




April 20, 2009

MEMORANDUM

TO: Lisa Echeverri, Executive Director

FROM: Sharon Doredant, Inspector General Office of Inspector General 

SUBJECT: Six-Month Response to Auditor General Report No. 2009-024, *Department of Revenue Taxpayer Refunds and Prior Audit Follow-Up*

As required by *section 20.055(5)(h), Florida Statutes*, attached are the Department's six-month status updates on corrective actions taken in response to the Auditor General's Report No. 2009-024, *Department of Revenue Taxpayer Refunds and Prior Audit Follow-Up*.

If you have any questions, please call Bob Bliss, Director of Auditing, at 487-0701.

SD/bso

Attachments

cc: Jeff Kielbasa, Deputy Executive Director
Blanca Bayó, Chief of Staff
Bob Bliss, Director of Auditing
Kathy DuBose, Staff Director, JLAC

CORRECTIVE ACTION PLAN

Rev. 11/04

| | | | | | |
|---|----------|---|--|---|---|
| Status Date 04/22/09 | | Report No. AG 2009-024 | | Report Title Department of Revenue - Taxpayer Refunds and Prior Audit Follow-Up | |
| Contact Person Dave Ansley | | Program/Process GTA/Return and Revenue Processing | | | Phone No. 413-8551 |
| Activity Case Activity Reports | | Accountability | | Schedule | |
| | | Responsible Unit Refunds | Coordinating Unit Refunds & Distribution | Repeat Finding N | Anticipated Completion Date 6/30/09 |
| Finding | | The Department did not always maintain adequate documentation related to refunds as follows: | | | |
| No. | 1 | 1. The Department did not always maintain case activity reports to document the activity and decisions made during the tax refund claim process. | | | |
| Date | 10/22/08 | 2. The Department did not always have a required Power of Attorney on file when refunding taxes claimed by taxpayer representatives. | | | |
| | | 3. The Department could not always provide an explanation of record for the difference when tax refunds were paid in amounts less than amounts appearing on original documentation. | | | |
| Recommendation | | We recommend that the Department maintain documentation supporting changes to all refund amounts and ensure that tax auditors maintain case activity reports documenting all activity related to the processing of refunds. We also recommend that the Department obtain and maintain on file Powers of Attorney when required. | | | |
| Original Response | | <p>1. On May 6, 2008, we implemented procedures to assure that each refund case has a case activity report and that every activity is documented. A new detailed case activity report has been created to be used by all refund auditors. Refunds Management has also put in place new procedures to ensure that fully completed case activity reports are included with each processed refund request. Management will continue to reiterate to all audit staff the importance of maintaining complete Case Activity Reports that document all the activities and decisions made during the refund audit process. In addition, we intend to expand our Audit Quality and Efficiency initiative to the Refund Process within the next several years. This initiative is focused on the importance of a quality product and provides specific guidelines, evaluation tools and scoring criteria to ensure audit quality.</p> <p>2. We have reminded the audit personnel of the importance to always secure a Power of Attorney (POA) form whenever we are dealing with a person other than the taxpayer. Once our Refunds Management System is converted to a SAP Refunds Case Management system, we are planning to utilize a POA imaging function that will allow us to house, in SAP/SUNTAX, master POA information obtained by Refund Auditors for each taxpayer who submits a POA form. This would allow POA information to be accessible and available for review on a taxpayer's SAP/SUNTAX account. We expect the refund case management system to be migrated to the SAP environment by June 30, 2009.</p> <p>3. With the mainframe migration, the refund processing functionality will be transferred into SAP. To effectively correct the documentation issue, the Refunds Section has updated our refunds procedures regarding the SUNTAX processed refunds to include recording comments on the SUNTAX comments page detailing the auditors' activities during the refund audit process. This information would include but not be limited to communication with the taxpayer, additional documentation requested and received from the taxpayer, adjustments to the refunds made by the auditors and reasons to support such adjustments. As with the case activity reports, management will continue to reiterate the importance of maintaining detailed records of the auditors' activities when processing refunds.</p> | | | |
| Status Updates | | 04/09/09 | | | |
| <input type="checkbox"/> Open | | Item 1. The procedures put in place on May 6, 2008, are working and we continue to monitor this in the review process. | | | |
| <input type="checkbox"/> Management assumes risk | | | | | |
| <input checked="" type="checkbox"/> Partially complete | | Item 2. Auditors are continuing to secure the POA form when required. We are still working on the conversion to SUNTAX. The anticipated completion date is March 2010. | | | |
| <input type="checkbox"/> Complete pending verification by OIG | | | | | |
| <input type="checkbox"/> Complete | | Item 3. We project the migration of the Refund Management System to SUNTAX to be by June 30, 2009. | | | |

CORRECTIVE ACTION PLAN

Rev. 11/04

| | | | | | |
|---|----------|---|---|--|---|
| Status Date 04/22/09 | | Report No. AG 2009-024 | | Report Title Department of Revenue, Taxpayer Refunds and Prior Audit Follow-Up | |
| Contact Person Dave Ansley | | Program/Process GTA/Return and Revenue Processing | | | Phone No. 413-8551 |
| Activity RMS access privileges | | Accountability | | Schedule | |
| | | Responsible Unit Refunds | Coordinating Unit Refunds & Distributions | Repeat Finding N | Anticipated Completion Date 3/31/09 |
| Finding | | The Department did not always timely remove terminated employees' access privileges for the Refund Management System (RMS), and the Department did not periodically review the appropriateness of employee access privileges in RMS. | | | |
| No. | 2 | | | | |
| Date | 10/22/08 | | | | |
| Recommendation | | We recommend that the Department adopt procedures requiring that periodic reviews of RMS user access privileges be performed to verify that access privileges remain commensurate with employees' job responsibilities and that RMS access privileges of terminated and reassigned employees are timely removed. In addition, the Department should consider maintaining a record of RMS logons so that the appropriateness of access can be verified. | | | |
| Original Response | | <p>The Department acknowledges that security access is an important issue and, as such, is currently reviewing at a global level its procedures to safeguard against unauthorized access. Several options to tighten procedures are currently being explored. The Department's Administrative Services Program (ASP) will continue to work with the Information Services Program (ISP), as well as other key agency stakeholders, to address the overall employee separation process.</p> <p>By January 2009, a policy and procedures document will be ready for all supervisors to guide them through the process and help them better understand their role. These policies and procedures will include information for supervisors regarding how to timely and accurately notify the appropriate areas for access removal from DOR systems. The longer-term goal is to incorporate technology in the employee separation process to improve efficiency and effectiveness.</p> <p>In the interim, with respect specifically to the Refund Management System (RMS), the Refund Section will provide a refresher for managerial and support staff regarding the current procedures for RMS access. Currently, when an employee is terminated or is transferred into a new position, the Refunds Section is required to notify the ISP of the change. This is done by fax and/or e-mail using form IS-600006, Removal of Security Access for Terminated Employees. ISP will supplement this process by adding a quarterly review of user privileges.</p> <p>With regard to the correlation between access and job responsibilities, the appropriateness of access to RMS is determined by the job duties and roles assigned to the position. There are three different roles used in the Refunds Section: auditors, supervisors, and Computer Audit Analysts. Each role has access to certain transactions. These have been defined by the job requirements and to ensure adequate segregation of duties. These roles and the access to the various system transactions are maintained by our ISP.</p> | | | |
| Status Updates | | 04/09/09 | | | |
| <input type="checkbox"/> Open <input type="checkbox"/> Management assumes risk <input checked="" type="checkbox"/> Partially complete <input type="checkbox"/> Complete pending verification by OIG <input type="checkbox"/> Complete | | (ISP) The Department's Administrative Services Program (ASP) is working with the Information Services Program (ISP) to deploy part of the automated, improved separation process this week and will continue to work with key agency stakeholders to address the overall employee separation process. | | | |
| | | With regard specifically to the Refund Process: Refund management has reminded staff of the importance of ensuring appropriate user access and complying with the prescribed procedures for assigning and removing access privileges. Additionally, procedures have been adopted to ensure routine reviews of user access. | | | |

CORRECTIVE ACTION PLAN

Rev. 11/04

| | | | | |
|---|--|--|------------------------------------|---|
| Status/Date 04/22/09 | Report No. AG 2009-024 | Report Title Department of Revenue, Taxpayer Refunds and Prior Audit Follow-Up | | |
| Contact Person Donna Kornatowski | Program/Process GTA/Compliance Support Process | | Phone No. (850) 488-5545 | |
| Activity Sampling Plans and Sampling Agreements | Accountability | | Schedule | |
| | Responsible Unit Val Gouch Compliance Support Process | Coordinating Unit N/A | Repeat Finding Y | Anticipated Completion Date 3/31/09 |
| Finding | Department tax audit files did not always contain required Sampling Agreements and Sampling Plans. | | | |
| No. | 3 | | | |
| Date | 10/22/08 | | | |
| Recommendation | We recommend that the Department continue its efforts to include in the audit files, when applicable, Sampling Plans and Sampling Agreements. In addition, Department audit files should contain Sampling Agreements appropriately signed evidencing the taxpayer's understanding of the Sampling Plan or, in the absence of the taxpayer's signature, contain an explanation of why the Sampling Agreement was not signed. | | | |
| Original Response | <p>The Compliance Support Process has published a reminder regarding the importance of Sampling Agreements/Plans in its August 2008 newsletter.</p> <p>The Department has increased the number of audits reviewed to ensure signed Sampling Plans and Sampling Agreements are included in the audit files when needed. However, it is our position that a Sampling Agreement is not needed unless we are sampling and projecting liabilities due to compliance errors discovered in the records tested.</p> <p>Standard procedure is for auditors to test accounts subject to tax for accuracy, completeness, consistent application and adherence to company procedures and then determine the types of errors in the system. If procedures and tests reveal reasonable compliance by the taxpayer and no additional tax is due, the audit is closed as a "No Change." Two of the four cases cited were "No Change" audits. These audits should not have been included in this finding since sampling was not employed in these particular "No Change" audits, and therefore not relevant. However, since the DOR auditors in these two specific cases referred to their preliminary reviews of the taxpayers' accounts as "sampling" versus "testing," this reference created confusion for AG audit purposes. We will reiterate to our audit staff the importance of using precise language when referring to their audit activity.</p> | | | |
| Status Updates | <p>04/09/09</p> <p>Auditors were reminded of the sampling requirements in the August 2008 newsletter. The October 2008 newsletter included an article regarding the correct use of the term "sampling" as this was a cause of confusion during the operational audit. The information defining the difference in "testing" and "sampling" already appears in the SUT Auditor Training Manual but was reiterated to remind auditors of the importance in correctly using each term. Complete</p> | | | |
| <input type="checkbox"/> Open <input type="checkbox"/> Management assumes risk <input type="checkbox"/> Partially complete <input checked="" type="checkbox"/> Complete pending verification by OIG <input type="checkbox"/> Complete | | | | |

CORRECTIVE ACTION PLAN

Rev. 11/04

| Status/Date | Report No. | Report Title | | |
|---|--|---|----------------|-----------------------------|
| 04/22/09 | AG 2009-024 | Department of Revenue, Taxpayer Refunds and Prior Audit Follow-Up | | |
| Contact Person | Program/Process | | Phone No. | |
| Donna Kornatowski | GTA | | (850) 410-2392 | |
| Activity | Accountability | | Schedule | |
| Closing Agreements | Responsible Unit | Coordinating Unit | Repeat Finding | Anticipated Completion Date |
| | Bill Cumbie | | N | TBD |
| Finding | The Department did not always maintain on file written closing agreements evidencing the understanding between the Department and the taxpayers regarding settlements and compromises greater than \$30,000. | | | |
| No. | 4 | | | |
| Date | 10/22/08 | | | |
| Recommendation | We again recommend that the Department implement appropriate procedures to ensure that written closing agreements for settlements or compromises greater than \$30,000 are prepared, signed by the taxpayer and the Department's representative, and maintained in Department records. | | | |
| Original Response | <p>The Department does maintain a written closing agreement on all audit and discovery assessments greater than \$30,000. The Department has reissued GTA-PB06ADM003 reminding collectors to obtain a formal closing agreement on penalty waivers greater than \$30,000. However, the General Tax Administration program believes that this requirement is an administrative burden on taxpayers, practitioners and the Department in the collection process. In the audit and discovery program, closing agreements are used to resolve any disputes about the tax liability and circumstances for not remitting the tax voluntarily. In the collection process almost all of the penalty assessments are for late filing or late payment, and the taxpayer requests relief for "reasonable cause." This is acknowledged by the Department and documented in the taxpayer's history. The waiver is also reviewed by at least one, if not more, levels of management, depending on the dollar amount.</p> <p>The Department will pursue administrative remedies to eliminate this requirement for billings associated with the collection process.</p> | | | |
| Status Updates | <p>04/09/09 GTA is currently working with Executive Staff for a determination on whether or not eliminating the Closing Agreement requirement for collection cases can be done administratively or if a legislative change will be required. Once a decision has been made, GTA will move forward to have this requirement eliminated.</p> | | | |
| <input checked="" type="checkbox"/> Open <input type="checkbox"/> Management assumes risk <input type="checkbox"/> Partially complete <input type="checkbox"/> Complete pending verification by OIG <input type="checkbox"/> Complete | | | | |

CORRECTIVE ACTION PLAN

Rev. 11/04

| | | | | |
|---|----------|---|--|---|
| Status/Date 04/22/09 | | Report No. AG 2009-024 | Report Title Department of Revenue, Taxpayer Refunds and Prior Audit Follow-Up | |
| Contact Person Beth Sparkman | | Program/Process Administrative Services Program | | Phone No. 921-1388 |
| Activity Contracting | | Accountability | | Schedule |
| | | Responsible Unit Purchasing | Coordinating Unit Contractual Services | Repeat Finding N |
| | | | | Anticipated Completion Date May 5, 2008 |
| Finding | | The Department had not adopted policies and procedures for ensuring that, for contracts greater than \$25,000, all staff involved in the selection of contractors and the negotiation of contracts attest to their independence and impartiality. Our audit tests disclosed that attestations were not always completed for contracts greater than \$25,000 and one attestation lacked the signatures of the staff involved in the selection process. | | |
| No. | 5 | | | |
| Date | 10/22/08 | | | |
| Recommendation | | We again recommend that the Department obtain attestations of independence from all staff involved in the selection and negotiation of goods and services contracts, both noncompetitive and competitive, with projected costs in excess of \$25,000. | | |
| Original Response | | <p>On May 5, 2008, the Department updated its Purchasing and Contract Management Manual to include the requirement to obtain a competitive no-conflict of interest attestation for the following types of competitive procurements:</p> <ul style="list-style-type: none"> • Invitations to Bid; • Requests of Proposals; • Invitations to Negotiate; • Alternate Source Contracts (GSA, or other governmental entities); and • Alternate Source Contracts established from State Contracts which require competition (such as certain IT consulting services). <p>The purchasing office created a No-Conflict of Interest Form for competitive purchases in concert with the May 2008 update of the Purchasing and Contract Management Manual.</p> <p>State Term Contracts that do not require competition do not require the attestation since the competitive component of the purchase was achieved by the Department of Management Services and use of the contracts are mandatory.</p> <p>The Department will obtain an attestation for noncompetitive purchases for purchases in excess of CATEGORY TWO (currently \$25,000) that are achieved without competition. The Department will use DMS form PUR 7662 to gain this attestation.</p> | | |
| Status Updates | | 3/30/09 | | |
| <input type="checkbox"/> Open <input type="checkbox"/> Management assumes risk <input type="checkbox"/> Partially complete <input type="checkbox"/> Complete pending verification by OIG <input checked="" type="checkbox"/> Complete | | <p>Pursuant to the Auditor General's May 27, 2008, Confirmation of Procedures Memo, the contract files sampled were for the period 3/1/06-2/29/08. On May 5, 2008, Section 5.8 titled <i>Competitive Attestation of No-Conflict</i> was added to the Department <i>Purchasing and Contract Management Manual</i>. This section of the manual provides guidance for completion of the <i>Competitive Attestation Form</i>. Based on review of the manual and the form, the procedural revisions and updates, if followed, should adequately address the recommendations to correct the deficiencies noted in the finding.</p> | | |