

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Office of Integrity and Oversight



MEMORANDUM

TO: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax & Revenue

FROM: Robert G. Andary, Executive Director
Office of Integrity & Oversight

DATE: March 23, 2009

SUBJECT: Review of Audit Adjustment User Rights in ITS (IA:OTR:2904-C08)

Pursuant to the request of the Deputy Chief Financial Officer of the Office of Tax and Revenue (OTR), the internal auditors of the Office of Integrity and Oversight (OIO) conducted a review of the Compliance Operations Administration's Audit Division user class rights within the Integrated Tax System (ITS). This review was deemed necessary due to the recent changes and enhancement of controls over the adjustment of taxpayer accounts.

In FY 2008, OTR implemented changes to user class rights of employees in ITS. The purpose of this modification was to provide controls over the functions that employees were able to perform. In the Audit Division, the ability to input an audit assessment was removed from the auditors and delegated to the audit assistants. This change in the process has created a backlog in recording and approving assessments due to lack of training of the assistants, and staff shortage.

OIO was requested to review the new procedures and determine whether the controls put in place were too stringent, and whether there should be a balance between adequate controls and productive efficiency.

To gain an understanding of the audit division's process, OIO performed the following:

- Met with the audit division chief to get an overview of the functional area of operation and its related responsibilities.
- Walked through the process with an audit supervisor on how an assessment was done prior to the change in process, and the after result of the assessment for comparative purposes.
- Spoke with Audit supervisors to gain an understanding of case management.
- Spoke with the Information Systems Administration staff on user rights.

THE ASSESSMENT PROCESS

The Integrated Tax System (ITS) has an audit case management system in place for the Audit Division. The process works as follows:

When an auditor has an audit idea or is assigned an audit, the auditor prepares a proposed audit scoring sheet to discuss reasons for selection and possible revenue generation. The auditor forwards the score sheet to the immediate supervisor, who approves or denies the request. Upon approval, the auditor adds the case to ITS for the taxpayer. An audit case number is assigned systemically. As the audit is performed a hard copy case file is maintained with documentation related to the audit.

Upon completion of the audit, the case file is provided to the supervisor for review. Upon the supervisor's approval, which is noted with a signature, the case file is forwarded for review and conference. Review and Conference consists of senior auditors who review the audits to ensure they are conducted in accordance with auditing standards and the laws of the District of Columbia. The review and conference staff may prepare review notes or challenge the work. Upon approval by the review and conference staff, the case is sent back to the auditor to send the notice of proposed deficiency and to enter the adjustment in ITS.

When the auditor goes through the functions window in ITS, he/she selects "adjust account." The audit assessment is entered. If done correctly, the proposed audit adjustment will be a review item on the taxpayer's account as it is then in pending status. The auditor gives the case file back to the unit supervisor, who reviews ITS to ensure the adjustment was entered properly. Once reviewed, the supervisor approves the pending adjustment, which is a review item, and closes the case in the case management system. Reportedly, the assessment will not move to Collections if it is not approved by the supervisor and closed out.

REVIEW OF CASE FILES

OIO requested ten files from the Audit Division to trace the audit assessments reported in ITS to the case file to determine if information was entered properly. We received nine of the ten files requested. Of the nine reviewed, we found that eight were properly supported with the required assessment change document, which detailed the adjustment amount in ITS. The form was approved by the supervisor and there was a field to indicate approval of the electronic entry. One file did not have the required assessment change form; however, there was alternate support for the assessment maintained in the file (voluntary disclosure audit).

OBSERVATIONS

Audit adjustments are technical in nature, and we consider them a sensitive and serious area of operations, which can be subjected to manipulation and fraud. The entry of audit adjustments requires someone with the appropriate technical skill level to properly enter the data and report the liability of the taxpayer. As we sat with the audit assistant on our walkthrough, we noted that the audit assistant was still learning the process and had to be coached through the adjustment by

the supervisor. Coincidentally, the assessment we observed had an error in the assessment change document. The audit assistant had to reverse the incorrect transaction and enter the assessment correctly. Based on our observation and understanding of the audit case management process, the use of audit assistants to enter adjustments is not an acceptable practice.

Recommendations:

The Office of Integrity and Oversight recommends the Director of Compliance Operations:

- Suspend the use of audit assistants to enter adjustments due to the lack of technical proficiency. Instead, we recommend a group of technically trained auditors enter the adjustments **after** the adjustments have been reviewed in Review and Conference. This would allow audit staff to focus on their audits and decrease the number of staff posting to the system. It is imperative that the assigned staff are properly trained in the tax and auditing procedures to ensure the adjustments are entered correctly. Management should determine the number of auditors required to complete this task by reviewing the volume of adjustment activities.
- Develop written policies and procedures documenting the adjustment process to ensure consistency and uniformity throughout the Audit Division and Compliance Administration.
- Obtain management reports to identify the status of cases in the case management system to allow for follow-up actions and to look for unusual adjusted items.

OTHER MATTERS

Threshold for review of Audit Bills increased to \$ [REDACTED]

During our review of the assessment process, we were informed by the Accenture team that OTR has a system modification request to increase the review threshold on audit bills to \$ [REDACTED] (PROD4146A), from \$ [REDACTED]

This modification means that any audit adjustment entered by the auditor less than \$ [REDACTED] would be issued immediately without supervisory review, as summarized in our walkthrough. The change in the threshold allows audit bills to go out without systemic managerial review.

Recommendation:

We strongly recommend that management review ITS audit assessment bills less than \$ [REDACTED] on a regular basis, through sampling, to ensure assessments match the case files and to identify unusual or exception items for further examination.

Staff Training

During our walkthrough we were told that the audit assistants were not provided formal ITS training on entering audit adjustments before the duties were given to them. Training on the use of the system is critical to ensuring the data in the system is posted accurately.

When OIO asked the Information Systems administration management about the availability of ITS training, we were told that there is no one on staff assigned to provide training. Although OTR is planning to replace the ITS, there is still a vital need to ensure that information in the current system is accurate and reliable.

Recommendation:

We recommend OTR identify technically proficient employees and schedule them to provide training to the staff on an as needed basis. One to two skilled employees per administration could be designated trainers and could provide assistance to staff according to the administration needs.

CONCLUSION

In the 2008 Yellow Book report, there is a finding related to transfers and adjustments to taxpayer accounts within the ITS; however, it should be noted that the independent auditor, BDO, recommended that the control be *enhanced* through supervisory review.

In addition, BDO recommended that OTR establish and enforce policies that are set up to improve existing internal controls without impairing efficiency. Internal controls are not meant to hamper the normal flow of business operations, but enhance the ability to safeguard assets.

OIO concurs with this statement as well as the need for managers to obtain and review reports of their operations to assure integrity of transactions.

If you have any questions regarding our assessment of this process, please contact Tisha Edwards at (202) 478-9143.

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