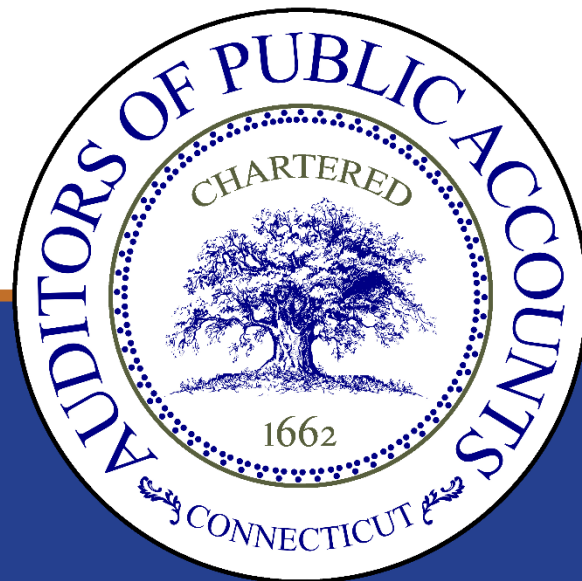


AUDITORS' REPORT

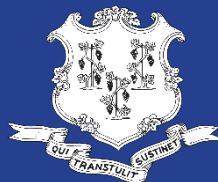
Department of Revenue Services

FISCAL YEARS ENDED JUNE 30, 2020 AND 2021



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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May 21, 2025

INTRODUCTION

We are pleased to submit this audit of the Department of Revenue Services (DRS) for the fiscal years ended June 30, 2020 and 2021 in accordance with the provisions of Section 2-90 of the Connecticut General Statutes. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, or policies; and a need for improvement in practices and procedures that warrant management's attention.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Revenue Services during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Frederick Armour
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Jaimey Makie
Roberto Sanchez

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Principal Auditor

Approved:

John C. Geragosian
State Auditor

Craig A. Miner
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STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Revenue Services disclosed the following ten recommendations, of which eight were repeated from the previous audit.

Finding 1

Failure to Form Plan with Certified Service Providers to Collect and Remit Sales and Use Taxes

Criteria

Public Act 19-117 (Section 331) required the Department of Revenue Services to consult with the Streamlined Sales Tax Governing Board to develop a list of certified service providers (CSP) that can facilitate sales tax collection and remittance. The act required the department to develop a plan to implement the use of certified service providers for the collection, reporting, and remittance of sales and use taxes. The plan could require that retailers use CSPs and identify the costs that they may incur for such services. The department was required to submit the plan to the General Assembly by February 5, 2020, with draft legislation to implement the plan.

Section 12-7b(d) of the General Statutes requires the Commissioner of Revenue Services to submit a monthly report concerning the sales and use taxes to the legislative Office of Fiscal Analysis. At the discretion of the commissioner, reports can be submitted within thirty days following the end of each quarter.

Condition

As of January 11, 2024, the department had not consulted with the Sales Tax Governing Board or developed the required plan to use certified service providers. Furthermore, the department could not provide the draft legislation that was due February 5, 2020.

In addition, the department was unable to provide the sales and use tax report for the last quarter of 2021.

Context

We reviewed all 12 statutorily required reports for fiscal years 2020 and 2021. We expanded the review period for sales and use tax reports through the end of calendar year 2021 due to observance of non-compliance.

| | |
|--------------------------------------|---|
| Effect | <p>The state could forego additional revenue without the timely implementation of a plan to use certified service providers to collect, report, and remit sales and use taxes.</p> <p>Intended recipients of the reports may not have information necessary to make informed decisions.</p> |
| Cause | <p>It appears the Department of Revenue Services did not provide the resources necessary to implement legislative requirements.</p> |
| Prior Audit Finding | <p>This finding has been previously reported, in part, in the last audit report covering the fiscal years 2017 through 2019.</p> |
| Recommendation | <p>The Department of Revenue Services should comply with its statutory reporting requirements in accordance with Public Act 19-117 and Section 12-7b(d) of the General Statutes.</p> |
| Agency Response | <p>"We agree with this finding in part. Although this finding pertains to the requirements of 2019 Conn. Pub. Acts 117, §331, it must be noted for record purposes that the Department has not been contacted by the General Assembly with regard to said public act. In addition, and although the APA states that there is a direct correlation between 2019 Conn. Pub. Acts 117, §331 and the state foregoing revenue, the Department challenges said statement and has not seen or otherwise been provided any support for such a statement."</p> |
| Auditor's Concluding Comments | <p>The provisions in Section 331 of Public Act 19-117 are still in effect. If the department thinks they are no longer necessary, it should request that the General Assembly eliminate the requirement. The Effect indicates that the state could forego additional tax revenue without the implementation of the required plan.</p> |

Finding 2

Disaster Recovery Plan

| | |
|------------------|---|
| Criteria | <p>The National Institute of Standards and Technology (NIST) Special Publication 800-53 recommends establishing a contingency plan addressing critical processes and functions that includes alternate resources to resume processing, identification of responsible personnel, and restoration priorities. The plan should be properly distributed and regularly tested.</p> |
| Condition | <p>In our review of the department's disaster recovery plan, we noted the absence of important elements necessary for the plan's optimum effectiveness. The plan lacked appropriate updates, the</p> |

prioritization of critical systems, frequent testing, contact information, and a process for ensuring that current copies of the plan are available at each recovery site.

Context

The agency's most recent disaster recovery plan was prepared in 2018 and is no longer relevant due to recent changes in its information technology systems and procedures.

A disaster recovery plan describes a detailed and structured set of actions to be taken before, during, and after a natural or man-made incident threatening normal agency operations. It should include responsible personnel, data loss tolerance, allowable system downtimes, management approvals, and proof of testing. A properly designed disaster recovery plan helps to enable rapid restoration of operations without irreparable damage to agency assets.

Effect

The lack of a comprehensive disaster recovery plan could contribute to delays in the recovery process in the event of an interruption to the department's information systems.

Cause

This was caused by a lack of coordination between DRS and the Department of Administrative Services Bureau of Information Technology Solutions.

Prior Audit Finding

This finding has been previously reported in the last audit report covering the fiscal years 2017 through 2019.

Recommendation

The Department of Revenue Services should update its comprehensive disaster recovery plan to ensure it includes important elements necessary for its optimum effectiveness to appropriately respond to disasters and ensure ongoing operational stability.

Agency Response

"The agency is in the process of finalizing a comprehensive disaster recovery plan."

Finding 3

Lack of Agency Procurement Plan

Criteria

Section 4-67i of the General Statutes requires that not later than January 1, 2020, and every three years thereafter, each state agency shall submit an agency procurement plan to the Secretary of the Office of Policy and Management for approval. The plan must include a list of all services and programs the agency intends to

contract for and a planned procurement schedule indicating whether such procurements will be based on competitive negotiation or quotations. The plan must also indicate whether the state agency determined that a sole source purchase of services is required, and if the agency intends to apply to the secretary for a waiver.

Condition

As of January 2024, DRS indicated that it was not aware of Section 4-67i requiring the submission of a procurement plan to OPM. Upon notification, the department submitted a procurement plan on January 16, 2024, covering calendar years 2024 through 2026.

Context

DRS expended \$205,936 and \$287,737 for professional services during fiscal years 2020 and 2021, respectively.

Effect

There is less assurance that the department adequately planned and competitively negotiated purchases.

Cause

The department was not aware of the new requirement.

Prior Audit Finding

This finding has not been previously reported.

Recommendation

The Department of Revenue Services should complete and submit a procurement plan to the Office of Policy and Management for approval in accordance with Section 4-67i of the General Statutes.

Agency Response

"We agree with this finding. The Department was not aware of this requirement. However, the Department did not have any procurement prescribed by the legislation that required the submission of a plan to the Office of Policy and Management during the audit period."

Finding 4

Management Performance Evaluations Not Completed

Criteria

The Performance Assessment and Recognition Systems (PARS) is a program developed by the Department of Administrative Services (DAS) to support additional incentive compensation for managerial and confidential employees who work in agencies that use a prescribed PARS plan. Basic features of the program include developing results-oriented, measurable performance objectives

and goals for each manager and confidential employee, regular communication between such employees and their supervisors on meeting goals, performance assessments, and providing a basis for differentiating among performance levels and annual salary increases.

Condition

The Department of Revenue Services participates in PARS but was unable to provide us with documentation that it completed PARS reviews for ten managers and confidential employees whose performance evaluations were required during the audited period.

Context

The department had 26 managers as of June 7, 2022. We judgmentally selected ten employees for review.

Effect

When performance evaluations are not prepared, there is less formal feedback for management to measure performance goals, the attainment of such goals, and productivity expectations.

Cause

The department had inadequate administrative controls to ensure the completion of PARS managerial performance evaluations.

Prior Audit Finding

This finding has been previously reported in the last two audit reports covering the fiscal years 2015 through 2019.

Recommendation

The Department of Revenue Services should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System.

Agency Response

"We agree with this finding. The Department's senior management has significant interaction with its managers through which it relays and discusses the Department's overall goals and objectives and monitors that said managers are operating in a manner that is consistent with said goals and objectives. Moreover, the Department's Bureau Chiefs and Directors meet regularly with their managers and are in the process of developing key performance indicators specific to each unit and manager with the goal of using this information to monitor and evaluate the progress and work of each manager and unit. That said, the Department will make a more concerted effort to utilize the PARS form."

Finding 5

Disposition of Funds Awaiting Distribution

Background

Any receipt of funds that cannot be posted to the correct funding source must be coded to Funds Awaiting Distribution. This fund was

established by the Office of the State Comptroller (OSC) to enable agencies to comply with statutory depositing requirements. It is incumbent on the agency to determine the correct coding for these funds and disburse them to clear this fund.

Criteria

The DRS Funds Awaiting Distribution Fund accounts should be supported by detailed accounting records. Proper internal control calls for the reconciliation of control totals to subsidiary records.

Section 3-112 of the General Statutes requires the Office of the State Comptroller to prescribe the mode of keeping and rendering of all public accounts of the state. The State Accounting Manual year-end closing process requires each state agency with a balance in the Funds Awaiting Distribution Fund at June 30th, to submit by July 31st of each year, a report to OSC that the agency has reconciled its Funds Awaiting Distribution Fund account activity. The report requires the agency to inform OSC of any errors and request required corrections.

Condition

We identified an account balance within the Funds Awaiting Distribution Fund that DRS did not reconcile and could not explain. There were unresolved items in the reconciliation as far back as 2008 that the department continuously carried forward into the current period.

In addition, the department did not submit a reconciling report at year end to the Comptroller in accordance with the State Accounting Manual.

Context

The fund's balance totaled \$21,432,803, \$21,165,522, and \$21,354,613 as of June 30, 2020, 2021, and 2022, respectively.

Effect

The lack of timely identification and reconciliation of the Funds Awaiting Distribution Fund activity could result in the improper use and recording of cash receipts.

Cause

The department did not ensure that it promptly identified the activity after posting it to the temporary account. It appears that some of the activity may be from the department's transition to its Integrated Tax Administration System.

Prior Audit Finding

This finding has previously been reported in the last two audit reports covering the fiscal years 2015 through 2019.

Recommendation

The Department of Revenue Services should continue to consult with the Office of the State Comptroller to investigate, identify, promptly reconcile, and report the balance in its Funds Awaiting Distribution Fund account.

Agency Response

"The Department is aware of this issue and is working with Office of the State Comptroller toward resolving the issue. The APA should note that the journal entry to distribute these funds is out of different account (SID 42350), leaving a net balance of Funds Awaiting Distribution at \$1.8 million as of FYE 2023. The Department continues to work with the Comptroller concerning the use of the appropriate SIDs."

Finding 6**Lack of Medical Certificates for Sick Leave****Criteria**

Section 5-247-11 of the State Regulations requires employees to submit an acceptable medical certificate to substantiate their request for sick leave of more than five consecutive working days. The request must be on the form prescribed by the commissioner of Administrative Services and signed by a licensed physician or other practitioner whose method of healing is recognized by the state.

The Department of Revenue Services' policy requires employees to provide a medical certificate on the day they return to work, which also verifies that the employee is fit to return to work.

Condition

Our review of medical leaves for 18 employees revealed the department was unable to provide supporting medical certificates for all 18 employees.

Context

During the audited period, 48 employees charged 6,388 sick leave hours for more than five consecutive workdays. We judgmentally selected 18 employees who charged a total of 1891 hours of sick leave during the audited period.

Effect

When the department does not obtain required medical certificates, there is increased risk of sick leave abuse.

Cause

The department did not adequately monitor employees for compliance with medical certificate requirements.

Prior Audit Finding

This finding has been previously reported in the last audit report covering the fiscal years 2017 through 2019.

Recommendation

The Department of Revenue Services should improve its monitoring of extended medical leaves to ensure that employees provide required medical certificates.

DRS Response

"We agree with this finding in part. Although the focus of this finding pertains to whether the Human Resources unit obtained certain documentation and signatures in connection with its' handling of employees who took sick leave, it is important to note for record purposes that there is no evidence that sick time was misused or abused by any of the employees. In addition, it must be noted that the Human Resource unit functions for the Department were transferred to the Department of Administrative Services (DAS) as part of a statewide consolidation of all Human Resource functions. As such, effective February 2020, the Department no longer has a Human Resources unit, and all such matters are handled by and through DAS."

DAS Response

"As we've responded to this issue in the past, DAS HR has no further comment. HR is working on a global solution to the issue."

Finding 7**Maintenance and Disposition of Seized Property Cases****Background**

The Department of Revenue Services, Criminal Investigation Division (CID), is responsible for the investigation of statutory civil and criminal violations pertaining to illegal importation of untaxed cigarettes and other suspected violations. In accordance with Section 12-330(g) of the General Statutes, the DRS commissioner is authorized to seize tobacco products for which no tax has been paid as contraband.

Property seized under the above provisions may, after a requested hearing, be offered for sale at auction or be disposed of in a manner deemed to be in the best interest of the state. The accused cannot request a hearing after the statute of limitations expires. At that point, the department should close the case. Proceeds from sales of such items must be deposited with the State Treasurer.

Criteria

Proper internal controls dictate that the agency have formally adopted procedures for the maintenance of evidence and contraband. Such internal controls should also include the maintenance of an accurate and current CID inventory.

Condition

During our current review we were unable to obtain evidence that:

- The department had a current and accurate CID inventory.

- The department was operating the seized property inventory under a formalized policy and procedure. The department previously adopted formal procedures for the maintenance of evidence and contraband through the end of 2018. These procedures contained various guidelines including biannual inventory of items on hand and their maintenance and disposition. The department issued a new draft policy as of 2019. The policy remained in draft form until the agency established guidelines within the CID policy and procedure general order effective March 03, 2023.

In addition, the department failed to respond to our numerous requests for pertinent custodial information over six months.

Context

The most recent contraband inventory report in fiscal year 2019 showed a total of 735 cases. In our prior audit, the department indicated that its Special Investigation Section merged into the CID as part of an agency reorganization over five years ago. DRS did not provide a comparable contraband inventory report for the audited period.

Effect

There is less assurance that the department secured, preserved, and maintained seized property and promptly disposed of it properly.

Cause

Management did not prioritize approving and implementing policies due to high attrition in its Criminal Investigation Division.

Prior Audit Finding

This finding has been previously reported in the last three audit reports covering the fiscal years 2013 through 2019.

Recommendation

The Department of Revenue Services should strengthen internal controls over seized property, including maintaining evidence that inventory on hand is accurately recorded and ensuring that it promptly adopts current policies and procedures.

Agency Response

“It must be noted that this finding specifically pertains to the DRS’ “Special Investigation Section (“SIS”).” As the DRS previously explained, there is no SIS unit within the DRS. Rather, the DRS’ responsibility for criminal enforcement of the state’s tax laws rests with the DRS’ Criminal Investigation Division (“CID”) and has for over 7 years. With that said it is also significant to note that during the entirety of this departmental audit, CID had an assigned evidence officer who was responsible for cataloguing and storing all items seized by CID.

That said, and by way of brief background, due to significant attrition in CID it was necessary for DRS to hire a Chief of Police on an interim basis in 2022. As part of his role, the Chief of Police began evaluating current CID policies and procedures to determine conformity with the recently enacted police accountability bill. Included among the policies and procedures that were reviewed were those governing

the seizure of evidence by CID personnel. Consistent therewith the Chief of Police assigned a Tax Enforcement Special to be the DRS' evidence officer. In addition, the Chief of Police reached out to the State of Connecticut Judicial Branch regarding best practices for the handling of evidence. As a result, CID was able to arrange a visit by the Assistant Examiner of Seized Property for the Judicial Branch.

The Assistant Examiner of Seized Property and his team made an in-person visit/inspection of CID, viewing and evaluating CID's evidence rooms at 450 Columbus Boulevard and 92 Farmington Avenue. As a result of this visit and the guidance provided by the Assistant Examiner of Seized Property, CID developed and implemented revised set of procedures governing the seizure and destruction evidence. These policies and procedures were submitted and reviewed as part of CID's TIER 1 Accreditation review mandated by the police accountability bill. CID received TIER 1 Accreditation from Police Office Standards and Training (POST) on September 14, 2023.

In addition to the above, the DRS feels compelled to address the language of proposed finding 7 that references "Section 12-330(g) of the General Statutes." More specifically, the proposed finding describes a process associated with said statute, including the disposition of said products through an auction. It must be noted that the process described in said finding relates to a civil process and would not apply to CID and any evidence seized thereunder. To that end, in the event that a CID officer were to seize tobacco products in the course of his or her duty, said officer would use Form JD-RC 18 (State of CT Inventory of Property Seized Without a Search Warrant form). The Form JD-RC 18 is filled out when an Agent seizes illegal contraband without a search warrant in connection to a criminal investigation. The Form JD-RC 18 is then sent to court with the related arrest paperwork for said investigation. Once the case is disposed of by the court, the court will send back the Form JD-RC 18 to the Criminal Investigation Division with instructions to destroy the evidence/property. The evidence officer documents all JD-RC 18 requested orders from the Court in CTAX, case files, and a return to court. The only way that CID could dispose of any property seized using said form would be as directed by the Court. Thus, the portion of proposed finding 7 that states that CID can dispose of property seized pursuant to Conn. Gen. Stat. § 12-330g is inaccurate. Rather, as described herein, any property seized by CID pursuant to said statute may only be disposed of as directed by the Court."

Auditors' Concluding Comments

The department's response did not explain why it could not provide evidence of an inventory of seized contraband products or that it had adopted policies and procedures in fiscal years 2020 and 2021.

Finding 8

Internal Control Weakness with Suspended Transactions

Background

There are instances when the department cannot process tax returns and payments entered into its tax administration system. The unprocessed returns and subsequent payments go into suspended status. There are many different reasons transactions go into suspense, including a payment that does not match the submitted coupon, or a taxpayer's name that does not agree with the social security number on file. The system assigns most suspended transactions a severity code, based on the potential impact on a taxpayer's account.

The system should be designed to resolve suspended transactions routinely in any data processing environment. This should occur on an ongoing basis or through special projects designed to eliminate these transactions. Suspended transactions requiring additional information remain in suspense until the department receives the information, regardless of how often DRS employees attempt to contact the taxpayer.

Criteria

The Committee of Sponsoring Organizations' Integrated Framework for Internal Controls states that an effective system of internal controls provides reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. Information and communication are integral components of the internal control system which provide management with relevant, quality information to sustain and improve performance, and support the effective and efficient achievement of objectives.

Condition

The department did not have procedures to aggregate and report the status of suspended transactions to upper management. The reporting system did not include sufficient features to allow management to determine whether department personnel made prompt and sufficient efforts to resolve the remaining suspended transactions awaiting additional taxpayer information.

Context

As of December 31, 2022, the agency had 16,229 items in suspended transactions awaiting resolution. These transactions were comprised of business entity, corporation, individual sales and use, and withholding tax returns.

| | |
|--------------------------------------|--|
| Effect | Due to the lack of quality information, the department could not demonstrate that it promptly reviewed and resolved suspended transactions. |
| Cause | COVID-19 and a significant number of employee retirements and separations strained the agency's resources. |
| Prior Audit Finding | This finding has previously been reported in the last four audit reports covering the fiscal years 2011 through 2019. |
| Recommendation | The Department of Revenue Services should strengthen its internal controls over reporting to ensure management is provided with relevant and accurate information to support the effective and efficient resolution of suspended transactions. |
| Agency Response | "We do not agree with this finding. The Department has stated previously that reports of suspended transactions are generated and reviewed in each unit by front line supervisors. Front line supervisors monitor work-flow, age of the suspended items as well as the resolution of such items. As such, suspended transaction reports are managed at the appropriate level of employee within the agency, which increases the efficiency and effectiveness in resolving suspended transactions." |
| Auditors' Concluding Comments | Proper internal controls permit upper management to monitor the performance of agency operations. At a meeting in November 2022, the department informed us that it was in the process of defining, creating, and refining the mechanisms for reporting suspended transactions to upper management through the Integrated Tax Administrative System (CTax) and would put the process in place upon the completion of all phases of CTax. |

Finding 9

Controllable Asset Policy, Disposals and Annual Inventory

Criteria Section 4-36 of the General Statutes requires state agencies to establish and maintain an inventory system as prescribed by the State Property Control Manual. The manual states that controllable property has a unit value less than the \$5,000 capitalization threshold, an expected useful life beyond a single reporting period and/or, at the discretion of the agency head, requires identity and control. In addition, each agency must maintain a written listing of controllable property that is approved by the agency head or designee.

The State Property Control Manual includes requirements and standards that assets are properly acquired, managed, and disposed of. In addition, the manual further requires that agencies take a complete physical inventory of all property by the end of each fiscal year.

Condition

Our review of the department’s asset management system for fiscal years 2020 and 2021 revealed the following.

- The controllable asset policy did not contain an approval signature by the agency head or designee.
- The department did not perform an annual physical inventory in fiscal year 2021.
- The department misclassified one \$20,875 asset as controllable equipment instead of capital equipment.
- Nine out of ten asset disposal forms, for assets totaling \$15,732, were missing authorization signatures or could not be located.

Context

The department had 1,503 assets totaling \$13,156,723 as of August 2022. Total disposed equipment amounted to \$93,785 and \$26,226 for fiscal years 2020 and 2021, respectively. We judgmentally selected five items disposed from each fiscal year totaling \$33,534. The department had 923 non-capital controllable assets totaling \$1,205,354 as of August 23, 2022. We scanned the controllable asset listing to identify assets exceeding the capitalization threshold.

Effect

DRS did not maintain accurate property inventory records. The department has decreased assurance that it properly maintained and safeguarded its capital assets.

Cause

It appears that a lack of strict adherence to the State Property Control Manual and lack of administrative oversight contributed to these conditions.

Prior Audit Finding

This finding has not been previously reported.

Recommendation

The Department of Revenue Services should improve internal controls over its property inventory reporting to comply with the State Property Control Manual.

Agency Response

“We agree with this finding. The Department has made improvements to internal controls over property inventory reporting to comply with the State Property Control Manual.”

Finding 10

CO-59 Asset Management/Inventory Report

| | |
|----------------------------|---|
| Criteria | Section 4-36 of the General Statutes requires state agencies to establish and maintain an inventory system as prescribed by the State Property Control Manual. The manual requires that licensed software and software owned by the state be differentiated, capitalized, and reported on the annual CO-59 Asset Management/Inventory Report. The CO-59 instructions require that balances reported agree with the balances in Core-CT, the state's official accounting system. |
| Condition | <p>Our review of the agency's property control records disclosed the following exceptions.</p> <ul style="list-style-type: none">• The department improperly categorized \$416,077 in licensed software as software owned by the state in Core-CT for fiscal years 2016 through 2021.• The capital equipment value in Core-CT differed from the CO-59 reports by \$61,218 and \$304,244, as of June 30, 2020 and 2021, respectively. |
| Context | The department reported \$11,705,576 and \$12,034,659 of capital assets for fiscal years 2020 and 2021, respectively. The department reported a total of \$4,927,559 for licensed software for both fiscal years 2020 and 2021. The department reported \$6,777,977 and \$7,107,060 for capital equipment for fiscal years 2020 and 2021, respectively. |
| Effect | The department has decreased assurance that its capital assets are properly maintained and reported on its CO-59 form. |
| Cause | Weaknesses in managerial oversight on CO-59 completion may have contributed to these conditions. |
| Prior Audit Finding | This finding has previously been reported in the last two audit reports covering the fiscal years 2015 through 2019. |
| Recommendation | The Department of Revenue Services should improve internal controls over its property inventory reporting to ensure accuracy in accordance with the State Property Control Manual. |

Agency Response

“We agree with this finding. The Department has made improvements to internal controls over property inventory reporting to comply with the State Property Control Manual.”

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior audit report](#) on the Department of Revenue Services contained 11 recommendations. Three have been implemented or otherwise resolved and eight have been repeated or restated with modifications during the current audit.

| Prior Recommendation | Current Status |
|---|--|
| The Department of Revenue Services should consult with its Department of Administrative Services’ Human Resources liaison to improve controls to ensure that employees provide medical certificates when required by state regulations and policy. |  Recommendation 6 |
| The Department of Revenue Services should consult with the Department of Administrative Service’s Human Resources to ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System. |  Recommendation 4 |
| The Department of Revenue Services should implement procedures to adequately identify and track all outstanding refund requests held for review when a user-requested general process review indicator is placed on an account. The department should promptly process refund claims to avoid excess interest payments. |  |
| The Department of Revenue Services should establish controls to ensure that it immediately deactivates employee access to the Core-CT system upon termination. |  |
| The Department of Revenue Services should strengthen internal controls over reporting to ensure management is provided with relevant and accurate information to support the effective and efficient resolution of suspended transactions. |  Recommendation 8 |
| The Department of Revenue Services should improve internal controls over its property inventory reporting to comply with the State Property Control Manual. |  Recommendation 10 |

| <p style="text-align: center;">Prior Recommendation</p> | <p style="text-align: center;">Current Status</p> |
|---|--|
| <p>The Department of Revenue Services should ensure compliance with capitalization requirements for intangible assets and establish related policies.</p> | <p style="text-align: center;">RESOLVED</p> |
| <p>The Department of Revenue Services should comply with the requirements of Public Act 19-117 to develop a plan and submit legislation to the General Assembly related to the use of certified service providers. The department should ensure that it meets required deadlines.</p> | <p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 1</p> |
| <p>The Department of Revenue Services should ensure that it regularly tests its disaster recovery plan and retains and evaluates post-exercise assessment documentation for risk management.</p> | <p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Modified Form</p> <p style="text-align: center;">Recommendation 2</p> |
| <p>The Department of Revenue Services should consult with the Office of the State Comptroller and investigate, identify, and promptly reconcile the balance in its Funds Awaiting Distribution Fund account.</p> | <p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 5</p> |
| <p>The Department of Revenue Services should comply with its existing policies and procedures regarding the maintenance and disposition of seized property or finalize its proposed draft changes.</p> | <p style="text-align: center;">REPEATED</p> <p style="text-align: center;">Recommendation 7</p> |

OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the Department of Revenue Services in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2020 and 2021. The objectives of our audit were to evaluate the:

1. Department's internal controls over significant management and financial functions;
2. Department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

In planning and conducting our audit, we focused on areas of operations based on assessments of risk and significance. We considered the significant internal controls, compliance requirements, or management practices that in our professional judgment would be important to report users. The areas addressed by the audit included payroll and personnel, revenue and cash receipts, appeals, audit assessments, seized property, accounts receivable, purchasing and expenditures, asset management, reporting systems, and information technology. We also determined the status of the findings and recommendations in our prior audit report.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the department. We also tested selected transactions. This testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying financial information is presented for informational purposes. We obtained this information from various available sources including the department's management and state information systems. It was not subject to our audit procedures. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with laws, regulations, contracts and grant agreements, policies, or procedures; and
3. A need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Department of Revenue Services.

ABOUT THE AGENCY

Overview

[The Department of Revenue Services \(DRS\)](#) operates primarily under the provisions of Title 12, Chapters 201, 202, and 207 through 229 of the General Statutes. The department is responsible for administering and ensuring compliance with applicable provisions of this title and certain other statutes related to the assessment and collection of taxes. Major functions of the department include collecting and processing tax revenues, developing tax regulations, and providing information and services to taxpayers.

Records pertaining to sales taxes collected by the Department of Motor Vehicles but credited to the Department of Revenue Services are examined as part of our audit of the Department of Motor Vehicles.

Organizational Structure

Section 12-1a of the General Statutes provides that the department is under the direction of a commissioner. Commissioner Scott Jackson served from June 2018 until January 2020 when John Biello served as acting commissioner until December 2020. Mark Boughton was appointed commissioner in December 2020 and continues to serve in that capacity.

Significant Legislative Changes

Notable legislative changes that took effect during the audited period are presented below:

Public Act 21-2 of the June 2021 Special Session, made the following changes to tax and related statutes:

- **(Sections 422, 423, 425)**, effective June 23, 2021, extended the 10% corporation business tax surcharge for two additional years, to the 2021 and 2022 income years. The new law exempts taxpayers from estimated tax payment requirements and interest on underpayments for the 2021 income year for any additional tax due because of the surcharge extension.
- **(Section 432)**, effective June 23, 2021, applicable to tax years beginning on or after January 1, 2021, extended the eligibility limits on the property tax credit against the personal income tax to the 2021 and 2022 tax years. Specifically, this limited eligibility for the credit to people who are 65 or older before the end of the tax year or validly claim at least one dependent on their federal income tax return for that year.
- **(Section 433)**, effective June 23, 2021, applicable for the 2021 tax year and thereafter, permitted taxpayers with teacher pension income to take the 50% teacher pension exemption or, if they have qualifying incomes, the general pension and annuity exemption (42% in 2021), whichever is greater.

Financial Information

General Fund Receipts

A summary of General Fund receipts during the audited period as compared to the preceding fiscal year follows:

| Fiscal Year Ended June 30, | | | |
|-----------------------------------|-------------------------|-------------------------|-------------------------|
| | 2019 | 2020 | 2021 |
| Personal Income Tax | \$9,569,144,747 | \$8,220,345,976 | \$11,438,499,941 |
| Sales & Use Tax | 4,330,732,512 | 4,417,187,889 | 4,747,302,154 |
| Corporation Tax | 2,238,113,309 | 1,820,324,042 | 3,022,082,156 |
| Public Service Corporation | 258,973,051 | 275,386,394 | 257,016,867 |
| Inheritance Tax | 225,23,669 | 159,537,658 | 303,339,242 |
| Insurance Tax | 169,534,712 | 199,298,499 | 200,303,198 |
| Alcoholic Beverage & Tobacco Tax | 424,103,778 | 422,316,352 | 427,671,111 |
| Real Estate Conveyance | 211,815,402 | 187,502,300 | 357,390,200 |
| Admissions & Dues | 43,477,417 | 40,334,429 | 36,112,236 |
| Nursing Home Provider | 141,038,143 | 121,684,672 | 99,330,742 |
| Hospital Net Revenue | 1,027,207,574 | 772,962,907 | 999,814,979 |
| All Other Taxes | 89,361,277 | 90,876,147 | 91,306,848 |
| Total Revenues | \$18,728,732,593 | \$16,727,757,264 | \$21,980,169,672 |
| Refunds | \$1,470,775,985 | \$1,500,095,098 | \$1,864,636,205 |
| Total | \$17,257,956,608 | \$15,227,662,166 | \$20,115,533,467 |

The fluctuations in revenues during the audited period were primarily due to the postponement of the 2020 tax filing and payment deadline from April 15th to July 17, 2020, due to the pandemic and economic downturn. Revenues from sales and use, and personal income tax receipts accounted for approximately 74% of total tax revenues.

General Fund Expenditures

A summary of General Fund expenditures during the audited period as compared to the preceding fiscal year follows:

| Fiscal Year Ended June 30, | | | |
|-----------------------------------|---------------------|---------------------|---------------------|
| | 2019 | 2020 | 2021 |
| Personal Services | \$51,744,036 | \$51,188,692 | \$52,978,667 |
| Other Expenses | 7,231,305 | 6,647,276 | 5,937,276 |
| Total Budgeted Accounts | \$58,975,341 | \$57,835,968 | \$58,915,943 |

Special Transportation Fund

A summary of Special Transportation Fund receipts, net of refunds, during the audited period as compared to the preceding fiscal year follows:

| Fiscal Year Ended June 30, | | | |
|-----------------------------------|------------------------|------------------------|------------------------|
| | 2019 | 2020 | 2021 |
| Motor Fuel Tax | \$383,491,976 | \$338,764,713 | \$327,946,310 |
| Petroleum Gross Earning Tax | 310,506,514 | 240,904,869 | 170,793,491 |
| Special Motor Fuel Tax | 114,839,299 | 120,955,677 | 124,050,753 |
| Sales and Use Tax | 364,136,538 | 395,699,419 | 447,160,537 |
| Motor Carrier Tax | 12,715,981 | 12,160,571 | 9,327,313 |
| Total Revenues | 1,185,690,309 | 1,169,280,681 | 1,102,870,572 |
| Other Tax Refunds | 32,148,704 | 30,397,716 | 11,796,084 |
| Net Revenues | \$1,153,541,605 | \$1,138,882,965 | \$1,091,074,488 |

Audit Assessments

Examiners in the department's Audit and Compliance Division conducted audits to ensure taxpayer compliance regarding the filing of returns and the remitting of tax payments. The field and office audits generated assessments. A summary of assessments and audits conducted for the audited period, as published in the department's annual report, is presented below:

| Fiscal Year Ended June 30, | | | |
|-----------------------------------|---------------|---------------|---------------|
| | 2019 | 2020 | 2021 |
| Assessments | \$666,202,797 | \$359,003,324 | \$267,666,895 |
| Audits Conducted | 197,066 | 82,844 | 16,673 |

There was a reduction in the audits conducted primarily due to the pandemic and tax extensions during the audited period.

Appellate Division

The department's Appellate Division administers appeals from taxpayers who dispute audit assessments and holds a hearing after a taxpayer files a written protest. The division decides the validity of assessments based upon information presented. The taxpayer may then appeal in court.

Appellate Division activity reports, reflecting resolution activity for the audited period as compared to the preceding fiscal year are presented below. The Appellate Division revised the reports as a result of the division and court decisions.

| Fiscal Year Ended June 30, | | | |
|-----------------------------------|---------------------|---------------------|---------------------|
| | 2019 | 2020 | 2021 |
| Cases Resolved | 2,782 | 1,912 | 1,828 |
| Original Assessment | \$103,072,763 | \$69,719,840 | \$1,786,308,059 |
| Revised Assessment | 53,358,511 | 38,384,073 | 1,687,706,375 |
| Assessment Reduction | \$49,714,252 | \$31,335,767 | \$98,601,684 |
| Percentage Reduction | 48% | 45% | 6% |

There was a notable increase in the original assessment during fiscal year 2021 due to a multi hospital refund settlement case.

Accounts Receivable

The department's accounts receivable are derived from various sources, including audit and delinquency assessments, penalty and interest charges, and returns filed without remittances or filed with an

underpayment of tax liability. A summary of accounts receivable as of June 30, 2020 and 2021 is presented below:

| Fiscal Year Ended June 30, | | | |
|-----------------------------------|----------------------|----------------------|------------------------|
| | 2019 | 2020 | 2021 |
| Taxes Receivable: | | | |
| Income Tax | \$506,153,702 | \$457,992,381 | \$730,863,547 |
| Sales and Use Tax | 291,320,529 | 268,484,214 | 528,567,757 |
| Corporation Tax | 48,302,024 | 41,802,065 | 82,357,789 |
| Other Taxes | 64,163,734 | 94,586,002 | 191,069,969 |
| Total Taxes Receivable | \$909,939,989 | \$862,864,662 | \$1,532,859,062 |
| Reductions: | | | |
| Estimated Uncollectable | (258,139,279) | (280,689,058) | (339,010,628) |
| Net Taxes Receivable | \$651,800,710 | \$582,175,604 | \$1,193,848,434 |

The receivable balances reflect reductions for taxpayer payments made on account to avoid the continued accrual of interest on assessments under protest and taxpayer credits.

There was a large increase in receivables during fiscal year 2021 primarily due to the postponement of the 2020 tax filing and payment deadline from April 15th to July 17, 2020, due to the pandemic and economic downturn.

Penalty Waivers

Section 12-3a of the General Statutes authorizes the Department of Revenue Services to waive penalties for cases in which the taxpayer failed to pay the tax due to reasonable cause. Section 12-3a requires the Penalty Review Committee to approve all penalty waivers over \$5,000. The committee is comprised of the commissioner, the Secretary of the Office of Policy and Management, and the State Comptroller or their designees.

A summary of the penalty waiver activity for the audited period and preceding fiscal year, follows:

| Fiscal Year | Requests | | Denied | | Approved Waivers | |
|--------------------|-----------------|------------------|---------------|------------------|-------------------------|------------------|
| | Cases | Penalties | Cases | Penalties | Cases | Penalties |
| 2019 | 3,776 | \$ 5,208,871 | 919 | \$ 1,293,112 | 1,781 | \$ 3,019,600 |
| 2020 | 2,844 | \$ 3,121,354 | 796 | \$ 961,217 | 2,048 | \$ 2,160,137 |
| 2021 | 4,367 | \$ 9,673,623 | 1,113 | \$ 2,159,020 | 3,254 | \$ 7,514,603 |

Audit and Compliance Division

The Audit and Compliance Bureau is comprised of revenue agents who pursue collections through direct contact with taxpayers, field agents who issue tax warrants to delinquent taxpayers, hearing officers who conduct initial hearings for delinquent taxpayers, and enforcement agents who investigate tax evasion cases.

The commissioner, upon the approval of an Abatement Review Committee, may abate any tax payable to the state that has been present on the department's suspense tax book for seven years and determined to be uncollectible. The Abatement Review Committee did not hold a meeting during the audited period.

In accordance with Section 12-3b of the General Statutes, the department removes accounts considered to be uncollectible from its active accounts receivable file and transfers those amounts to the tax suspense book. The department eventually considers these transferred amounts for inclusion on abatement approval requests, after the statutorily required seven-year waiting period. The department referred accounts totaling \$83,358,147 and \$68,782,176 to this status during the 2020 and 2021 fiscal years, respectively.