

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of Taxation

Summary

The Office of the Auditor and the certified public accounting firm of Deloitte & Touche LLP conducted a financial audit of the Department of Taxation for the fiscal year July 1, 1993 to June 30, 1994. The audit examined the department's financial records and its systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of Deloitte & Touche LLP, the department's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1994. All are in conformity with generally accepted accounting principles.

Deloitte & Touche LLP note no matters involving the internal control structure and its operation that they consider to be material weaknesses as defined in the report on the internal control structure. They also note, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

We are pleased to note that the department has implemented most of the recommendations made in our 1985 report. The department had not considered our prior audit recommendation on using a depository system to reduce delays in depositing receipts. We find that the department could improve its ability to collect taxes by strengthening its internal control and administrative practices and resources.

Specifically, we find that procedures for collecting unpaid taxes should be strengthened, delinquent tax collections should be deposited in a more timely manner, and a depository system for certain tax payments should be established.

We also find that vacancies in the Collection and Audit Divisions should be filled, a new income tax computer system is needed, responses to letter ruling requests should be more timely, a formal training program should be implemented and inactive agency accounts should be closed.

Recommendations and Response

We recommend that the department strengthen the procedures used to collect unpaid taxes by re-programming its computer systems to identify nonfilers, document the approvals obtained for the payment plans of delinquent taxpayers, and reexamine its practice of not initiating foreclosure proceedings and

actively monitor the financial condition of taxpayers to determine when liens should be enforced through foreclosure proceedings. We also recommend that the department make photocopies of delinquent tax checks requiring additional investigation, deposit checks promptly, and credit the payments to a suspense account.

In addition, we recommend the department implement a depository system for general excise tax and state income withholding tax payments, the department be allowed to fill the vacancies in its Collection and Audit Divisions and that the department consider acquiring a new income tax computer system. Further, we recommend the department assess the relative importance of preparing letter rulings and devise a system that is fair in responding to requests for letter rulings, develop a formal training program for its auditors and designate one individual as the training officer, and that the department contact the Department of the Attorney General to determine the procedures for closing inactive agency accounts.

The department generally concurs with our findings and recommendations. It concurs in substance with our recommendation to implement a depository system for general excise tax and state income withholding tax payments. However, it believes that an electronic funds transfer system would be more efficient and is exploring that option. We are pleased that the department recognizes the need to improve its tax receipts systems and encourage it to pursue the electronic funds transfer system. It also will deposit all delinquent tax payments in a more timely manner. Further, it concurs that it should be allowed to fill vacancies in its Collection and Audit Divisions. It also will revise its system for preparing letter rulings, is considering the acquisition of a new income tax computer system, and will implement a formal training program for its auditors. It will contact the attorney general for guidance on closing inactive agency accounts.

The department neither concurs with, nor disputes, our recommendation that it reexamine its practice of not initiating foreclosure proceedings and more closely monitor the financial condition of taxpayers to determine when liens should be enforced through foreclosure proceedings. Instead, it states that it initiates foreclosure proceedings if warranted, but contends that foreclosure proceedings and additional monitoring require an inordinate amount of collector hours and produce only marginal increases in revenue. We are unable to confirm this claim because the department had not conducted foreclosure proceedings that we could evaluate.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830