

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Follow-Up Audit of the Department of Taxation

Summary

The Office of the Auditor conducted a follow-up audit of the Department of Taxation for the period from July 1, 1994 to February 1996. The audit examined the extent to which the department has implemented our prior recommendations contained in the *Financial Audit of the Department of Taxation*, Report No. 94-20.

We are pleased to note that the new director of taxation is taking positive steps, not only to implement our recommendations, but also to initiate additional actions to improve tax collections and enforce compliance. These initiatives include the identification of nonfilers through cooperation with other agencies and the increased use of compromise agreements to improve collection of unpaid taxes.

We found the department has strengthened its collection procedures. It has revised its manual to provide clear guidance to field collectors on collection practices and procedures. Rather than develop a depository system as recommended in our prior report, the department has implemented an electronic funds transfer system for certain taxpayers. It has also begun a systems replacement project to improve its tax computer system. The department did use foreclosure proceedings to enforce a tax lien.

We also found the department has taken actions to close its inactive agency accounts, and is exploring ways to expedite letter ruling responses. As to our prior recommendation to improve the timeliness of deposit of delinquent tax payments, the department maintained that a suspense account is not needed since checks are being processed within one month of receipt.

However, we found the department has not fully implemented a formal training program for its auditors, and it has not been able to fill vacancies in the audit and collections divisions.

Recommendations and Response

We recommend the department continue to follow its new collection procedures and initiatives, pursue implementation of a new income tax computer system, and develop a formal training program for its auditors. We also recommend the department be allowed to fill vacancies in its audit and collections divisions.

The department generally concurs with our findings and recommendations. It also provided updated statistics on increased tax assessments and collections that have resulted from two of its initiatives, its "Schedule C" and "Fact of Filing" projects.



In its response, the department comments that it has received the governor's approval to fill some of the vacancies in the audit and collections divisions, it is working with the Department of Commerce and Consumer Affairs and the Public Utilities Commission on joint compliance projects, and it plans to establish a Technical Training & Development Office to handle formal training for its employees. The response also includes a status of tax payments received through electronic funds transfer.

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