manual search procedures to enhance their effectiveness.

In June 1997, the Department issued a total of $3,066,474 in A/R overpayment refunds for 6,031 taxpayers. At our request, the Department's ISM staff developed a special program which identified taxpayers who had received a refund in June 1997, even though they had an outstanding liability listed under a different ID. Using the results of the ISM programming, we identified five taxpayers with outstanding liabilities of $9,583 who received refunds above the $500 threshold. We then calculated the amount that could have been offset - $5,297 - which is the lesser of the refund amount or the liability amount. We reviewed these five instances to determine the reason the Unit did not offset the refunds.

Case	Refund Amount	Liability Amount	Offset Amount
1	$6,514.49	$339.49	$339.49
2	$572.49	$4,317.17	$572.49
3	$695.07	$1,236.20	$695.07
4	$3,361.82	$2,908.11	$2,908.11
5	$783.61	$781.90	$781.90
Total		$9,582.87	$5,297.06

We found that there were three reasons the Department did not apply the refund against the taxpayer's outstanding liability. In the first case, the Unit simply did not apply the refund amount against the outstanding liability. In two other cases, the Unit did not offset the refund against outstanding liabilities because the taxpayer was receiving multiple refunds, each of which was less than the $500 threshold. According to the Unit's procedures, the manual offsetting process is done only when the amount of an individual overpayment is above the threshold. The threshold amount is not based on the total amount being refunded to the taxpayer.

In the last two cases, the overpayments and associated refunds were the result of the Department's applying a tax return refund against an assessment, adjusting the assessment, and then refunding the overpayment that remained. However, the taxpayers in both cases had other outstanding liabilities to which the remainder of the refund offset could have been applied. According to Department staff, the Unit does not review overpayments that result from a refund offset for application against outstanding liabilities under a different ID. Unit staff told us that there is a significant amount of paperwork involved with these transactions.

While we found that the Department's manual offsetting approach is generally effective, officials could enhance its effectiveness by making the procedural changes which we recommend.

Recommendations

2. Ensure that Unit staff consistently follow current Unit procedures for offsetting all refunds above the $500 threshold against outstanding liabilities.

3. Revise Unit procedures to apply the $500 threshold for manual review to a taxpayer's total refund rather than a taxpayer's individual refunds.

4. Consider implementing a threshold amount for which the Unit will apply a refund offset against other outstanding liabilities under a different taxpayer ID.

Internal Controls Over A/R Overpayments

The Department's computerized Case and Resource Tracking System (CARTS) became operational in 1991. The Department uses the system to record assessments, adjustments to those assessments, payments against assessments, and refunds resulting from overpayments. There are several activities that can result in an overpayment. A taxpayer's account may become overpaid because a taxpayer overpaid an assessment or because the Department made an adjustment to the assessment. The Department may adjust a taxpayer's assessment based upon a field audit, taxpayer protest, amended return, a court case or other reason.

Review of A/R Overpayment Refunds

During the first six months of 1997, the Department issued 37,005 A/R overpayment refunds totaling over $18.8 million. We selected a statistical sample of 114 of these refunds for review. We also reviewed 27 refunds, each of which amounted to more than $100,000, which the Department had issued during our 27-month audit period. For the refunds we selected, we reviewed supporting documentation maintained by the Department to determine:

- the reason for the overpayment, and
- if adequate supporting documentation, including documentation that the appropriate approval for the resulting refund was sought and obtained, existed for the overpayment refund.

The results of our review show that, generally, A/R overpayments and the resulting refunds are adequately documented. However, we did identify some areas in which the Department could improve its supporting documentation.

Reasons for Overpayments

CARTS contains a field in which the Department identifies by code the reason for any adjustments to assessments. However, the Department does not currently track or prepare summary reports showing the reasons for adjustments. In addition, the Department could not provide us with a summary showing the reasons for the overpayments that resulted in the 37,005 refunds issued during our audit period.

We reviewed the adjustment reason codes listed on CARTS to determine if the codes accurately reflected the actual adjustment reason. Of the 114 refunds we statistically sampled, we found that five adjustment reason codes did not accurately reflect the nature of the adjustment. Based upon our sample of 114, we are 95 percent confident that between 234 and 3,011 refunds have adjustment codes recorded on CARTS that do not accurately reflect the adjustment reason. The sample precision is plus or minus 3.75 percent. We also found that three of the 27 refunds greater than $100,000 had an adjustment code that did not reflect the actual reason for the adjustment.

The Department should ensure the accuracy of the adjustment codes captured on CARTS. Once the adjustment codes are accurate, Department management will be able to track and monitor the reasons for overpayments and the resulting refunds. A summary report including such information will allow management to take progressive steps to possibly lessen or eliminate the necessity of making certain adjustments.

Documentation Supporting Overpayments

It is important that taxpayer records are maintained accurately because these records provide a documented case history of the taxpayer's actions, the events leading to the initial assessment, and any adjustments made by the Department. Part of the documented case history should be a record showing that the appropriate level of approval was received for all refunds. The Department has written procedures which specify the level of approval necessary. Proper maintenance of these records is essential to ensure that a documented case history exists to justify refunds issued to taxpayers.

We reviewed supporting documentation maintained by the Department to determine whether the Department had adequate documentation to justify the overpayment refund. As part of our review, we also verified that the individual making the adjustment or authorizing the refund was the appropriate individual. We found that, for the majority of the refunds, the Department did have adequate supporting documentation and refunds were appropriately approved. However, we identified some instances in which documentation was missing. Examples of this missing documentation include a taxpayer's entire file and letters from taxpayers for overpayments that resulted from taxpayer protests. Of the 114 statistically sampled refunds, we identified seven cases for which documentation was not available to justify the reasonableness of the overpayment and resulting refund. We projected the results of our sample to the entire population. Based upon our sample of 114, we are 95 percent confident that between 643 and 3,900 refunds are missing documentation to justify the reasonableness of the overpayment and the resulting refund. The sample precision is plus or minus 4.4 percent.

We also could not verify that appropriate approval had been granted for two of the refunds greater than $100,000. Department staff told us they had sought the appropriate approval for one of these refunds, which amounted to almost $4.2 million. However, they were unable to give us documentation showing that the approval was granted. In the other case, Department staff provided us with documentation showing the appropriate individual had at least seen the case. However, there was no indication of approval or denial of the refund. In the case of such large refunds, the Department should ensure that the appropriate approval is not only requested and granted, but documented as well.

Recommendation

5. Ensure that the reasons for overpayments and the resulting refunds are adequately documented. This includes obtaining and documenting proper authorization as well as ensuring the accuracy of the adjustment data contained on CARTS.

Suspended Payments

In some instances, payments received by the Department's depository banks cannot be credited to a taxpayer's account. Payments may not be credited to a taxpayer's account for numerous reasons including the following: taxpayers may make payments for assessments which the Department has not yet created on CARTS; the payment document may not have been properly prepared by Department or bank staff; or, the taxpayer may not have an identifiable tax liability. Payments that cannot be correctly posted to a taxpayer's account are posted to a suspended account until they are resolved. Payments may remain suspended for several years.

As part of its responsibilities, the Department's Assessment Receivable Management Unit (Unit) works to resolve the problems that caused the suspended payments. Unit personnel periodically review all suspended payments to determine if the payments can be applied to the appropriate taxpayers' accounts. As of June 1997, Department records show that there were 6,597 suspended payments totaling approximately $58 million.

We reviewed suspended payments which the Unit had resolved. We selected a judgmental sample of ten such payments which Unit staff had posted to a taxpayer's account between March and June 1997. We reviewed available documentation to verify that the once suspended payment had been posted to the appropriate taxpayer's account. We did not identify any payments that had been inappropriately posted.

Controls Over Suspended Payments

During the course of our examination of suspended payment resolutions, we found that the Department sustains a risk related to the posting of suspended payments to taxpayers' accounts, because the same employees who work on resolving suspended payments also certify the appropriateness of overpayments. Unit employees who resolve suspended payments also perform the following functions: identify and review adjustments to assessments; regularly review overpayment refunds to ensure they were posted to the correct taxpayers and that the taxpayers had no open liabilities; and handle taxpayer complaints about incorrect postings. Having the same employees perform all these duties increases the risk that an employee could inappropriately post a payment to a taxpayer's account. Since the Department relies on Unit employees to perform these incompatible duties without supervisory review, an employee could post a payment inappropriately without risk of detection.

In the case of suspended payments, the older the suspended payment (five years or longer), the greater the risk of inappropriate posting. Although we did not specifically sample older suspended payments, we did perform an aging analysis of the Department's June 1997 report of suspended payments. As indicated in the table below, we found that 3,045 payments totaling nearly $7 million were more than five years old.

Age of Suspended Payment	Number of Suspended Payments	Total Dollar Value of Suspended Payments
Less than five years	3,552	$51,008,972
Five years or more	3,045	$ 6,933,703
Total	6,597	$57,942,675

Unit managers told us they rely primarily on taxpayer complaints to identify payments that were posted inappropriately. However, without adequate separation of duties or supervisory review, it is possible that the same employee could inappropriately post an overpayment - which could result in a refund to the wrong taxpayer - and then handle the complaint from the taxpayer who should have received the credit. Moreover, as a suspended payment ages, it is less likely the taxpayer who made the payment will register a complaint or inquire about the payment's status. Department officials indicated to us that, since they are short of staff, they are not able to reduce the risk of inappropriate posting by adequately separating these duties. Officials also told us that the Unit will lose additional staff in the near future. We recognize the constraints the Department faces. However, we believe the Department should review the processing of suspended payments, particularly older suspended payments, to determine the best way to ensure the integrity of related transactions. We further suggest that the Department, in conducting such a review, consider implementing one or more of the following alternative control measures, which could mitigate the risk of inappropriate postings without requiring additional employees.

To lessen the risk that old suspended payments could be posted inappropriately, the Department could increase supervisory review or require approval to post these transactions. The Unit could also consider purging suspended payments after they reach a specified age, and then require supervisory action to reinstate them for posting to a taxpayer's account. The Department could also develop detective controls to reduce the risk of inappropriate posting and the risk of paying a refund to the wrong taxpayer. For example, the Unit could periodically produce a report that would show all suspended payments for which posting resulted in an overpayment and the payment of a refund. Management could use this kind of report to identify patterns that could indicate a problem, or to perform spot checks of transactions to ensure they were carried out appropriately.

Recommendations

6. Consider increasing the supervisory review over, and/or the required level of authorization for, the posting of older suspended payments.

7. Conduct a review to determine the best manner in which to handle aged suspended payments. This review might include an analysis of the feasibility of purging older payments from the suspended payment file.

8. Consider separating certain duties of Unit staff or implementing compensating controls to ensure suspended payments are posted appropriately.

Major Contributors to This Report

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KEVIN F. MURRAY
EXECUTIVE DEPUTY COMMISSIONER

May 8, 1998

Mr. Kevin M. McClune
Director of State Audits
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Dear Mr. McClune:

Thank you for the opportunity to comment on your draft report entitled "Assessment Receivable Overpayments" (97-S-14).

We are pleased with the auditors' conclusion that controls over the Department's A/R processing are generally sufficient to ensure the accuracy and integrity of overpayments and the resulting refunds. We also appreciate the auditors' recognition of the Department's success at reducing the cycling time and the interest paid on A/R overpayment refunds.

Our responses to the formal recommendations are as follows:

Recommendation 1:

Consider developing and implementing a process to identify overpayments caused by taxpayer protests. For such cases, calculate interest from the protest date rather than from the date the taxpayer made the payment.

Response:

We agree in principle with this recommendation and recognize that significant interest savings could be achieved. However, given other critical priorities, we cannot commit the resources required to make the changes at the present time.

Use of the "payment effective date" is integral to the processing of all financial transactions in CARTS. To incorporate sufficient intelligence into the system for it to know to use the "protest date" for the handling of a small percentage of these transactions would require extensive analysis, coding, and testing. At present, even the time and resources required to assess the feasibility and estimate the cost of the recommended change would jeopardize mandated efforts to make our systems Year 2000 compliant. We will reassess the proposed system modification once Year 2000 compliance has been achieved.

In the interim, we intend to explore the possibility of a statutory change to allow interest from the payment date, as it would seem to be fairer to the taxpayer. Calculating interest from the payment date would achieve more equitable treatment of those taxpayers who immediately pay an assessment to prevent the further accrual of interest, but later successfully protest the assessment when they are able to assemble the information needed to refute it.

Recommendation 2:

Ensure that Unit staff consistently follow current Unit procedures for offsetting all refunds above the $500 threshold against outstanding liabilities.

Response:

Staff have been reminded to adhere to Unit procedures; follow-ups will be conducted as appropriate.

Recommendation 3:

Revise Unit procedures to apply the $500 threshold for manual review to a taxpayer's total refund rather than a taxpayer's individual refunds.

Response:

Unit procedures have been revised to comply with this recommendation.

Recommendation 4:

Consider implementing a threshold amount for which the Unit will apply a refund offset against other outstanding liabilities under a different taxpayer ID.

Response:

We will consider the feasibility of establishing a threshold amount for review of refund offsets for application to liabilities under a different taxpayer ID number. We will request new programming to assist in this review.

Recommendation 5:

Ensure that the reasons for overpayments and the resulting refunds are adequately documented. This includes obtaining and documenting proper authorization as well as ensuring the accuracy of the adjustment data contained on CARTS.

Response:

We agree that the reasons for overpayments and the resulting refunds should be adequately documented. Staff have been reminded of the importance of following established procedures for the handling of protest material and ensuring that documentation is associated with and maintained in the proper files. In addition, the Department is continuing its efforts to implement imaging technology which will improve the control over documentation and create an audit trail of supporting materials.

Recommendation 6:

Consider increasing the supervisory review over, and/or the required level of authorization for, the posting older suspended payments.

Response:

The unit responsible for this function has reorganized and has reassigned tasks, resulting in an increase in supervisory review.

Recommendation 7:

Conduct a review to determine the best manner in which to handle aged suspended payments. This review might include an analysis of the feasibility of purging older payments from the suspended payment file.

Response:

This review is now under way. A recommendation regarding aged suspended payments will be submitted to Department management once the review is complete.

Recommendation 8:

Consider separating certain duties of Unit staff or implementing compensating controls to ensure suspended payment are posted properly.

Response:

This recommendation has been addressed as part of the reassignment of tasks mentioned in our response to Recommendation 6. We will explore the technical feasibility of producing a report that lists once suspended payments that have been posted and resulted in an overpayment that was subsequently refunded.

Sincerely,

Kevin F. Murray

Kevin F. Murray
Executive Deputy Commissioner