

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement and State Compliance Audit Finding:

**Finding No. 2017-001: Inadequate Business Tax Internal Controls**

**Type of Finding: Material Weakness**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control<sup>16</sup> states, “[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results” and principle 17 states, “[m]anagement should remediate identified internal control deficiencies on a timely basis”.

South Dakota Codified Law (SDCL) 10-52A-12 states that “All moneys received and collected on behalf of a municipality by the department...shall be paid within thirty days after collection to the municipality entitled thereto.”

**Condition:**

The Department of Revenue (DOR) utilizes the CEDAR computer system to record business tax revenue received from individual taxpayers and the distributions of the revenue. The State's accounting system is used to record the gross revenue deposited from business taxes along with the taxes that were distributed to State funds or other governments. An important internal control is the reconciliation of the subsidiary record, the CEDAR system, to the State's accounting system. The DOR had not performed reconciliations of the business tax revenue and distributions recorded on the CEDAR system to the State's accounting system since April 2016.

After we discussed the lack of reconciliations with the DOR, the DOR completed a comparison between the two systems and identified reconciling items. However, the procedures performed by the DOR did not include identifying the adjustments needed to CEDAR or the State's accounting system for the reconciling items. The comparison identified a \$21 million distribution to the General Fund that was recorded on CEDAR in October 2016, but not the State's accounting system. We determined that the distribution document on CEDAR was a weekly document for the transfer of business taxes from the agency fund, where the taxes are initially recorded on the State's accounting system, to the General Fund. The \$21 million that was to be transferred was included in the next week's transfer to the General Fund on the State's accounting system but was also included on Cedar again, therefore included on Cedar twice. The original voucher was never removed from Cedar causing a material variance between the two systems.

Additionally, we noted the following items during testing:

- a) The DOR deposits business taxes in an agency fund until the determination is made of the amounts to be distributed to State funds and to other governments. The distribution from the agency fund is based upon a DOR worksheet that uses the cash balance in the agency fund and adjusts for any documents yet to be processed, such as recent cash receipts or distributions for the city share of business taxes. A percentage of the agency fund balance is withheld from distribution to avoid over-distributing the fund. We found that the worksheet for the December 23<sup>rd</sup> 2016 distribution, which was based upon the balances in the agency fund as of December 21<sup>st</sup> 2016, did not include the distribution of the city share of taxes of \$16.3 million. As a result, revenue was incorrectly distributed to the General Fund and the agency fund's cash balance was up to \$9 million negative for approximately one week.
- b) The town of Pollock did not receive its share of tax revenue from two distributions occurring in July and August 2016. Because the DOR was not performing reconciliations between the CEDAR and State's accounting system, they were not aware of the error until officials from Pollock called questioning why they were not receiving their distribution. As a result, the DOR was not in compliance with SDCL 10-52A-12 that requires all moneys received and collected on behalf of a municipality by the department be paid within thirty days after collection to the municipality.
- c) The Municipal Tax Guide for Municipal Officials issued by the DOR, states that administrative fees are charged to municipalities based on the rates that have been implemented. When the city implements both a general tax rate and a gross receipts rate, the DOR deducts 1% of the municipal tax collected from each city. When the city implements only a general tax rate, the DOR deducts .55% of the municipal tax collected from each city. We noted the town of Hurley removed the gross receipts tax effective July 2016, but the administrative fee was still being charged at 1% at the time of our audit in April 2017.
- d) Different implementation fees are charged to the municipalities based on whether the tax is new or is being amended. When a municipality initiates a new tax, there is a one-time charge of \$350 plus \$1.50 per licensee based on the number of licensees (retailers) with a zip code equal to the municipality's. When amending an existing municipal tax, the fee is \$350 plus \$.90 per licensee. This is charged each time an amendment or additional tax is added and is based on the number of licensees (retailers) reporting municipal sales tax in the prior reporting period. During testing we noted four of the six municipalities that had rate changes had licensees that were reporting \$0 amounts on the DOR report used to calculate the fees charged to those municipalities. The licensees reporting \$0 were included in the count used to charge the administrative fee which does not appear to follow the DOR guidance provided to the municipalities.

Cause:

The internal controls in place over the business tax processes were inadequate.

Effect:

As a result of the inadequate internal controls over business tax processes, the DOR is not able to prevent, detect and correct errors on a timely basis increasing the likelihood of improper revenue recognition and noncompliance with State laws and DOR policies.

Recommendations:

1. We recommend that controls be implemented to ensure accurate recording of business taxes and compliance with State laws.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of business tax revenue.
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department of Revenue concurs with the finding.

Corrective Action Plan: (As submitted by DOR)

Finding 2017-001: Inadequate Business Tax Internal Controls

Views of Responsible Officials:

The Department of Revenue concurs with the finding and offers the following corrective action plan.

The Department of Revenue experienced an extended vacancy in a key accounting position from April 2016 through November 2016. Following the exit of the employee, it was determined that documentation and back up support was not sufficient. DOR has begun to document processes, reviewed the delegation of duties and is identifying back up support for all financial processes. Further, the Department has created a calendar of financial events and timelines and meets regularly to review the checklist to ensure all financial operations are occurring timely. All reconciliations will be performed monthly to identify any discrepancies and corrected as soon as possible to ensure accurate distribution and transfer of funds. It is important to note that, during this time, high level reconciliations were and will continue to be completed monthly to ensure payments to municipalities are accurate.

With regard to the additional items listed, the DOR provides the following action plan:

a) Based on a query from the general ledger, the Company 8000 agency fund was negative for two (2) days on 12/27/2016 in the amount of (\$3,957,412.37) and on 12/28/2016 in the amount of (\$1,977,158.92) [see snippet of query below].

Each month we monitor the cash balance closely and the department also works very closely with the Bureau of Finance & Management to assure that the general fund does not go negative, especially when they are taking into account payments for payroll and state aid to education.

In accordance with SDCL 4-8-14 & 4-8-14.1, procedures have been adopted to provide guidelines for agencies that may have funds which incur negative cash balances.

4-8-14. Anticipation of revenue by borrowing from other funds. If moneys for the state have been actually provided for by levy of taxes, sale of bonds or warrants, or otherwise, and the moneys have not been collected into the state treasury, but the receipt of the moneys is reasonably certain, the state auditor may anticipate the receipt of the moneys into the fund by drawing temporarily upon the moneys in any other fund of the state for which there is not an immediate use.

4-8-14.1. Issuance of warrants on funds borrowed in anticipation of revenue. Notwithstanding any other provision of law, the state auditor may issue warrants on any money actually provided for pursuant to §4-8-14 in an amount not to exceed the amount of revenues anticipated.

At the beginning of each fiscal year, agencies must submit to the Office of the State Auditor a Negative Cash Request form. For this particular fund (8000 - 0220) a Negative Cash Request form was submitted on June 28, 2016 prior to the start of the Fiscal Year 2017. The reasoning identified is the possible occurrence and timing of cash receipts into the fund, transfers to the

general fund, other agency payments, and the payments to municipalities and special jurisdictions for those funds that we collect on their behalf. This form also identifies that there may be a period the fund will have a negative balance at a particular date & time. During the past six years the balance of this fund has been positive at the end of each month. Any negative balance was corrected by deposits anticipated and received within several business days.

In this instance, we knew that we would have a bank file in the amount of \$50 million plus on the second to last business day of the month. The actual remittances from taxpayers filing and paying electronically and selecting the second to last business day was in fact \$54.7M on 12/29/2016.

On 12/21/2016, the Municipal / Special Jurisdiction process was completed and a voucher (R02BTX7213) was generated and inputted on the state's accounting system effectively debiting the \$16.3M from the agency 8000 Due to Other Funds 2202052 account and crediting into the Due to Other Governments 2301054 account. The municipal / special jurisdiction payments were paid on 12/27/2016 along with the Special Aid payments. While running 'negative' isn't preferred, the department was attempting to assure the general fund did not have any cash flow issues. Last year's SB36 bill to change the filing and payment dates of electronic filers has addressed this issue.

b) The Business Tax division has added an additional check to the process to reconcile the city split in CEDAR to the Journal Voucher to ensure all payments have been added to the voucher for the process of payment. This review will be completed by the Accounting Manager responsible for the city split process.

c) The Department of Revenue will conduct a Lean event to review and improve the process of changing administrative fee rates based on the tax types administered. Municipalities may change their rates in either January or July of any given year. A check will be put in place to review the number of tax types administered and the administrative fees being charged prior to January and July to ensure the correct administrative fee rate is being charged. Further, Hurley has been credited the difference the municipality was owed.

d) The Department of Revenue's practice has been to include in the fee to municipalities and notify those active licensees who may have filed \$0 returns for a variety of reasons. First, a \$0 return could mean that the taxpayer is merely delinquent at the point in time that the data is reviewed for the count. There are also different filing periods (i.e., monthly, bi-monthly, quarterly, semi-annual, annual or a custom filing period) which could explain a \$0 return. Our goal is to be as fair and consistent for all municipalities affected by this process. We will also review this process in the Lean event noted in item c) above to determine if circumstances have changed or if there is a more fair and consistent method to use in this process.

The contact person(s) for this corrective action plan are John Hanson and Doug Schinkel and the estimated completion date for the plan is October 1, 2017.

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement Audit Finding:

**Finding No. 2017-002: Inadequate Internal Controls Over Cash Receipting**

**Type of Finding: Significant Deficiency**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control – Integrated Framework (2013 Framework) defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control<sup>10</sup> states, “[m]anagement should design control activities to achieve objectives and respond to risks” and principle 12 states, “[m]anagement should implement control activities through policies”

South Dakota Codified Law (SDCL) 4-3-4.2 states:

All money, emoluments, and perquisites other than personal salary received by any officer or employee of this state shall be remitted to the state treasury by the end of the working day following the day money is received or as specified by the state treasurer. The state treasurer shall establish rules and regulations to assure accountability.

Administrative Rules of South Dakota (ARSD) 6:03:01:01 states:

Remittance deadlines. Funds destined for the state treasurer's office may be held for more than one working day if the amount to be remitted is under \$500. However, all funds held by an agency shall be remitted every Thursday.

**Condition:**

The majority of the money received by the DOR is remitted electronically or through the State Remittance Center in Sioux Falls. However, some money is still remitted to the Pierre DOR office. We found several deficiencies in the cash receipting process in the Pierre DOR office including;

- a. The mail is being opened by only one person;
- b. No log is prepared of the money received;
- c. Checks are not immediately restrictively endorsed.

We found that checks were distributed to DOR personnel for processing into the DOR systems such as CEDAR without first being restrictively endorsed and observed multiple personnel handling such checks. We also noted instances where checks were held longer than allowed by SDCL 4-3-4.2 and ARSD 6:03:01:01 and instances where checks were returned to the taxpayers without adequate documentation to justify the action.

Cause:

Internal controls over the cash receipting process were inadequate.

Effect:

The failure to maintain a cash receipt log and to restrictively endorse checks before they are distributed to personnel within the DOR increases the risk that checks will be lost, stolen or not deposited properly and within the timeframe required by State law.

Recommendations:

1. We recommend internal controls be strengthened to ensure that receipts are deposited timely and intact.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for the cash receipting process.

Views of Responsible Officials:

The Department of Revenue concurs with the finding.

Corrective Action Plan: (As submitted by DOR)

Finding 2017-002: Inadequate Internal Controls Over Cash Receipting

Views of Responsible Officials:

The Department of Revenue concurs with the finding and offers the following corrective action plan.

The DOR is developing a new procedure for opening and distributing mail. All mail will be opened by no fewer than two people at all times. During this process, all monies will be logged and checks restrictively endorsed. Mail, with monies, will then be delivered to the designated employees throughout the department to be processed. A copy of the log sheet including who is in possession of the monies will accompany the mail and a second copy will be delivered to the Finance office. Once processed, the monies will be delivered to the Finance office to be remitted to the State Treasurer's Office. The Finance Office will use the log to ensure all monies are receipted within the statutory timeframe. This deposit will be reconciled against the mail log sheets and any discrepancies will need to be addressed and accounted for. This new procedure will be implemented in August, 2017, after training staff of the new procedure in July.

The contact person for this corrective action is John Hanson and the estimated completion date for the plan is August 31, 2017.

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

State Compliance Audit Finding:

**Finding No. 2017-003: Lack of Motor Fuel Manual Return Waivers**

**Type of Finding: Significant Deficiency**

Criteria:

South Dakota Codified Law (SDCL) 10-47B-190 states:

Any entity who holds a license issued pursuant to this chapter or any entity subject to the provisions of this chapter shall file returns or reports by electronic means with the department and shall remit tax by electronic transfer to the department unless the secretary permits an entity to file returns or reports by non-electronic means and permits an entity to remit tax by non-electronic means.

Condition:

During fiscal year 2017 we found that of 221 returns filed by 30 taxpayers there were 184 returns filed by 25 taxpayers, or 83% of the manual returns, that were not approved for manual filing as required by SDCL 10-47B-190.

Cause:

Controls were inadequate to ensure taxpayers who file manual returns have received prior approval in accordance with SDCL.

Effect:

The DOR and taxpayers were not in compliance with State law.

Recommendations:

1. We recommend that the Department of Revenue implement controls to ensure compliance with SDCL 10-47B-190.
2. We recommend formal policies and procedures be developed that provide guidance for personnel who receive and process manual returns in order to comply with SDCL 10-47B-190.

Views of Responsible Officials:

The Department of Revenue concurs with the finding.

Corrective Action Plan: (As submitted by DOR)

Finding 2017-003: Lack of Motor Fuel Manual Return Waivers

Views of Responsible Officials:

The Department of Revenue concurs with the finding and offers the following corrective action plan.

Currently, we do not have an official form to request waiver available. The Motor Fuel staff of the Motor Vehicle Division will create an official form to allow taxpayers to request a waiver to file either returns or reports electronically. This form, once approved, will then be an attached document to the record in the Cedar system.

The Motor Fuel staff will identify all taxpayers filing manually without a waiver and get a waiver in place, if requested by the taxpayer. Each waiver will be reviewed annually. The Department of Revenue will continue to work with taxpayers to move to electronic filing of returns and reports. DOR will also develop training for licensees to increase the electronic filing by taxpayers.

The Department of Revenue will work with the Bureau of Information and Telecommunications to make programming enhancements within the Cedar system. Today, the system does not allow for multiple amended returns for the same period to be made electronically. We will expand the functionality to allow taxpayers to file their amended returns electronically and provide notification to staff when amended returns are filed to follow up on the reasons for the amendment. Further, we will program a notification to Motor Fuel staff when a manual return has been received by the Remittance Center, located in Sioux Falls. Today, if a manual return is filed, as long as there are no violations on the return, Motor Fuel staff may not be aware the taxpayer filed manually without a proper waiver in place.

The contact person for this corrective action plan is Lisa Weyer and the estimated completion date is August 31, 2017.

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement Audit Finding:

**Finding No. 2017-004: Insufficient Evidence for Approval of Monthly Revenue Corrections**

**Type of Finding: Significant Deficiency**

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control – Integrated Framework (2013 Framework) defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control<sup>12</sup> states, “[m]anagement should implement control activities through policies”.

Condition:

During fiscal year (FY) 2017, multiple monthly revenue corrections were prepared by Department of Revenue (DOR) accounting staff that contained only a digital version of a former employee's name as evidence of approval. There was no other evidence of who prepared or approved the correction documents.

Cause:

Policies and procedures were not adequate to ensure monthly revenue correction documents contained proper evidence of approval.

Effect:

The lack of proper policies and procedures over monthly revenue correction approval increased the risk for errors or irregularities in the accounting records.

Recommendations:

1. We recommend that policies and procedures be implemented to ensure that monthly revenue correction documents contain proper evidence of oversight and approval.

Views of Responsible Officials:

The Department of Revenue concurs with the finding.

Corrective Action Plan: (As submitted by DOR)

*Finding 2017-004: Insufficient Evidence for Approval of Monthly Revenue Corrections*

*Views of Responsible Officials:*

*The Department of Revenue concurs with the finding and offers the following corrective action plan.*

*The vacating employee in question left the Department of Revenue April 13, 2016 to move to another state agency. At that time, the employees' user id was inactivated, eliminating the use of the electronic signature in the CEDAR computer system. An amended list of authorized signatures was also sent to the State Auditor's office to remove the employee's authority. However, revenue corrections do not go through the State Auditor's office nor are these documents in question generated by the CEDAR system. A typed name was inadvertently missed in the electronic document we use for Revenue Corrections.*

*All digital signatures and typed names have been removed from electronic documents. The Department of Revenue will only authorize revenue correction documents with an original signature with no exceptions.*

*The contact person for this corrective action plan is Toni Richardson and the plan has already been implemented as of July 24, 2017 with on-going review in place.*

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement Audit Finding:

**Finding No. 2017-005: Inadequate Motor Vehicle Reconciliations**

**Type of Finding: Significant Deficiency**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control<sup>16</sup> states, “[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results” and principle 17 states, “[m]anagement should remediate identified internal control deficiencies on a timely basis”.

**Condition:**

South Dakota Codified Law (SDCL) 32-11-29, was amended for fiscal year 2017 and caused a change in the distribution of motor vehicle fees, however the change was not updated in the SDCARS system. The Department of Revenue (DOR) utilizes the SDCARS computer system to record the gross revenue deposited from motor vehicle fees along with the distribution of those fees to State funds or other governments. An important internal control is the reconciliation of the SDCARS system to the State's accounting system. During August, September, and October of 2016 unreconciled differences were noted for a combined total of \$43,605. The differences were not distributed to the correct accounts until the source was discovered during a reconciliation performed in November and corrected in December of 2016.

The discrepancies noted above were not noted as part of the body of the reconciliation, but as an additional note either written on the face of the document or as part of additional documentation. The subsequent adjustments required as a result of the SDCL change were also not accounted for on the reconciliation.

**Cause:**

The DOR's internal controls over the reconciliation and calculation of the distribution of the motor vehicle fees were inadequate.

**Effect:**

Variances that exist between the two systems noted above were not resolved in a timely manner. The State's accounting system will continue to require significant monthly adjusting entries until the software for SDCARS is updated to reflect the new law. The inadequate reconciliation could potentially allow the necessary adjustments to be missed.

Recommendations:

1. We recommend controls be implemented to ensure the reconciliations performed are adequate and differences noted are resolved in a timely manner.
2. We recommend formal policies and procedures be developed that provide guidance on the procedures for handling irreconcilable differences above a specified dollar amount on a timely basis.
3. We recommend that the DOR work with the Bureau of Information and Technology (BIT) and update the SDCARS data so these differences do not need to be corrected during the monthly reconciliation.

Views of Responsible Officials:

The Department of Revenue concurs with the finding.

Corrective Action Plan: (As submitted by DOR)

Finding 2017-005: Inadequate Motor Vehicle Reconciliations

Views of Responsible Officials:

The Department of Revenue concurs with the finding and offers the following corrective action plan.

The Department of Revenue experienced an extended vacancy in a key accounting position from April 2016 through November 2016. Following the exit of the employee, it was determined that documentation and back up support was not sufficient. DOR has begun to document processes, reviewed the delegation of duties and is identifying back up support for all financial processes. Further, the Department has created a calendar of financial events and timelines and meets regularly to review the checklist to ensure all financial operations are occurring timely. All reconciliations will be performed monthly to identify any discrepancies and corrected as soon as possible to ensure accurate distribution and transfer of funds.

The SDCars titles and registration system programming will be updated to accurately reflect and account for the appropriate distribution of funds and reporting. Finally, going forward, legislative changes requiring programming updates to systems will be handled through formal project management to ensure all affected divisions participate in the solution to be compliant with the new laws.

The contact person(s) for this corrective action plan are John Hanson and Lisa Weyer and the estimated completion date of the plan is September 1, 2017.

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement Audit Finding:

**Finding No. 2017-006: Inadequate Bank Tax Internal Controls**

**Type of Finding: Significant Deficiency**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control – Integrated Framework (2013 Framework) defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control<sup>10</sup> states, “[m]anagement should design control activities to achieve objectives and respond to risks” and principle 17 states, “[m]anagement should remediate identified internal control deficiencies on a timely basis”.

**Condition:**

The Department of Revenue (DOR) utilizes an internally developed CEDAR computer system to record and track bank taxes. We noted that financial institutions licensed by the Division of Banking (DOB) were not always entered onto the CEDAR system, and therefore not tracked for tax purposes.

- a) For a sample of three months, we performed a comparison between the financial institutions licensed by the DOB in those months and the taxpayers listed on the DOR's CEDAR system. There were 30 new financial institutions on the DOB report, of which the following exceptions were noted on the CEDAR system:
  1. Five taxpayers were not added to CEDAR until questioned by us.
  2. Three were not entered in a timely manner and were not contacted by the DOR.
  3. Five were entered in a timely manner, but not yet contacted by the DOR for initial information or to inform them of their tax responsibilities.
  4. Four were not entered in a timely manner, but were contacted by the DOR.
- b) For those taxpayers that were already on the CEDAR system, the following additional errors were noted:
  1. Twenty-six delinquent taxpayers initially contacted in April 2016 through June 2016 were not contacted again during the six months of July through December of 2016 and remained delinquent.
  2. Ten taxpayer licenses were made inactive without documentation or apparent confirmation with the DOB and as such if a return remains outstanding it is no longer tracked by the CEDAR system.
  3. Nine taxpayers with various errors or issues with their tax payments/returns were not documented in the taxpayer file on CEDAR.
  4. One trust company taxpayer did not submit the appropriate tax, was not flagged and no follow-up was performed until questioned by the auditor.

Cause:

Controls were inadequate to ensure all financial institutions licensed by the DOB were submitting the required returns and payments to the DOR and that bank taxes collected and recorded were complete.

Effect:

As a result, the information on the DOR's CEDAR system was not complete and financial institutions licensed in the State were not tracked to ensure their compliance with bank tax requirements and the submission of accurate and timely bank taxes.

Depending on the size of the financial institution and its federal income, a significant loss could be incurred because the DOR is unaware of the bank taxes due to the State.

Recommendation(s):

1. We recommend that the DOR's controls be improved to ensure that information being used is complete and institutions licensed in the State are tracked to ensure taxes are being collected in an accurate and timely manner.

Views of Responsible Officials:

The Department of Revenue concurs with the finding.

Corrective Action Plan: (As submitted by DOR)

Finding 2017-006: Inadequate Bank Tax Internal Controls

Views of Responsible Officials:

The Department of Revenue concurs with the finding and offers the following corrective action plan.

With regard to item a): The Division of Banking provides a list of newly licensed financial businesses to the Department of Revenue monthly. The DOR policy has been updated to include additional controls on the initial actions of the department upon receipt of the list. First, the responsible employee will review the CEDAR tax system to determine if the business is a new account or a branch or subsidiary of an existing account. If not associated with another account, the business will be entered into the CEDAR system and a letter requesting additional information will be sent to the business. Once this process has been completed each month, a notification will be sent to the Bank Franchise Tax Specialist, the Finance Officer, the Director of Property & Special Taxes and the Director of Audits. This process will be completed within 20 days of receipt of the list from DOB.

With regard to item b): The policy in Bank Franchise Tax is consistent with Business Tax policy in that delinquent taxpayers receive only three billing notices if no additional activity occurs on the taxpayer ledger. We will work with the Bureau of Information and Telecommunications to create a report within our CEDAR tax system to show those delinquent taxpayers who have received three billing notices and remained delinquent. The Bank Franchise Tax Specialist will make contact to attempt to resolve the taxpayer delinquency or collect any balance due in accordance with the Bank Franchise Delinquent Returns policy. The Bank Franchise Tax Specialist will continue to notify the Division of Banking of any bank tax discrepancies at year-end to halt renewal of annual licensing until those discrepancies are resolved.

The Department of Revenue will also update procedures to require additional documentation and comments linked to the account in CEDAR tax system to better document actions taken with regard to accounts. Also, the DOR will update the initial information request letter and form to inquire if the business is a trust company.

Finally, the Department of Revenue will be requesting an additional FTE to help administer, properly account for, and ensure compliance with this labor-intensive program as recommended by the Department of Legislative Audit.

The contact person for this corrective action plan is Jason Evans and the estimated completion date for the entirety of the plan is August 31, 2017.