

OFFICE OF THE STATE AUDITOR

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AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA
State Auditor

November 18, 1996

The Honorable John Sharp
Comptroller of Public Accounts
111 East 17th Street
Austin, Texas 78711

Dear Mr. Sharp:

We have recently completed an audit of the tax revenue system. Our conclusion, based on this work, is that the Comptroller Of Public Accounts (Comptroller) has effective controls over the tax revenue system. The system consists of tax collection and return processing, auditing tax returns, taxpayer identification, taxpayer education, a hearing process to resolve disputes, and enforcement to collect delinquent accounts.

The Comptroller collected over \$18 billion in taxes during the year ended August 31, 1995. During the same period the Revenue Audit Division assessed \$354.6 million as a result of 13,137 revenue audits. This amounted to an \$11.80 return on each audit dollar spent. The Revenue Opportunity Program collected an additional \$16.2 million during the 1995 fiscal year.

We commend the Comptroller's Office for actions taken on the nine recommendations in the tax revenue management report (*An Audit Report on the Comptroller's Tax Revenue Management Process*, SAO Report No. 95-030). Seven of the recommendations have been implemented or are in the process of implementation. We agree with management's reasons for not implementing the recommendations to require state agencies to file sales tax returns. Management has chosen not to implement the recommendation regarding the transfer of the audit, enforcement, and collection functions from the Revenue Opportunity Program. (See attachment.)

Audit Objective, Scope, and Methodology

The objective of the audit was to assess the effectiveness of the accountability system over tax revenues collected by the Comptroller's Office. The audit also satisfies the statutory requirement for a biennial audit of the effectiveness of the Comptroller's revenue audit function.

The scope of this audit included consideration of policies and procedures that make up the accountability system for tax revenues. In addition, the status of prior tax revenue management report recommendations was determined.

SAO Report No. 97-016

The Honorable John Sharp
Comptroller of Public Accounts
November 18, 1996
Page 2

Our methodology included:

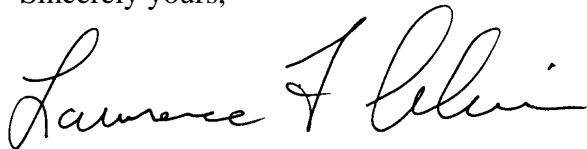
- Interviews with Comptroller personnel
- Review of management reports, procedure manuals, and other documents, memoranda, and publications of the Comptroller
- Review of policies and procedures for the tax revenue system
- Trend analysis of tax revenue collected and of performance results
- Test of selected procedures

The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

We appreciate the cooperation and help of management and staff during this audit.

Sincerely yours,

A handwritten signature in cursive script, reading "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

Attachment

LFA:ggh

Status of Prior Revenue Audit Recommendations

SAO Recommendation	Management's Position	SAO Position Regarding Status
1. More formal procedures for quantifying issues, developing tax policy issues, and revising tax forms should be implemented.	<i>Recommendation has been implemented</i>	SAO agrees.
2. The Comptroller should develop procedures for processing tax returns from state agencies and universities. Consideration could be given to requiring only the larger state entities to file returns. Twenty-three state agencies and universities account for 90 percent of all sales taxes collected by state entities.	<i>Recommendation has not been implemented. Management considered requiring state agencies that collect sales tax to file returns. Their conclusion was that it would be more efficient to update instructions to state agencies for collecting sales tax. They have also planned to perform revenue audits at selected state agencies that collect sales tax.</i>	SAO agrees with alternative steps taken.
3. The net number of revenue auditors should be increased to at least 550 in order to generate additional tax revenue, comply with legislative intent, and enhance voluntary compliance. While tax assessments have increased over projected amounts, additional auditors would further increase tax revenue. Periodic analysis should be performed to determine if there would continue to be substantial benefit to increasing the audit staff.	<i>Recommendation is in the process of being implemented. The Comptroller increased the audit staff from 485 to approximately 515. The Comptroller is relying on the new Integrated Tax System (System), which is currently in the process of implementation, to provide additional efficiencies in the audit process to reach a productivity level equal to 550 auditors. The Comptroller is also relying on the new system to provide information to determine if there would be a substantial benefit to increasing the audit staff further.</i>	SAO agrees with status.
4. The Comptroller should implement procedures to capture and monitor audit collections and waiver rates. Additionally, formal comparisons of field office productivity with field office coverage should be considered in staffing decisions. These comparisons should be net of Priority I, prior productive, and out-of-state audits.	<i>Recommendation is in the process of being implemented. The Comptroller is relying on the new Integrated Tax System, which is currently in the process of implementation, to provide information that will make it possible to monitor the audit collections and the waivers rates.</i>	SAO agrees with status.
5. The Renaissance Hearings Team extensive study concerning the increase in the number of tax redetermination hearings cases should be completed.	<i>Recommendation has been implemented.</i>	SAO agrees.

Status of Prior Revenue Audit Recommendations (concluded)

SAO Recommendation	Management's Position	SAO Position Regarding Status
6. The Comptroller should develop a system to capture financial information on redetermination cases or revise the current database to reflect the actual amount that is due from the taxpayer.	<i>Recommendation has been implemented.</i>	SAO agrees.
7. Procedures for updating the redeterminations database should be documented.	<i>Recommendation is in the process of being implemented. The Comptroller is currently in the process documenting procedures for updating the database.</i>	SAO agrees with status.
8. The Comptroller should consider changing the administrative rule to apply payments to interest owed first.	<i>Recommendation has been implemented. The Comptroller requested a change in legislation which was necessary to apply payments from taxpayers to interest first. Legislation did not pass.</i>	SAO agrees. However, management may want to consider requesting a change to the legislation again in the upcoming legislative session. The change could result in additional revenue for the State.
9. The audit, enforcement, and collection functions should be transferred from the Revenue Opportunity Program (Program) to the appropriate sections, and the Program should concentrate on identifying non-filers. A method to relate collection to this Program would be necessary for cost-benefit analysis.	<i>Management decided not to implement this recommendation. Management believes that it is better to have the person that contacts the potential taxpayer to follow through with enforcement and collections efforts as needed.</i>	SAO recognizes that management has taken the responsibility for not implementing this recommendation. However, we believe this recommendation may still have merit and we will continue to discuss it with management in the future.