

March 15, 1996

Mr. Michael H. Urbach
Commissioner
Department of Taxation and Finance
W.A. Harriman State Office Campus
Albany, NY 12227

Re: Report 96-F-3

Dear Mr. Urbach:

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, we have reviewed the actions taken by officials of the Department of Taxation and Finance (Department) as of January 31, 1996 to implement the recommendations contained in our prior audit report 94-S-54. Our prior report, which was issued April 25, 1995, examined the Department's procedures for designating delinquent tax cases as

Background

The Department administers the State's tax laws and serves as its general tax collection agent. For the 1994-95 State fiscal year, the Department collected about \$32.7 billion in State tax revenue. The Department's Tax Compliance Division (Division) is responsible for collecting taxes after other Department units have determined that taxes are delinquent. As of April 1995, the Division had a total of 1,063 employees in its central office in Albany and 12 district offices.

When the Division exhausts all collection efforts, a case may be closed (completed) as uncollectible. An uncollectible designation stops the active pursuit of the delinquent amount, but the taxpayer's liability remains. However, the case may be re-opened to attempt further collection if, for example, the taxpayer subsequently files a tax return. Based on dollar tolerance limits set by the Division, the most common completion occurs when the delinquent case value is too small to justify the Division's time and effort to pursue collection. Other common completion categories which are used by the Division include: the taxpayer has no assets; the Division is unable to locate the taxpayer; the taxpayer is deceased; and a business is no longer operating. Division staff are to record completion activities and authorizations on the Department's computerized Case and Resource Tracking System (CARTS). CARTS is the official record supporting Division compliance with collection procedures.

In our prior audit, we reported that during the period January 1, 1992 through February 9, 1994, the Division completed uncollectible cases totaling over \$2.24 billion. The Department does not

routinely capture
unavailable.

Summary Conclusion

In our prior audit, based upon our review of CARTS data, we found that in many cases Division employees did not follow established procedures for completion of all case completions were adequately documented to establish that they were properly authorized or carried out in a timely manner. For example, based upon the results of one statistical test, we projected that the value of cases where Division employees appeared not to follow its collection and authorization procedures ranged between \$625 million to almost \$1 billion. In another statistical test, we found that 44 percent of the cases sampled were completed without the proper authorization being recorded on CARTS and many of these cases contained the identification number of clerical employees who were not authorized to complete cases as uncollectible.

The results of these tests did not necessarily mean that the Division would have collected the taxes owed on these completed cases, had the required procedures been followed, or that required procedures were not followed in all of the cases reviewed. However, they did show that management lacks assurance that all required procedures were followed before cases were completed or that no intentionally unauthorized completions took place. Our audit identified several factors which contributed to the above conditions. We found the Division did not have a formal, comprehensive procedures manual to guide staff through the case completion process and the recordkeeping system for controlling cases did not contain an edit to identify improper authorization. We also found that prior to January 1994 the Division did not have any time standard for processing a case.

In our follow-up review, we found the Department has fully implemented two of our four prior audit recommendations. We encourage the Department to implement the remaining two recommendations. For example, the Division has developed and recently updated its comprehensive procedures manual and provided a refresher case processing training course for all district office collection and supervisory staff. We also noted that the Division formally requested the Information Systems Management (ISM) group on October 18, 1995 to implement appropriate CARTS edits to ensure compliance with Division authorization procedures for proper case completion. ISM officials stated they are currently analyzing the Division's request. Finally, the Division has not yet taken steps to monitor the timeliness of case assignments. However, officials agree with the recommendation and plan to take steps to implement the recommendation once other priorities have been satisfactorily addressed.

Summary of Status of Prior Audit Recommendations

Department officials have fully implemented two, partially implemented one and have not implemented one of our four prior audit recommendations.

Follow-up Observations

Recommendation 1

Intensify efforts to establish a comprehensive procedures manual.

Status - Fully Implemented

Agency Action - In responding to our prior audit report, Department officials agreed with the recommendation. The Division has developed, recently updated and distributed its comprehensive procedures manual to all district office collection staff. Division officials also stated they will update sections of the manual on a regular basis to ensure it keeps pace with the ever changing collection environment.

Recommendation 2

Provide training to help ensure that Division personnel comply with established collection and authorization level procedures.

Status - Fully Implemented

Agency Action - In responding to our prior audit report, Department officials agreed with the recommendation. A retraining program has been completed for all district office collection and supervisory personnel as of April 1995. The training focused on collection action that is timely and progressive and covered a variety of techniques and standards. Adherence to appropriate authorization levels in making determinations of uncollectibility was also addressed in the new procedures manual and the guidelines were clarified.

Recommendation 3

Implement an edit within the CARTS system to ensure compliance with Division authorization procedures for proper case completion.

Status - Partially Implemented

Agency Action - Department officials agreed with this recommendation on October 18, 1995. Division officials formally requested that the Department's Information Systems Management (ISM) group implement the appropriate CARTS system edit to ensure compliance with Division authorization procedures for proper case completion.

Agency Comments - Division officials are currently awaiting ISM implementation of the CARTS system edit. The CARTS system edit will ensure that the employee whose identification number is used to complete a collection case has authorization to do so. ISM officials stated they are currently analyzing the Division's request; however, no timetable has been established for completion and implementation.

Auditors' Comments - We encourage quick implementation of this system edit to provide management the needed assurance that all cases are closed in accordance with approved case closing procedures and that no unauthorized case closings take place.

Recommendation 4

Status - Not Implemented

Develop a time standard for the period between the time a case becomes a mature notice and demand to the time it is employee assigned. Use the standard as a guide to help measure progress on processing uncollectible accounts.

Agency Action - In responding to our prior audit report, Department officials agreed that timeliness in assigning a case is important and efforts were underway to arrive at assignment time frames for various types of cases. However, officials believe that the time it takes to assign a case is highly variable and, by definition, cannot conform to a specific standard. The establishment of any guidelines would reflect the factors that influence case assignment.

Agency Comments - Officials reported they have not yet implemented this recommendation but plan to take steps to implement the recommendation once other priorities have been satisfactorily addressed.

Auditors' Comments - We encourage the Department to implement this recommendation in a timely fashion. The Division needs to establish case processing time standards for the period between the time a case becomes a mature notice and demand to the time it is assigned to an employee. Quicker action will enhance the collectibility of tax revenue owed and paid to the State.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address the unresolved matters discussed in this report.

We also wish to thank the management and staff of the Department for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Robert H. Attmore
Deputy Comptroller

cc: Patricia A. Woodworth