

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF REVENUE SERVICES
FISCAL YEARS ENDED JUNE 30, 2017, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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June 21, 2022

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Revenue Services (DRS) for the fiscal years ended June 30, 2017, 2018, and 2019. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies; and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

| | |
|--------------------------------|--|
| <u>Page 11</u> | The department could not provide us with records to document that it performed performance evaluations for a majority of managers and confidential employees during the audited period. 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. (See Recommendation 2.) |
| <u>Page 18</u> | The department did not capitalize a significant intangible asset as required by Government Accounting Standards Board (GASB) Statement No. 51. Furthermore, the department does not have a policy to identify and accumulate project developmental costs for compliance with such capitalization requirements. DRS should ensure compliance with capitalization requirements for intangible assets and establish related policies. (See Recommendation 7.) |
| <u>Page 19</u> | We reviewed related legislation enacted during the audited period. As of our December 7, 2020 inquiry, the department had not consulted with the board or developed the required plan. Furthermore, the department could not provide the draft legislation, which was due by February 5, 2020. DRS 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. (See Recommendation 8.) |
| <u>Page 20</u> | The department did not document its information technology disaster recovery plan test and did not evaluate its post assessment review for necessary changes in risk management. DRS should ensure that it regularly tests its disaster recovery plan and retains and evaluates post-exercise assessment documentation for risk management. (See Recommendation 9.) |
| <u>Page 21</u> | The department did not reconcile the balance in its Funds Awaiting Distribution Fund account and could not explain the activity. There were recent reconciliation issues and items as far back as 2008 that the department continuously carried forward into the current period. DRS should consult with the Office of the State Comptroller and investigate, identify, and promptly reconcile the balance in its Funds Awaiting Distribution Fund account. (See Recommendation 10.) |

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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June 21, 2022

AUDITORS' REPORT DEPARTMENT OF REVENUE SERVICES FISCAL YEARS ENDED JUNE 30, 2017, 2018 AND 2019

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, 2017, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;
2. Evaluate the 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. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department; and testing selected transactions. Our 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 Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with laws, regulations, contracts and grant agreements, policies, and 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.

COMMENTS

FOREWORD

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.

Section 12-1a of the General Statutes provides that the department is under the direction of a commissioner. Kevin B. Sullivan was appointed commissioner in January 2011 and served in that capacity until June 2018, when he was replaced by Scott Jackson. Commissioner Jackson served in this capacity until January 2020. He was replaced by John Biello as acting commissioner from January 2020 thru December 2020. Mark Boughton was appointed commissioner in December 2020 and continues to serve in that capacity.

Significant Legislation

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

Public Act 17-4 (Section 18) of the June Special Session, effective upon passage, delayed, from 2018 to 2019, an increase in the income threshold at which taxpayers qualify for a 100% income tax exemption for social security benefits.

Public Act 17-147 made the following changes to the tax and related statutes:

- **(Sections 6 and 8)**, effective January 1, 2018, required Connecticut residents receiving certain pensions or annuities to have income tax withheld from those payments.
- **(Section 9)**, effective July 1, 2017, required entities that process credit and debit card payments for Connecticut retailers to file copies of the federal information returns that report their processed payment transactions (i.e., federal Form 1099-K) with the Department of Revenue Services within 30 days of filing them with the Internal Revenue Services, or face penalties.
- **(Section 21)**, effective upon passage, made administrative and policy changes to the Department of Revenue Services' data match program, under which it exchanges information with financial institutions about delinquent taxpayers, including new disclosure provisions.
- **(Sections 33 and 34)**, effective upon passage, required the Department of Revenue Services to direct a portion of the use tax revenue to the Municipal Revenue Sharing Account (MRSA) and Special Transportation Fund (STF), according to the same amounts and schedules specified under existing sales tax law. The act ceases directing portions of the use tax to the Regional Planning Incentive Account (RPIA), redirecting these amounts to the General Fund for fiscal year 2017.
- **(Sections 36)**, effective upon passage, clarified ownership requirements for the sourcing of income from certain personal property. By law, nonresidents must pay Connecticut income tax on gains or losses from the sale or disposition of an interest in an entity (i.e., partnership, limited liability company, or S corporation) that owns certain real property in Connecticut. This act specified that the entity may own this property directly or indirectly.

Public Act 18-81 (Sections 62 and 63), effective July 1, 2018, reduced the sales and use tax on vessels (i.e., boats), vessel motors, and trailers used for transporting vessels from 6.35% to 2.99%. Also, the act delayed the diversion of sales and use tax revenue to the Municipal Revenue Sharing Account (MRSA) until fiscal year 2022. The fiscal year 2018-2019 budget suspended the diversion of sales tax revenue to MRSA for fiscal years 2018 and 2019 but retained the corresponding use tax diversion to the account. The act suspended the use tax diversion for these years, thus aligning the two provisions. Furthermore, it accelerated the diversion of motor vehicle sales and use tax revenue to the Special Transportation Fund beginning in fiscal year 2019, rather than fiscal year 2021, and modified the diversion schedule.

Public Act 19-117 made the following changes:

- **(Section 331)**, effective upon passage, required the Department of Revenue Services to: (1) consult with the Streamlined Sales Tax Governing Board to develop a list of certified service providers (CSPs) to facilitate Connecticut sales tax collection and remittance and (2) develop a plan to use such CSPs for collecting, reporting, and

remitting sales and use taxes. The plan may require that retailers use CSPs and must identify the costs to retailers for such services. The act required the department to submit the plan, along with proposed implementation legislation, to the Finance, Revenue and Bonding Committee by February 5, 2020.

- **(Sections 344 - 346)**, effective July 1, 2019, increased the fee from \$20 to \$80, beginning July 1, 2020, that foreign and domestic limited partnerships, limited liability companies, and limited liability partnerships must pay for filing an annual report with the Office of the Secretary of the State.
- **(Section 356)**, effective upon passage, eliminated a scheduled reduction in the hospital tax rates on inpatient and outpatient services by maintaining the fiscal year 2019 rates while requiring a biennial adjustment of the base year for calculating the tax. Among other things, the act required the Department of Social Services to issue refunds if the effective hospital tax rate for any fiscal year exceeds the rate permitted under federal law.

Public Act 19-186 made the following changes:

- **(Section 9)**, effective upon passage, prohibited the application of Urban and Industrial Site Reinvestment Act (URA) tax credits against the: (1) ambulatory surgical center gross receipts tax, (2) dry cleaning gross receipts tax, and (3) public service companies tax.
- **(Section 10)**, effective upon passage, increased, from \$1,000 to \$5,000, the threshold over which a penalty waiver requires Penalty Review Committee review and approval. By law, the committee must review and approve Department of Revenue Services tax penalty waivers that exceed the minimum threshold and Department of Consumer Protection lottery sales agent penalty waivers.

RÉSUMÉ OF OPERATIONS

General Fund Revenues and Receipts

General Fund tax revenues, refunds, license fees and all other revenues and non-revenue receipts are summarized below. Revenues other than taxes included payments for licenses to collect sales and use taxes and sell cigarettes and tobacco products, service-of-process fees and costs related to tax warrants, and expenditure refunds. A summary of the amounts for the audited period is presented below:

| Revenues | Fiscal Year Ended June 30, | | |
|-------------------------|----------------------------|--------------------------|--------------------------|
| | 2017 | 2018 | 2019 |
| Personal Income Tax | \$ 9,019,336,780 | \$ 10,705,146,398 | \$ 9,569,144,747 |
| Sales and Use Tax | 4,154,682,436 | 4,092,275,210 | 4,330,732,512 |
| Corporation Tax | 1,034,924,190 | 931,801,360 | 2,238,113,309 |
| Public Service Corp | 312,267,335 | 269,897,492 | 258,973,051 |
| Inheritance Tax | 218,659,809 | 223,838,569 | 225,230,669 |
| Insurance Tax | 199,486,471 | 206,180,906 | 169,534,712 |
| Alcoholic Bev & Tobacco | 446,716,829 | 435,730,414 | 424,103,778 |
| Real Estate Conveyance | 209,426,198 | 199,337,091 | 211,815,402 |
| Admissions & Dues | 40,818,942 | 39,529,942 | 43,477,417 |
| Nursing Home Providers | 141,821,847 | 140,368,630 | 141,038,143 |
| Hospital Net Revenue | 532,445,284 | 657,101,526 | 1,027,207,574 |
| All Other Taxes | 82,618,861 | 84,655,864 | 89,361,277 |
| Total Revenues | \$ 16,393,204,981 | \$ 17,985,863,402 | \$ 18,728,732,593 |
| Refunds | \$ 1,269,323,452 | \$ 1,275,353,644 | \$ 1,470,775,985 |
| Net Revenues | \$ 15,123,881,529 | \$ 16,710,509,758 | \$ 17,257,956,607 |

The increases in revenues during the audited period were primarily due to personal income, corporation tax and hospital net revenue. Revenues from sales and use, and personal income tax receipts accounted for approximately 78% of tax revenues.

General Fund Expenditures

A summary of General Fund expenditures for the audited period is presented below:

| Expenditures | Fiscal Year Ended June 30, | | |
|--------------------------------|----------------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 |
| Personal Services | \$ 54,294,776 | \$ 49,507,961 | \$ 51,744,036 |
| Other Expenses | 7,259,861 | 7,779,512 | 7,231,305 |
| Total Budgeted Accounts | \$ 61,554,637 | \$ 57,287,473 | \$ 58,975,341 |

Special Transportation Fund

In accordance with the provisions of Section 13b-61 of the General Statutes, motor fuel taxes and related fees collected by the department, pursuant to Chapters 221 and 222 of the General Statutes, were deposited into the Special Transportation Fund.

Special Transportation Fund receipts for the department totaled \$928,439,775, \$1,089,085,788 and \$1,185,690,309 for the fiscal years ended June 30, 2017, 2018 and 2019, respectively.

Special Transportation Fund tax refunds, budgeted as reductions of tax revenues, totaled \$13,236,362, \$10,049,873, and \$32,148,704 for the fiscal years ended June 30, 2017, 2018, and 2019, respectively.

A summary of Special Transportation tax revenues, net of refunds, for the audited period is presented below:

| (In Millions of Dollars) | Fiscal Year Ended June 30, | | |
|---------------------------------|-----------------------------------|-----------------|-----------------|
| | 2017 | 2018 | 2019 |
| Revenues | | | |
| Motor Fuel Tax | \$ 372 | \$ 372 | \$ 376 |
| Petroleum Gross Earning Tax | 238 | 281 | 287 |
| Special Motor Fuel Tax | 108 | 109 | 115 |
| Sales and Use Tax | 184 | 305 | 364 |
| Motor Carrier Tax | 13 | 12 | 12 |
| Total Revenues | \$ 915 | \$ 1,079 | \$ 1,154 |

Audit Assessments

Examiners in the department's Audit 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, | | |
|------------------|-----------------------------------|---------------|---------------|
| | 2017 | 2018 | 2019 |
| Assessments | \$551,327,129 | \$449,979,270 | \$666,202,797 |
| Audits Conducted | 167,702 | 166,259 | 197,066 |

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 fiscal years ended June 30, 2017, 2018, and 2019, are presented below. The Appellate Division revised the reports as a result of the division and court decisions.

| | Fiscal Year Ended June 30, | | |
|-----------------------------|-----------------------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 |
| Cases Resolved | 3,852 | 2,661 | 2,782 |
| Original Assessments | \$ 456,844,095 | \$ 82,076,671 | \$ 103,072,763 |
| Revised Assessments | 425,753,892 | 49,014,689 | 53,358,511 |
| Assessment Reduction | \$ 31,090,112 | \$ 33,061,981 | \$ 49,714,252 |
| Percentage Reduction | 7% | 40% | 48% |

The large variance in assessments for 2017 was primarily due to a few very large Hospital Net Revenue Tax cases resolved in that year.

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, 2017, 2018, and 2019, is presented below:

| | Fiscal Year Ended June 30, | | |
|-------------------------------|-----------------------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 |
| Taxes Receivable: | | | |
| Income Tax | \$ 416,985,826 | \$ 450,978,583 | \$ 506,153,702 |
| Sales and Use Tax | 278,046,867 | 310,099,828 | 291,320,529 |
| Corporation Tax | (13,161,812) | (5,253,723) | 48,302,024 |
| Other Taxes | 28,550,683 | 29,061,970 | 64,163,734 |
| Total Taxes Receivable | \$ 710,421,564 | \$ 784,886,658 | \$ 909,939,989 |
| | | | |
| Reductions: | | | |
| Estimated Uncollectable | (212,809,568) | (233,453,711) | (258,139,279) |
| Net Taxes Receivable | \$ 497,611,996 | \$ 551,432,947 | \$ 651,800,710 |

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.

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 \$1,000. Public Act 19-186 (**Section 10**), effective upon passage, increased, from \$1,000 to \$5,000, the threshold over which a penalty waiver requires Penalty Review Committee review and approval. The committee is comprised of the commissioner, the Secretary of the Office of Policy and Management, and the State Comptroller.

A summary of the penalty waiver activity for the fiscal years ended June 30, 2017, 2018, and 2019, as provided by the department, follows:

| Period | Requests | | Denied | | Approved Waivers | |
|-----------|----------|--------------|--------|--------------|------------------|--------------|
| | Cases | Penalties | Cases | Penalties | Cases | Penalties |
| 2016-2017 | 3,128 | \$ 5,311,193 | 2,011 | \$ 3,160,693 | 764 | \$ 1,360,539 |
| 2017-2018 | 2,663 | \$ 4,570,123 | 1,557 | \$ 2,710,073 | 572 | \$ 961,875 |
| 2018-2019 | 3,776 | \$ 5,208,871 | 919 | \$ 1,293,112 | 1,781 | \$ 3,019,600 |

Audit and Compliance Bureau

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. Audit and Compliance Bureau records indicated revenues collected by the division were \$169,266,533, \$203,898,608, and \$213,416,789 during the fiscal years ended June 30, 2017, 2018, and 2019, respectively

The commissioner, upon the approval of an Abatement Review Committee, may abate any tax payable to the state that has been 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 7-year waiting period. The department referred accounts totaling \$24,674,172, \$23,992,485, and 74,842,597 to this status during the fiscal years ended June 30, 2017, 2018, and 2019, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Revenue Services disclosed the following 12 findings and recommendations, of which seven have been repeated from the previous audit:

Human Resources Unit – Investigations of Alleged Improprieties

Background: The Department of Revenue Services utilizes an investigation summary report template that contains the investigation summary, interview, findings, violations, recommendations, and signatures of the investigator, human resources manager, and deputy commissioner.

Criteria: The Human Resources Unit should conduct investigations using formal, written procedures to ensure its investigative conclusions and actions are reasonable and consistent. These procedures should include documentation to substantiate the administrator's review of the complaints, a determination of whether the complaint requires further investigation, the proper preparation of case files, and documentation to support the investigation's conclusions.

DRS' Human Resources Investigation Procedure requires that an investigation summary report accompany any investigation.

Condition: A review of 14 cases judgmentally selected during the audited period noted the following exceptions:

- In 12 instances, DRS did not complete investigation summary reports documenting the investigations performed. Furthermore, many of these cases contained stipulated agreements, raising the concern that the necessary investigative summary reports were not on hand to support the conclusions or recommendations in the stipulated agreements.
- Two investigation summary reports had incomplete recommendations sections, and did not have the required signatures of the investigator, human resources administrator, and deputy commissioner.
- We noted inconsistencies related to the recording of cases, including non-consecutive numbering, missing case numbers, or cases with the same case number.

Effect: There is increased risk of inconsistencies in investigation conclusions and actions without a well-documented review with standardized forms. A non-consecutive numbering system can increase the risk that cases are removed from reports.

Cause: The department did not utilize the investigations summary form to detail pertinent investigative information and substantiate that it performed a formal review.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2015 and June 30, 2016.

Conclusion: The Department of Revenue Services' Human Resources function has been centralized under the Department of Administrative Services effective August 28, 2020.

Agency Response: “Although the focus of this finding pertains to the use of a form that the DRS’ HR unit developed for use in connection with certain investigations conducted by said unit, it is important to note for record purposes that all said investigations were conducted in accordance with state law and that there is no finding to the contrary. In addition, it must also be noted that the HR unit within DRS (and its associated functions) has been 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 DRS no longer has an HR unit and all such matters are handled by and through DAS.”

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 Administrative Services recommends that state employees absent for health reasons use the Employee Medical Certificate (P-33A) Form.

Department of Revenue Services’ policy requires employees to provide a medical certificate on the day they return to work. The medical certificate also verifies that the employee is fit for duty. Employees are not allowed to return to work without the required Medical Certificate (Form P-33) and are charged with unauthorized leave of absence without pay until it is provided. Five or more days of unauthorized leave is considered just cause for dismissal under State Regulation 5-240-01(a)(c). Employees may provide the medical certificate to their supervisor or may send it directly to Human Resources. Supervisors are required to send all employee medical documentation received to the Human Resources Office for inclusion in a separate medical file.

| | |
|-----------------------------|--|
| <i>Condition:</i> | <p>Our review of 29 employee personnel files disclosed the following exceptions:</p> <ul style="list-style-type: none">• In two instances, DRS either did not have the medical certificate on file or the medical certificate on file did not cover the period of the sick leave.• In five instances, the medical certificates provided lacked all required signatures from the department, physician, and employee. |
| <i>Effect:</i> | <p>The department increases the risk of sick leave abuse when it does not obtain required medical certificates.</p> |
| <i>Cause:</i> | <p>The department did not adequately monitor employees for compliance with medical certificate requirements.</p> |
| <i>Prior Audit Finding:</i> | <p>This finding has not been previously reported.</p> |
| <i>Recommendation:</i> | <p>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. (See Recommendation 1.)</p> |
| <i>Agency Response:</i> | <p>“Although the focus of this finding pertains to whether the DRS’ HR 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 also be noted that the HR unit within DRS (and its associated functions) has been 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 DRS no longer has an HR unit and all such matters are handled by and through DAS.”</p> |

Managerial Performance Evaluations Not Completed

| | |
|------------------|--|
| <i>Criteria:</i> | <p>The Performance Assessment and Recognition System (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. It also provides regular communication between such employees and their supervisors on meeting goals, performance assessments, and providing a basis for</p> |
|------------------|--|

differentiating among performance levels. This provides a basis for annual salary increases.

Condition: The Department of Revenue Services participates in PARS but was unable to provide us with documentation that it performed PARS reviews in 43 out of 48 instances in which manager and confidential employee evaluations were required during the audited period.

Effect: There is less formal feedback for management to measure performance goals, the attainment of such goals, and productivity expectations when performance evaluations are not prepared.

Cause: The department has inadequate administrative controls to ensure the completion of PARS managerial performance evaluations.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2015 and June 30, 2016.

Recommendation: The Department of Revenue Services should consult with the Department of Administrative Services' Human Resources to ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System. (See Recommendation 2.)

Agency Response: "The Agency's senior management has significant interaction with its managers through which it relays and discusses the Agency'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 Agency'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. To this end, the Department has received and approved a PARS form from each manager for the fiscal year June 30, 2021 through July 1, 2022."

Interest Payments on Returns Held for Review

Criteria: Prior to issuing tax refunds, DRS procedures required the review of tax refund claims over a fixed threshold to help deter erroneous or fraudulent returns. DRS uses a process review indicator (PRI) within the agency's Integrated Tax Accounting Software (ITAS) to identify returns held for review, which can be system or user (employee) generated. The Operations Division compares initial returns with refund claims and the Audit Division reviews amended returns. Statutory provisions generally require DRS to pay interest on refund requests held for more than 90

days. The payment of interest on these returns should incentivize DRS to promptly handle these claims.

The Committee of Sponsoring Organizations' Integrated Framework for Internal Controls provides that an effective system of internal controls includes a reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. Information and communication are integral components of the internal control system that provide management with relevant and accurate information in a timely manner.

Condition: The Department of Revenue Services has not implemented procedures to adequately identify and track outstanding refund requests held for review when a user-requested process review indicator is placed on an account.

Context: Total refunds issued, and interest paid during the period for illustration are as follows:

| Fiscal Year | Refunds Paid | Interest Paid |
|--------------------|------------------------|----------------------|
| 2016-2017 | \$1,282,732,496 | \$3,799,139 |
| 2017-2018 | 1,285,527,300 | 844,951 |
| 2018-2019 | 1,502,941,844 | 1,145,925 |
| 2019-2020 | 1,530,944,888 | 445,693 |
| Total | \$5,602,146,528 | \$6,235,708 |

Effect: The state continues to incur unnecessary interest expenses when the department does not identify and track returns held for review.

Cause: There are weaknesses in the current system's controls, which DRS indicated will be addressed when the new Tax Administration System (CTax) is finalized in fiscal year 2024.

Prior Audit Finding: This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2013 through 2016.

Recommendation: 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. (See Recommendation 3.)

Agency Response: "Although the APA finds that the DRS "has not implemented procedures to adequately identify and track outstanding refund requests held for review when a user requested general process review indicator (PRI) is placed on an account," it must be noted for record purposes, the

Agency has reports, processes and procedures that identify and track all outstanding refund requests held for review, including user requested general process review items and will make such information available to the APA upon request. Moreover, the DRS notes that the reduction in the amount of interest paid in connection with such refunds in and of itself contradicts this finding. To this end, since the prior audit finding the percentage of interest paid on refunds has been reduced by 90%, from 0.30% of refunds paid for the 2016/2017 Fiscal Year to 0.03% of refunds paid for the 2019/2020 Fiscal Year. Finally, and to the extent that the APA may still have concerns regarding the DRS' awareness of and commitment to addressing this issue, the DRS is in the process of installing a modernized tax administration system. This system, which is currently utilized in over 50 jurisdictions, will bring best practices and apply the latest technology to the taxes administered by the DRS and will help the DRS process returns and any associated overpayments in the most timely manner possible."

Untimely Access Termination to Core-CT for Terminated Employees

- Criteria:* The Core-CT Security Liaison Guide states that each agency is responsible for assigning a Core-CT Security Liaison as the primary contact for the Statewide Core-CT Applications Security Administrator. The agency liaisons are responsible for requesting the deletion of access immediately upon notice of an employee's termination, retirement, or transfer.
- Condition:* Our review of 20 terminated employees' access to the Core-CT system disclosed that the department did not immediately deactivate five employees' system access. It took the department 3 to 1,505 days to deactivate the employees' access. Three of the five employees' accounts were locked after we notified the department.
- Effect:* There is an increased risk of unauthorized access to the Core-CT system and possible manipulation of data.
- Cause:* The department does not have appropriate controls in place to ensure that it immediately deactivates employee access to Core-CT upon termination.
- Prior Audit Finding:* This finding has been previously reported in the last two audit reports covering the fiscal years ended June 30, 2013 through 2016.
- Recommendation:* The Department of Revenue Services should establish controls to ensure that it immediately deactivates employee access to the Core-CT system upon termination. (See Recommendation 4.)

Agency Response: “Although the focus of this finding pertains to whether the DRS took steps to update CORE-CT relative to employees who separated from DRS, it must be noted for record purposes that there was no finding that said employees improperly accessed or utilized CORE-CT after their dates of separation. It must also be noted that during the period of the APA’s audit the responsibility for updating CORE-CT rested with the HR unit of DRS. Given that the HR unit within DRS (and its associated functions) has been transferred to the Department of Administrative Services as part of a statewide consolidation of all Human Resource functions, the DRS has formally transitioned this responsibility to the DRS’ Business Office.”

Internal Control Weaknesses 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 routinely resolve suspended transactions in any data processing environment. This should occur on an ongoing basis or through special projects designed to eliminate these transactions. It is DRS policy to resolve all suspended transactions within five months of the transaction suspension date or contact the taxpayer when additional information is required. 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: DRS does not have procedures to aggregate and report the status of suspended transactions to upper management. The reporting system makes it difficult for management to determine whether DRS personnel made prompt and sufficient efforts to resolve the remaining suspended transactions awaiting additional taxpayer information. DRS informed us

that the controls to address the weaknesses will be implemented when the new State Tax System (CTax) is operational in fiscal year 2024.

Effect: A lack of reporting of relevant, quality information to upper management may result in decreased efficiency or effectiveness in the use of resources and resolution of suspended transactions.

Cause: The department's internal controls for suspended transactions do not require the reporting of information to upper management regarding DRS efforts to resolve remaining suspended transactions.

Prior Audit Finding: This finding has been previously reported in the last three audit reports covering the fiscal years ended June 30, 2011 through 2016.

Recommendation: 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. (See Recommendation 5.)

Agency Response: "Working suspended transactions are part of the day to day work of the Department's Operations Bureau. As suspended transactions occur, employee's work queues are populated. 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 is the day-to-day front-line supervisors. It is important to note that, although this finding focuses on reporting suspended transactions to upper management, it does not indicate that suspended transactions are being worked in an inefficient manner."

Inventory and Property Control Management Exceptions

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, which establishes standards such as tagging and recording inventory in Core-CT. Agencies are required to annually submit to the State Comptroller, via the CO-59 property control report, a detailed inventory of all of the following property owned by the state and in the custody of such agency: (1) real property, and (2) personal property having a value of \$5,000 or more. The CO-59 instructions require that the report balances agree with the balances in Core-CT, the state's official accounting system.

The manual requires agencies to capitalize and to categorize software into either licensed software (LSOFT) or state-owned software (SOFT) and report them on the CO-59.

A complete physical inventory of all property must be taken by the end of each state fiscal year to ensure that property control records accurately reflect the actual inventory on hand at fiscal year-end.

Core-CT asset agencies must use the Asset Management Module for their physical inventory. Agencies using the Core-CT Inventory Module must use the module for physical inventory.

Condition:

A review of the agency's property control records noted the following exceptions.

- DRS did not update the Core-CT Asset Management Module to reflect that it conducted a physical inventory for fiscal years 2017 through 2020.
- DRS improperly categorized \$416,077 in licensed software as owned by the state in the Core-CT Asset Management Module for fiscal years 2016 through 2020.
- DRS misclassified one \$20,875 server as controllable equipment in Core-CT. Additionally, the department improperly batched multiple laptops valued at \$141,200 purchased in fiscal year 2021 and recorded them as one item instead of separate items. As a result, the department did not record the minimum identifying details for specific assets (location, serial number, assignment, etc.) required for tracking.

Context:

The agency reported 1,649 assets, totaling \$13,197,554, in Core-CT as of July 2021. This included controllable and capital equipment and software. The department considered its submitted CO-59 reports for each of the audited fiscal years as the record of the physical inventory performed.

Effect:

The Core-CT Asset Management Module was not accurate. The department has less assurance that its capital assets are properly maintained and reported.

Cause:

This was attributed to the department's need for additional asset management training and limited resources due to the COVID-19 pandemic.

Prior Audit Finding: This finding has been previously reported in a modified form in the last two audit reports covering the fiscal years ended June 30, 2013 through 2016.

Recommendation: The Department of Revenue Services should improve internal controls over its property inventory reporting to comply with the State Property Control Manual. (See Recommendation 6.)

Agency Response: “Although the focus of this finding pertains to the availability of documents relative to DRS’ inventory in CORE-CT, it must be noted for record purposes that there was no finding that there was any misappropriation or misuse of any item in said inventory.”

Noncompliance with GASB Statement No. 51 – Intangible Asset Cost Capitalization

Criteria: The State Property Control Manual references Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which defines intangible assets and how they are to be treated for reporting purposes. Agencies should consider software acquired from a third party as an intangible asset when it requires more than a minimal incremental state agency effort to achieve its expected level of service capacity.

All intangible assets that meet the definition in GASB 51 and are above the capitalization threshold established by the State Property Control Manual should be classified as a capital asset subject to applicable depreciation and impairment.

Condition: DRS purchased a new tax administration system (CTax) in fiscal year 2019 and has expensed in excess of \$24 million as of the end of fiscal year 2021. Although the software met the GASB No. 51 intangible assets definition, DRS has not capitalized any of the asset’s cost to date.

Furthermore, DRS does not have a documented policy to identify and accumulate project developmental costs for compliance with capitalization requirements.

Effect: The department's property control records may not accurately reflect the actual asset balance. Therefore, there is increased risk that material asset amounts are not capitalized on the record.

Cause: The department may not have been aware of the GASB 51 requirements.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Revenue Services should ensure compliance with capitalization requirements for intangible assets and establish related policies. (See Recommendation 7.)

Agency Response: “The software purchased in connection with the first phase of the CTax project in FYE 2019 is the first intangible asset purchased by DRS subject to this GASB pronouncement. As such, the Agency has become more familiar with the requirements and has implemented proper protocols going forward.”

Failure to Form Plan with CSP to Collect and Remit Sales and Use Taxes

Criteria: Public Act 19-117 (Section 331), effective upon passage, 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 by February 5, 2020, with draft legislation to implement the plan, to the General Assembly in accordance with Section 11-4a of the General Statutes.

Condition: We reviewed related legislation enacted during the audited period. As of our December 7, 2020 inquiry, DRS had not consulted with the board or developed the required plan. Furthermore, the department could not provide the draft legislation, which was due by February 5, 2020.

Effect: The state could forego additional revenue without the timely implementation of the plan.

Cause: The agency did not provide the resources necessary to implement the legislative requirements.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: 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. (See Recommendation 8.)

Agency Response: “Although this finding pertains to the requirements of 2019 Conn. Pub. Acts 117, §331, it must be noted for record purposes that the DRS 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 DRS challenges said statement and has not seen or otherwise been provided any support for such a statement.”

Disaster Recovery Plan Testing Not Documented

Criteria: The National Institute of Standards and Technology (NIST) provides instructions, recommendations, and considerations for information system contingency planning in its Special Publication 800-34 (NIST 800-34). Contingency plans should be established to ensure the continuance of operations in the event of a disaster or major interruption in information systems.

Agencies should maintain an information system contingency plan (ISCP) in a state of readiness, which includes having personnel trained to fulfill their roles and responsibilities within the plan, having plans exercised to validate their content, and having systems and system components tested to ensure their operability in the environment specified in the ISCP.

For each testing, training, and exercise (TT&E) activity conducted, results are documented in an after-action report, and Lessons Learned corrective actions are captured to update information in the information system contingency plan.

To be effective, the plan must be maintained in a ready state that accurately reflects system requirements, procedures, organizational structure, and policies. During the operation/maintenance phase of the software development life cycle, information systems undergo frequent changes because of shifting business needs, technology upgrades, or new internal or external policies. Therefore, it is essential that the information system contingency plan be reviewed and updated regularly as part of the organization’s change management process to ensure that new information is documented, and contingency measures are revised if required.

Condition: The department indicated that it last tested its disaster recovery plan in 2019 but did not document the test and post-assessment of outcome.

Effect: There is less assurance that the department performed a comprehensive review and post-exercise assessment and analyzed it for risk mitigation.

Cause: It does not appear that the department has established adequate review and oversight of disaster recovery testing and post-exercise assessment.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: 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. (See Recommendation 9.)

Agency Response: “As the APA recognizes, the DRS has a disaster recovery plan in place and that the DRS tested said plan in 2019. As such, there is no dispute that the DRS has a disaster recovery plan. Moreover, the APA has not questioned or raised any concerns regarding the viability of said plan. To the extent that the APA has questions regarding the result of the test that occurred in 2019, said inquiries can be directed to the Information Technology Manager 3 who oversees the DRS’ Information Services Division.”

Auditors’ Concluding Comment: We presented our inquiries to the Technology Manager 3, who responded that an IT Manager 2 informed him that the IT Subject Matter Expert who performed the test did not document the last test performed on June 18, 2019. He also stated that the test did not include any users but will ensure that the department documents future tests and verifies results.

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 in order 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 (SAM) year-end closing process requires each state agency with a balance in the Funds Awaiting Distribution Fund at June 30th, to submit a report to OSC that the agency has reconciled its Funds Awaiting Distribution Fund account activity, by July 31st of each year. The report requires the agency to inform OSC of any errors and request required corrections.

Condition: We identified an account within the Funds Awaiting Distribution Fund with an ending balance that DRS did not reconcile and could not explain. There were recent reconciliation issues and items as far back as

2008 that the department continuously carried forward into the current period.

In addition, the department did not submit a reconciliation report at year-end to the Comptroller in accordance with the State Accounting Manual. The fund's balance totaled \$20,265,743, \$21,339,869, and \$21,432,803 as of June 30, 2018, 2019, and 2020, 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 properly 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 Accounting Software (ITAS).

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2015 through 2016.

Recommendation: 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. (See Recommendation 10.)

Agency Response: "The DRS is aware of this issue and is working with Office of the State Comptroller toward resolving the issue."

Maintenance and Disposition of Seized Property Cases

Background: The Department of Revenue Services, Special Investigation Section (SIS), is primarily 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 untaxed tobacco products 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 are to be deposited with the State Treasurer.

In prior audits, we obtained and reviewed operating policies and procedures. We expected that the department would retain these policies and make them available to current custodians to ensure proper and

consistent internal controls. Additionally, the agency provided us a draft policy in September 2018 during the prior audit.

Criteria: The department’s Special Investigation Section policy states that the property agent and/or SIS supervisor, and DRS Public Tax Service Unit (PSU) personnel should conduct a biannual audit of all property in the seized property evidence room to ensure compliance and accuracy. On a quarterly basis, the property agent should request an inventory list of all currently seized property, promptly review it for accuracy, and follow accepted procedures regarding the disposal of seized property that is no longer required to be in the SIS inventory.

Condition: In our prior audit of the operation of the Special Investigation Section inventory, we noted that the established policies and procedures were not available to the current SIS inventory staff. As a result, the current custodians were not operating the SIS inventory under established procedures.

A follow-up review indicates that the current custodian still does not have approved procedures to conduct the Special Investigation Section inventory.

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

Cause: The transition in custodians did not include the transfer of established policies and procedures.

Prior Audit Finding: This finding has been previously reported in a modified form in the last two audit reports covering the fiscal years ended June 30, 2013 through 2016.

Recommendation: 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. (See Recommendation 11.)

Agency Response: “It must be noted that this finding pertains to the DRS’ Special Investigation Section (“SIS”). This is noteworthy given that SIS was merged into the Criminal Investigation Division as part of an agency reorganization that was effectuated over 5 years ago. Moreover, it is also significant to note that during the entirety of this departmental audit, CID had an assigned evidence officer who was responsible for cataloging and storing all items seized by CID.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Revenue Services contained 16 recommendations. Nine have been implemented or otherwise resolved and seven have been repeated or restated with modifications during the current audit.

- 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. **This recommendation is being restated with modifications. (See Recommendation 5.)**
- The Department of Revenue Services should adopt policies and procedures to identify end-of-life software. The department should retire or upgrade critical software before it loses security updates and manufacturer support. **This recommendation has been resolved.**
- The Department of Revenue Services should regularly monitor its intranet site to ensure that access is limited to authorized users. **This recommendation has been resolved.**
- The Department of Revenue Services should adhere to its projected budgets and maintain sufficient prepaid account balances to meet the anticipated needs of the department in the fiscal year. **This recommendation has been resolved.**
- The Department of Revenue Services should implement procedures to adequately identify and track all outstanding refund requests held for review. The department should promptly process refund claims to avoid excess interest payments. **This Recommendation is being repeated. (See Recommendation 3.)**
- Prior to instituting or modifying significant policies, the Department of Revenue Services should perform and document cost-benefit and cost-effectiveness analyses. These reviews would evaluate whether the benefits of the policy are likely to justify the costs and identify possible alternatives to assist in the selection of the most effective and efficient method. **This recommendation has been resolved.**
- The Department of Revenue Services should comply with its policies and procedures regarding the maintenance of seized property and promptly update its inventory records after cases are closed. **This recommendation is being repeated in modified form. (See Recommendation 11.)**
- The Department of Revenue Services should improve internal controls over its property inventory reporting in order to comply with the State Property Control Manual. **This recommendation is being repeated. (See Recommendation 6.)**

- 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. **This recommendation is being repeated. (See Recommendation 10.)**
- The Department of Revenue Services should adhere to its established Human Resources policies. The use of these formal, written procedures will help to ensure investigative conclusions and actions were reasonable and consistent. **This recommendation has been resolved.**
- The Department of Revenue Services should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System. **This recommendation is being repeated. (See Recommendation 2.)**
- The Department of Revenue Services should establish procedures for the authorization of overtime to comply with Section 5-245 of the General Statutes. In addition, the department should adhere to internal procedures that require prior approval of compensatory time. **This recommendation has been resolved.**
- The Department of Revenue Services should establish controls to ensure that it immediately deactivates employee access to the Core-CT system upon termination. **This recommendation is being repeated. (See Recommendation 4.)**
- The Department of Revenue Services should perform the necessary steps to promptly update its penalty waiver regulations or adopt new regulations. **This recommendation has been resolved.**
- The Department of Revenue Services should adopt professional internal auditing standards to facilitate the operation of the Internal Audit Unit. The adoption of these standards will ensure the department addresses proper audit risk assessment and independence. **This recommendation has been resolved.**
- The Department of Revenue Services should seek guidance from the General Assembly to assist with coordination of the Business Tax Credit and Tax Policy Review Committee to ensure that the committee fulfills its relevant statutory requirements affecting the department. **This recommendation is not being repeated.**

Current Audit Recommendations:

- 1. 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.**

Comment:

The department did not consistently obtain medical certificates when required by state regulations.

- 2. 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.**

Comment:

The department could not provide records to document that it performed performance evaluations for a majority of managers and confidential employees during the audited period.

- 3. 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**

Comment:

The department has not implemented procedures to adequately identify and track outstanding refund requests held for review when a user-requested general process review indicator is placed on an account.

- 4. The Department of Revenue Services should establish controls to ensure that it immediately deactivates employee access to the Core-CT system upon termination.**

Comment:

The department did not always deactivate employees' Core-CT system access in a timely manner.

- 5. 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.**

Comment:

The department does not have procedures to aggregate and report the status of suspended transactions to upper management.

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

Comment:

We noted various inconsistencies in the department's Core-CT inventory records. DRS did not promptly update its Core-CT Asset Management Module to reflect inventory dates. The department miscategorized licensed software and incorrectly presented and tracked controllable equipment.

- 7. The Department of Revenue Services should ensure compliance with capitalization requirements for intangible assets and establish related policies.**

Comment:

The department did not capitalize a significant intangible asset as required by Government Accounting Standards Board (GASB) Statement No. 51. Furthermore, the department does not have a policy to identify and accumulate project developmental costs for compliance with such capitalization requirements.

- 8. 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.**

Comment:

We reviewed related legislation enacted during the audited period. As of our December 7, 2020 inquiry, the department had not consulted with the board or developed the required plan. Furthermore, the department could not provide the draft legislation, which was due by February 5, 2020.

- 9. 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.**

Comment:

The department did not document its information technology disaster recovery plan test and did not evaluate its post-assessment review for necessary changes in risk management.

- 10. 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.**

Comment:

The department did not reconcile the balance in its Funds Awaiting Distribution Fund account and could not explain the activity. There were recent reconciliation issues and items as far back as 2008 that the department continuously carried forward into the current period.

- 11. 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.**

Comment:

The current custodian of seized inventory did not have access to the department's procedures for the operation of Special Investigations Section inventory. The department has not finalized new draft policies provided during the prior audit.

ACKNOWLEDGMENTS

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
Christopher DiDomizio
Roberto Sanchez
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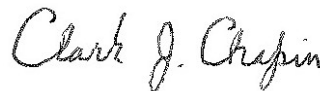


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