

State of New York
Office of the State Comptroller
Division of Management Audit

**DEPARTMENT OF TAXATION AND
FINANCE**

**MAINTAINING EMPLOYER
WITHHOLDING TAX ACCOUNTS**

REPORT 96-S-43



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit

Report 96-S-43

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

Dear Mr. Urbach:

The following is our audit report on Department practices for maintaining employer accounts in the Withholding Tax Program.

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*

July 10, 1997

Executive Summary

Department Of Taxation And Finance Maintaining Employer Withholding Tax Accounts

Scope of Audit

Section 671 of the New York State Tax Law (Law) requires that every employer deduct and withhold income tax from employees' wages. In administering and enforcing the Law, the Department of Taxation and Finance (Department) maintains accounts for about 470,000 employers on its Withholding Tax System (WTS), and collects approximately \$18 billion in withholding tax receipts annually. WTS identifies employers who have underpaid or overpaid withholding taxes, and calculates the respective assessments (notices of tax due) and refunds for these taxpayers. The Department must resolve employer protests of assessments, and must pay refunds due employers within 45 days or pay interest. The Office of the State Comptroller (OSC) must approve refunds before they can be paid.

Our audit addressed the following questions about Department practices related to employer account maintenance for the period July 1, 1993 through June 30, 1996:

- Are Department controls over the withholding tax program sufficient to ensure that employer accounts are properly maintained?
 - Are controls sufficient to ensure that the Department pays appropriate refunds to employers and that it minimizes interest charges?
-

Audit Observations and Conclusions

We determined that, generally, the Department's Withholding Tax System contains sufficient controls to ensure employer accounts are properly maintained. However, we found the Department can take steps to reduce the number of adjustments that must be made to employer accounts and ensure that protests are fully documented. We also found the Department can improve controls over refund processing.

Annually, Department staff make about 140,000 adjustments to employer accounts on WTS to correct discrepancies that result from posting and processing errors. Staff also access withholding tax records to record the resolution of employer protests against assessments. It is essential that account balances accurately reflect all withholding tax paid so the Department can pay refunds, charge assessments and respond to protests based on reliable information. In response to our audit, Department officials agreed to carry out system changes and simplify filing requirements. These steps should reduce the number of adjustments staff must make to correct account balances. (See pp. 5-7)

We reviewed the Department's automated abatement program, which cancels certain low dollar assessments to help reduce the inventory of protested assessments. We found that the computer program does not recognize that refunds may be due taxpayers who pay their assessment when they file protests. We recommend that the Department modify this program to identify and pay refunds due and thus avoid new protests from taxpayers. We also recommend that the Department promptly deactivate employee user identification numbers when staff leave the Department, to ensure only authorized employees have access to confidential employer account data. (See pp. 7-8)

The Department maintains a permanent history of taxpayers' actions on its computerized Case and Resource Tracking System (CARTS), including events leading to assessments and any taxpayer responses to assessments. While we determined that protested assessments were generally canceled in accordance with the Department's criteria, we also found the Department did not have adequate documentation on CARTS supporting these decisions. In a sample of 116 protests we reviewed, 100 had no histories of protest resolutions. We recommend that the Department maintain such documentation to provide support for follow-up actions (such as abatements) and to prevent revenue losses that may result from taking inappropriate actions. (See pp. 9-10)

The Department should pay refunds of overpaid withholding tax in a timely manner to limit the amount of interest paid. Our analysis of refunds totaling over \$25.4 million paid from January 1995 through August 1996 found the Department paid almost 57 percent of the refunds (over \$15.5 million) late and had to pay \$146,408 in interest charges. We also found the Department paid refunds totaling over \$8 million after the 45-day period without adding the interest due. The Department calculated refunds without interest through the 45th day without considering the time required by OSC to perform its mandatory audit and approval of these refunds prior to payment. The Department has agreed to adjust the process timetable to ensure both prompt and accurate refund payments. (See p. 11)

Comments of Officials

Department officials agree with all of the recommendations in the report. According to Department officials, implementation of certain recommendations is dependent upon the availability of computer programming resources or is a function of staff allocation decisions in addressing competing priorities.

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Introduction

Background

Section 671 of the New York State Tax Law (Law) requires that every employer deduct and withhold from their employees' wages an amount substantially equivalent to the income tax due by those employees under Article 22 of the Law. The Department of Taxation and Finance (Department) is responsible for administering and enforcing the Law. The Department's Processing and Revenue Management Division's Withholding Tax Bureau (Bureau) carries out the functions of the withholding tax program to ensure that employers appropriately deduct, report, and submit employee wage withholdings to the Department. During fiscal year 1995-96, the Department collected more than \$18 billion in withholding taxes from about 470,000 employers.

The Department maintains employer accounts on the automated Withholding Tax System (WTS). When employee withholdings exceed \$700, employers are required to file withholding tax forms, and remit appropriate payments. Quarterly, employers are also required to reconcile payments to employee withholdings. Employers file withholding tax forms using either the conventional filing method (hard copy documents) or the electronic method (PrompTax). The Department's PrompTax Unit is responsible for maintaining the accounts of employers who file electronically; as of January 9, 1997, there were an estimated 6,700 such employers.

In maintaining employer accounts, Department staff make adjustments to correct account discrepancies (posting and processing errors). The Department also adjusts accounts to reflect transactions related to withholding tax assessments and refunds. WTS calculates the assessments (notices of taxes due) for those employers who owe the State additional money. Employers can protest these assessments, and the Department is responsible for resolving the protests. The Department uses its computerized Case and Resource Tracking System (CARTS) to help track employer assessments, protests and protest resolutions. Altogether, the Department annually makes thousands of adjustments — totaling millions of dollars — to correct errors in employer accounts and to record the resolution of employer protests.

WTS also identifies and calculates refunds due employers who overpaid withholding taxes. According to Section 688c of the Law, the Department must refund overpaid withholding taxes due these employers within 45 days, or incur an interest penalty. The State Finance Law requires the Department to submit requests for refunds to the Office of the State Comptroller (OSC) for pre-audit and approval before the refunds can be paid.

Audit Scope, Objectives and Methodology

We audited Department management practices related to employer account maintenance for the period July 1, 1993 through June 30, 1996. The primary objectives of our performance audit were to determine whether the Department's controls over its withholding tax program are sufficient to ensure that (1) the Department properly maintains employer accounts, and that (2) the Department appropriately pays refunds and minimizes interest charges. To accomplish our objectives, we interviewed Department officials, reviewed and tested employer account records, and performed such other audit steps as we considered necessary in the circumstances.

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

A draft copy of this report was 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.

Maintenance of Employer Accounts

Maintaining employer accounts on WTS involves making necessary adjustments to the accounts to correct posting and processing errors and recording the resolution of employer protests against assessments. The Department should perform these account maintenance functions in a timely fashion so the account balances accurately reflect all withholding tax paid; and the Department can pay refunds, charge assessments and respond to protests based on reliable information.

We found that the Department has generally adequate controls over the 470,000 employer accounts it maintains on WTS. However, we believe that the Department could further improve the efficiency and effectiveness of its operations by reducing the occurrence of processing exceptions, by streamlining the resolution of various account discrepancies and by fully documenting all taxpayer protests. The Department has already acted to improve the processing of discrepancies and to reduce exception inventories.

Account Discrepancies

Because of exceptions identified by WTS, Department employees make about 140,000 adjustments (e.g., moving payment amounts from one account to another) to correct account discrepancies that result from posting and processing errors. The adjustments that are needed because of these exceptions should be made in a timely fashion.

Department staff must also make adjustments to resolve discrepancies that can occur in abating (canceling) certain taxpayer assessments and in accounting for unidentified payments. To make the adjustments, Department staff have user identification numbers which allow them to access taxpayer records.

Processing Exceptions

The Department has established several categories of processing exceptions related to account discrepancies. Two of these exception categories are unreconciled accounts and balancing exceptions.

When paying withholding tax, an employer may file multiple WT-1 forms; each WT-1 relates to a specific filing period in the quarter. On a quarterly basis, the employer also submits a WT-4A form, which shows all the filing period dates in that quarter and the monies collected and submitted to the Department for those periods. An unreconciled account exception occurs when the employer inadvertently records different payroll period dates on the WT-1(s) and the WT-4A forms. In this case, the WTS cannot reconcile the conflicting filing period dates. We reviewed an August 1996 exception report

for the 1993 through 1996 tax years containing over 26,000 exceptions and found that almost 19,000 exceptions related to this type of error. Department managers told us that they are reviewing ways to simplify the filing process, so that they can reduce the number of these exceptions while continuing to ensure filing compliance. For example, they are considering requiring employers to record filing period dates on the WT-4A only when corrections are necessary.

During 1995, the Department had nearly 48,000 balancing exceptions. This kind of exception occurs when another transaction (e.g., an additional employer payment) takes place after WTS has balanced an employer's account for the quarter. Since WTS is not programmed to balance the account a second time, Department staff must then balance the account manually. By reprogramming WTS to rebalance accounts to include such transactions, the Department could significantly reduce the occurrence of balancing exceptions.

Our discussions with Department managers also identified other opportunities for system improvements that would help reduce the number of exceptions that occur and save staff time spent making related adjustments. These improvements would decrease the time devoted to data entry and review of withholding tax assessments. To meet some of the Department's information needs, employees use personal computers to help keep track of the work inventory (employer records and the adjustments that need to be made to them). While much of the needed information is contained on reports produced by the WTS, employees must key in this data to be able to access it on their personal computers. The time required for this data entry is the equivalent of one full-time (FTE) employee. We believe it would be more efficient to download the data from WTS in a format that is useable on the Department's personal computers. This would make at least one FTE employee available for correcting exceptions.

The Department has a computerized central registry of taxpayer records, called the Taxpayer Indicative Data (TID) system, which includes records of employers who pay withholding tax. This central registry has an electronic indicator called EFT (Electronic Funds Transfer) that identifies PrompTax filers. Since filing and payment requirements are stricter for PrompTax filers than for non-PrompTax filers, the Department must know employers' EFT status to determine whether their payments are timely. However, because the Department updates EFT status information on only a quarterly basis, the WTS may issue incorrect assessments for employers who change status (e.g., from PrompTax to non-PrompTax status) during the quarter. Thus, PrompTax Unit staff must manually review all assessments to ensure their validity; they typically cancel about 20 percent of these assessments. We

believe the EFT indicator should be updated immediately for employers who change status during the quarter.

Automated Abatement Program

To keep the inventory of protested assessments at a manageable level, the Department automatically abates certain low-dollar assessments that have been protested. During the period January 1993 through June 1996, 36,988 assessments were abated under this program. The computer abatement process reduces the employer assessment balance to \$0, eliminates any further collection activity and removes the protest from the Department's working inventory.

A problem occurs when an employer pays a low-dollar assessment when filing the protest (presumably to avoid paying interest that might accrue). In this case, the employer, whose balance is already \$0, expects a refund of that payment when the protest is resolved. However, Department staff do not know that a refund may be due since the program has removed the protest from the work inventory. The employer must file a new protest to re-alert the Department of the initial protest, and of the assessment (now abated) which was paid. We believe the Department should modify the automated abatement program to identify those protests which include payments made at the time of filing to determine whether such protests meet refund conditions.

Non-Posted Transactions

Occasionally, the Department receives payments without the necessary information to properly identify the employer who made the payment. These payments are deposited at the bank and the payment is credited to a non-posted exception inventory for subsequent resolution.

During our review, we found that for the period January 1, 1993 through October 31, 1996, over \$180 million of the over \$242 million in non-posted exception inventory resulted from errors made when funds were transferred between the bank and the State Comptroller's Office. Although these errors were not Department errors and were subsequently resolved between the bank and OSC, the amounts of the payments remain in the Department's non-posted inventory. There is a risk that Department employees could make inappropriate transfers of these monies to other employers' accounts.

Department officials stated that they have not adjusted the inventory amounts since the transfer methodology they use would require them to compromise the integrity of the employer records. We encourage the Department to seek

other options to ensure that these credits are not transferred inappropriately.

Employee Access to the System

Department employees must have access to the computer system to maintain employer accounts. To ensure that access is limited to authorized employees, the Department uses security access software controls that require a user to enter an employee user identification number (user ID) and a password to access the system. Since a user ID enables an employee to access confidential employer records, Department controls should also ensure that an employee's user ID is promptly deactivated when he or she leaves the Department. However, we found that the Department took over two months to deactivate the user IDs of over 20 percent (20 of 84) of employees who left the Department during our audit period. We believe the Department should revise its procedures to require deactivation within a set time frame, and then ensure that supervisors understand and comply with these procedures.

The Department's written procedures require supervisors to file specific forms with the Processing Division's administrative unit when an employee leaves the Department. This unit then updates pertinent Department records and notifies Information Systems Management (ISM) to deactivate the employee's user ID. We found, however, that supervisors do not always complete the required forms. Some supervisors stated their belief that the administrative unit took care of the paperwork related to deactivating employee user IDs, and were not aware they were required to file forms. As a result, the Department did not promptly deactivate these user IDs, leaving opportunity for unauthorized access to the records.

The Department's Human Resource office provided us a listing of 84 employees who had left the Department during our audit period. We compared the separation date for each employee on the listing with ISM's deactivation date produced by the system security access software. We found that it took more than three weeks to deactivate 29 of the 84 user IDs (35 percent) for employees that left the Department, and more than two months to deactivate 20 of these 29 user IDs. The Department took from one to 20 days to deactivate the user IDs for the remaining 55 employees (65 percent).

Recommendations

1. Evaluate and implement the WTS system changes, as noted in this report, to decrease the exception inventories, including:
 - (a) programming the system to re-balance accounts after receiving additional quarterly information;
 - (b) downloading exception inventory data; and
 - (c) updating the EFT indicator during the quarter.
2. Modify the automated abatement program to identify those potential assessments that may result in employer refunds.
3. Ensure that non-posted exception credits are not transferred inappropriately.
4. Revise written procedures to specify the time period in which the Department should deactivate user IDs for separated employees, and ensure that Department supervisors understand and follow these procedures.

Protest Resolution

CARTS records taxpayer assessments and any subsequent actions, including payments, protests, and abatements. CARTS records must be accurate because they provide a documented case history of a taxpayer's activities, such as the events leading to an initial assessment and any taxpayer action that results. Without this documented case history, the Department may not have sufficient information to take follow-up actions, such as canceling or abating a taxpayer's protest, or may take inappropriate actions that result in lost revenues.

To test the adequacy of Department records, we randomly sampled 116 taxpayer protests which were resolved during the period January 1, 1996 to June 30, 1996. Our objective was to determine if protested assessments were canceled in accordance with Department criteria (e.g., with the correct level of supervisory approval), and that the Department's actions were properly documented. We found that, generally, Department staff canceled the protested assessments in accordance with the Department's criteria. The documentation supporting their actions, however, was not always adequate.

Department procedures require that staff use the Protest Resolution Work Sheet (Work Sheet) to document their actions. This Work Sheet then becomes a part of the employer's hard copy paper file. This file serves as an important link between the reason for the initial assessment and the basis for the final resolution. Our review showed that, for 17 of the 116 resolved protests, the Work Sheet was either missing or was not properly completed to explain why the assessment was resolved. Consequently, the Department has no hard copy history of these actions.

Because of storage limitations, the Department periodically purges employers' hard copy files. Therefore, the Department views the files in CARTS as the permanent record of employer account histories. Within the CARTS information screen for each employer account, there is an area designed for comments where staff should record the reasons leading to the resolution of a protest. Since CARTS provides a permanent record, and is easily accessible to staff, we reviewed the comment areas for the protests in the above sample. We found that staff did not complete the comments area in 100 out of 116 protests.

Officials told us that they have taken steps to improve the resolution process and provide for better supporting documentation. For example, Department officials told us that they have recently changed on-line procedures so that staff must complete the comment section on CARTS before they are allowed to exit the system.

Recommendations

5. Ensure that the resolution of each taxpayer's protest is adequately documented.
6. Ensure that all reasons leading to a protest's resolution are documented on CARTS.

Refund Processing

Employers who overpaid the amount of employee withholdings are entitled to a refund, and may request the refund when filing their quarterly reconciliations. The Department processes quarterly refund requests and submits them to the Office of the State Comptroller for audit and payment approval. The Department must pay refunds within 45 days or pay the employers interest.

The Department should pay refunds in a timely manner to limit the amount of interest paid, to provide timely service to employers and to ensure compliance with the Law. We analyzed refunds totaling over \$25.4 million that were made to employers from January 1, 1995 through August 31, 1996. Our analysis determined that, of the 25,698 refunds paid, 14,627 (57 percent) were processed and paid beyond the 45 day interest-free period. These refunds exceeded \$15.5 million and required the Department to pay \$146,408 in interest. We believe the Department should make processing improvements to minimize interest payments.

Refunds Paid With Interest

As part of our analysis of the refund process, we sampled the refunds that were paid with interest to determine why the refunds were not paid within the 45 day interest-free period. We found that the WTS had identified most of these refunds as "out of balance," a condition that requires Department staff to make manual adjustments (i.e., error corrections) before further processing. By the time the adjustments were made, the interest-free period had passed.

In their response, Department officials stated that staff review various computerized reports to identify all potential refunds and attempt to resolve the highest dollar value refund cases first to avoid paying the most costly interest charges. We believe that such prioritization is both reasonable and appropriate.

Also during our audit, we encouraged Department officials to make some additional changes to improve refund processing efficiency and effectiveness. For example, the Department can minimize the risk of paying interest on refunds by modifying both WTS, which processes all employer returns, and TACS (Tax Accounting and Control System), which records refund-related financial data and calculates refund interest. To reduce the likelihood that refunds will remain unprocessed at the end of the interest free period, ISM has agreed to process more than 100,000 returns weekly. Previously, WTS could balance a maximum of 100,000 employer accounts each week, so that the Department needed five weeks (35 days) to process returns for all the 470,000 employer accounts. The Department has also agreed to change a

batch control limitation in TACS to enable the system to process more than 1,000 withholding tax refunds each day.

Refunds Paid Without Interest

Our analysis also showed that the Department did not always pay employers interest they should have received on their refunds, in accordance with provisions of the Law. Officials told us that their computer programs are written so that refund requests, processed by the Department as late as the 45th day, do not receive interest. However, given that the Comptroller's pre-audit staff must have a reasonable time to approve these refunds for payment, the refund requests the Department processes on or close to the 45th day will likely incur interest. As a result, the Department mails refund checks to employers each quarter without interest. From January 1, 1995 through August 31, 1996, we found that over 6,000 refunds exceeding \$8 million were processed late, but paid without the appropriate interest. Department officials have agreed to revise processing times to allow enough time for the Comptroller's staff to pre-audit and approve the refunds.

Recommendations

7. Continue to improve the timeliness of refund processing.
8. Establish a workable timetable with the Comptroller's pre-audit unit for the timely payment of withholding tax refunds.

Major Contributors to This Report

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KEVIN F. MURRAY
EXECUTIVE DIRECTOR & COMMISSIONER

June 13, 1997

Mr. Kevin M. McClune
Director of State Audits
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Bureau of Management Audits
A. E. Smith State Office Building
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Albany, New York 12236

Dear Mr. McClune:

Thank you for the opportunity to review and comment on the draft report entitled, "Maintaining Employer Withholding Tax Accounts (96-S-43)."

We agree with all of the recommendations and appreciate the auditors' acknowledgement that the Department's Withholding Tax System contains sufficient controls to ensure employer accounts are properly maintained. We also appreciate the recognition of our actions already taken to improve the processing of discrepancies and to reduce exception inventories. We remain committed to processing Withholding Tax refunds promptly and accurately.

Our comments on the specific recommendations are as follows:

ACCOUNT DISCREPANCIES

Recommendation 1:

Evaluate and implement the WTS system changes, as noted in this report, to decrease the exception inventories including:

- (a) programming the system to re-balance accounts after receiving additional quarterly information;
- (b) downloading exception inventory data; and
- (c) updating the FFT indicator during the quarter.

Response:

- (a) We agree. As we advised OSC staff, in 1994, a Change Request (94-C122) was submitted for a system change to implement rebalancing. This is one of many Change Requests that are awaiting completion, contingent upon priority assigned jointly by Withholding Tax and Information Systems Management.

Rebalancing will require a major commitment of TSM time and staff, which has been and continues to be required for other priority work. Implementation of "new hire" reporting reconciliation changes and development of Withholding Tax/Unemployment Insurance consolidation have all delayed the implementation of rebalancing. However, rebalancing will be included in the system design for Withholding Tax/Unemployment insurance consolidation.

- (b) We agree. In 1994, Change Request 94-0671 was submitted for the unreconciled work load. Other priorities have not yet permitted this programming request to be implemented. These downloads may not be required following the Withholding Tax/Unemployment Insurance consolidation, as we anticipate that most of the reconciliation process and the unrecconciled inventory will be significantly reduced.
- (c) We agree. We had previously identified the need for immediate update of the EFT indicator on the Withholding Tax System. Upon review of this request, it was determined that the programming resources required to implement this update were not available at that time. It was agreed that quarterly updates would minimize any problems.

However, we are submitting a Change Request for the immediate update to the EFT indicator on the Withholding Tax System. This request will be prioritized based on the associated cost/benefits.

Recommendation 2:

Modify the automated abatement program to identify those potential assessments that may result in employer refunds.

Response:

We agree. Currently, protests with a minimal balance due are not assigned to staff in order to concentrate staff on higher balance due cases. This permits optimal use of the automated abatement program.

Modification of the computer abatement applications would not be cost-beneficial. Alternatively, we have implemented a procedure whereby all the low dollar balance due protests are reviewed to determine if a potential refund condition exists. Cases identified by this procedure are reviewed by supervisory staff for appropriate assignment and resolution.

Recommendation 3:

Ensure that non-posted exception credits are not transferred inappropriately.

Response:

We agree. These deposits cannot be cleared in the same manner as other exceptions because they are not tax payments. To resolve this problem, we will create a distinct Withholding Tax account for the segregation and control of these items. This will eliminate the potential for these payments to be misposted to another taxpayer.

Recommendation 4:

Revise written procedures to specify the time period in which the Department should deactivate user IDs for separated employees, and ensure that Department supervisors understand and follow these procedures.

Response:

We agree. Written procedures to address the security issue will be developed and communicated clearly to bureau supervisors.

PROTEST RESOLUTION

Recommendation 5:

Ensure that the resolution of each taxpayer's protest is adequately documented.

Response:

We agree. We have reemphasized with all protest managers, supervisors, and protest resolvers the importance of adhering to proper procedures and documentation requirements for completed protests.

Recommendation 6:

Ensure that all reasons leading to a protest's resolution are documented on CARTS.

Response:

We agree. We have implemented the procedure for the entry of the protest resolution on the Case Contact module of the CARTS system. We have also implemented additional adjustment reason codes in order to standardize and automate case resolution comments.

Mr. Kevin M. McClune

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June 13, 1997

REFUND PROCESSING

Recommendation 7:

Continue to improve the timeliness of refund processing.

Response:

We agree. As acknowledged in the report, we have developed and implemented computer applications and support tools to identify and prioritize return exceptions which have refund requests. The Withholding Tax System has been designed to provide an on-line efficient error correction process to expedite account updates and, as a result, accelerate refunds. At times, additional staff have been assigned to this activity to increase production. As we discussed with the auditors, all of our staff allocation decisions are based upon a recognition of competing priorities e.g., protest resolution, billing review, and payment exception processing both for regular Withholding Tax work and PrompTax. Notwithstanding the above, we will continue to identify ways to accelerate refunds.

Recommendation 8:

Establish a workable timetable with the Comptroller's pre-audit unit for the timely payment of withholding tax refunds.

Response:

We agree. We will continue to work with the Comptroller's Refund Pre-Audit Unit to issue refunds timely. In this case, a taxpayer brought the problem to our attention and we immediately contacted the Refund Pre-Audit Unit. The interest owed on the refunds averaged under \$9 per refund.

Sincerely,

Kevin F. Murray

Kevin F. Murray
Executive Deputy Commissioner