New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Division of Taxation
Generic Tax System

January 1, 2009 to July 31, 2011

Stephen M. Eells
State Auditor

2008 - 2009

LEGISLATIVE SERVICES COMMISSION

ASSEMBLYMAN
JOSEPH J. ROBERTS, JR.
Chairman

SENATOR
THOMAS H. KEAN, JR.
Vice-Chairman

SENATE

ANDREW R. CIESLA
RICHARD J. CODEY
NIA H. GILL
ROBERT M. GORDON
SEAN T. KEAN
JOSEPH M. KYRILLOS, JR.
LORETTA WEINBERG

GENERAL ASSEMBLY

PETER J. BIONDI
JON M. BRAMNICK
JOHN J. BURZICHELLI
ALEX DECROCE
ALISON LITTELL MCHOSE
JOAN M. QUIGLEY
BONNIE WATSON COLEMAN

New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 292-4625

OFFICE OF THE STATE AUDITOR
(609) 292-3700
FAX (609) 633-0834

STEPHEN M. EELLS
State Auditor

THOMAS R. MESEROLL
Assistant State Auditor

JOHN J. TERMYNA
Assistant State Auditor

The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Sheila Y. Oliver
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Division of Taxation, Generic Tax System for the period of January 1, 2009 to July 31, 2011. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells
State Auditor
September 14, 2011

Table of Contents

	Page
Scope	1
Objectives	1
Methodology	1
Conclusions	2
Background	2
Findings and Recommendations	
System Reconciliation of Cash Receipts	3
Cash Collections	3
Abatement Information	4
System Access	5
Auditee Response	6

Scope

We have completed an audit of the Department of the Treasury, Division of Taxation, Generic Tax System (GENTS) for the period January 1, 2009 to July 31, 2011. Our audit was limited to cash collections of approximately $170 million a year within the Division of Taxation, recording and processing of $27 billion a year of tax information through GENTS, and logical access within GENTS.

The prime responsibilities of the Department of the Treasury, Division of Taxation are to administer the state's tax laws uniformly, equitably, and efficiently to maximize state revenues to support public services and to ensure that voluntary compliance with the taxing statutes is achieved. When taxpayers do not voluntarily comply with the law, the division is authorized through its audit and compliance units to initiate collection efforts. GENTS is used by the division to enter, process, and monitor taxpayer account activity.

Objectives

The objectives of our audit were to evaluate internal controls related to cash collections within the division, to determine if controls were in place over the processing of data relating to the updating of taxpayer information in GENTS, and to review logical security administration.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the agency. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were recorded properly in GENTS. We also found that processing controls were in place regarding the update of taxpayer information in GENTS. In making these determinations we noted certain internal control deficiencies over cash receipts, abatement information, and access rights meriting management attention.

Background

The Generic Tax System (GENTS) application was put into production in 1990 as part of the TAXNET system. It is the main system used to enter, process, and monitor taxpayer account activity. Also part of TAXNET are the Taxpayer Registration (TAXREG) system, the Cash Receipt Accounting System (CRAS), and the Taxpayer Unremitted Liability Inventory Plotting System (TULIPS). TAXREG holds the information related to taxpayers, including addresses and other taxpayer specific information. CRAS holds information related to tax revenue in the cashbook accounts for the state. TULIPS holds information related to casework for delinquent and deficient taxpayers and is dependent on the caseworker entering case related information.

System Reconciliation of Cash Receipts

The Division of Taxation does not reconcile GENTS to CRAS.

The Division of Revenue processes tax information for the Division of Taxation by scanning, posting, and depositing cash receipts. The cash receipt information is recorded in CRAS. The information from CRAS is summarized and recorded in the New Jersey Comprehensive Financial System (NJCFS). The cash receipt information is also forwarded to the Division of Taxation for posting to the taxpayer's accounts in GENTS. A reconciliation of CRAS to NJCFS is routinely performed; however, there is no reconciliation between CRAS and GENTS.

A strong system of internal control dictates that the system recording cash receipts be reconciled with the taxpayer accounts cash activity posted GENTS. This would ensure receipts recorded in GENTS are received and deposited. The reconciliation has not been attempted by the Division of Taxation because of a lack of resources. As a result, the division does not know if all GENTS receipts posted were received and deposited.

Recommendation

We recommend the Division of Taxation reconcile CRAS to GENTS. The division should consult with the Division of Revenue to develop a reasonable reconciliation process to verify that receipts recorded in GENTS were received by the Division of Revenue.

Cash Collections

Internal controls over cash collections should be improved.

Our review was limited to the 12 division units at the Trenton location. We reviewed the cash collection procedures through the use of a written questionnaire. We focused on the cash log activity for three weeks consisting of 3,966 transactions totaling $10.8 million. We also tested transactions for one of the two units that did not maintain cash logs. Our testing intended to determine if cash collection procedures over the receipt, endorsement, recording, and deposit of cash collected by the units were adequate. We also evaluated whether the cash received by the units were adequately secured prior to being sent to the Division of Revenue for deposit. In addition, we verified that cash received was recorded in GENTS.

The results of our questionnaire identified weaknesses and determined that each of the 12 units collected and recorded cash differently. Three units used cash logs which were maintained by the same person opening the mail. In ten units, the individuals opening the mail also had access to GENTS. Additionally, six units did not keep cash receipts in a secure location, and six units were not reconciling the cash receipt log to the deposit to ensure that no checks were misplaced

or stolen. Furthermore, six units did not reconcile their receipts to GENTS. All units send receipts to the Division of Revenue for processing via inter-office mail.

The Taxpayer Account Maintenance Activity Report is available to division supervisors on a daily basis. These reports list the movement of cash within a taxpayer's account. We recognize that these reports are not user friendly. The report is voluminous and cannot be easily imported into a database or spreadsheet for analysis. Two units did not check the reports at all, one checked occasionally, and nine spot checked the reports. There was no standard methodology in how these reports were reviewed.

Internal controls over the cash receipt function within the division should be improved to decrease the risk of checks being lost or stolen. The division has a policy and procedures for cash collections and recording; however, the policy fails to adequately address segregation of duty issues or monitoring of employee modifications to taxpayer accounts. The lack of adequate procedures for monitoring the taxpayer account maintenance activity report could allow for irregularities and errors to go undetected.

Recommendation

We recommend the division consider centralizing their cash collection procedures which would compensate for the inadequate segregation of duties. The procedure should include placing restrictive endorsement on checks by the person opening the mail. This person should not have access to GENTS. We further recommend that checks be secured prior to being sent to the Division of Revenue for processing. We also recommend supervisors review the Taxpayer Account Maintenance Activity reports and follow up on any irregularities with caseworkers.

»»«

Abatement Information

The abatement information in GENTS cannot be relied upon for reporting.

The division has the authority to grant a taxpayer's formal request for a reduction or forgiveness of their tax liability (abatement). The abatement field in GENTS is being used to reconcile the taxpayer's account after a payment has been received on a tax assessment by a field audit unit. Not all assessments require this practice, but in cases that do, the Taxation Unremitted Liability Plotting System (TULIPS) must be used in determining the true abated amount. We noted that 15 of 17 GENTS abated amounts tested did not match the abatement recorded in TULIPS for field audit cases.

GENTS is the most accurate current picture of a taxpayer's account. Only true abated amounts should be entered in the abatement field in GENTS. Because of the way the assessment is entered, GENTS does not calculate the penalty and interest correctly. GENTS only calculates for the period entered to the current date instead of the assessment period. When an assessment

is entered for field audit, it is entered at the end of the assessment period instead of spanning the entire assessment period. Without using the abatement field to reconcile the taxpayer's account in GENTS, a notice would be generated for an overpayment or underpayment, when in fact the case was resolved. Using the abatement field for reconciliation purposes gives a false current picture of the taxpayer's account.

Recommendation

We recommend an assessment be entered spanning the entire tax assessment period instead of the end of the period. This will allow GENTS to accurately calculate the penalty and interest. We also recommend that abatement reports coming from GENTS not be used for reporting purposes. TULIPS should be used to gather abatement totals, if needed.

»»-«

System Access

Access to TAXNET should be suspended for inactive vendor accounts.

The Department of the Treasury maintains an Information Technology Separation of Employment policy to ensure revocation of access to computer systems for terminated employees. Such a policy helps ensure separating employees no longer have access to sensitive department information.

The division has contracted with a third party vendor to assist in the division's collection efforts. Vendor employees are given access to GENTS. We reviewed a listing of the vendor's employee terminations and found that 35 of 102 users who separated from employment did not have their access privileges disabled. Although the vendor sends their terminations to the state contract monitor weekly, these terminations had not been completed.

Recommendation

We recommend management enforce the departmental policy, and promptly terminate access for the vendor's terminated employees.

»»-«

State of New Jersey

CHRIS CHRISTIE
Governor
KIM GUADAGNO
Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
P.O. BOX 240
TRENTON, NJ 08695-0240

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

September 2, 2011

John J. Termyna, Assistant State Auditor
Office of the State Auditor
125 South Warren Street, PO Box 067
Trenton, NJ 08625-0067

Re: Department of the Treasury, Division of Taxation

Dear Mr. Termyna:

We appreciate the opportunity to respond to the audit findings and recommendations for the Division of Taxation's Generic Tax System (GENTS). We concur with the conclusion of the audit that financial transactions are recorded properly in GENTS and that processing controls are in place regarding the update of taxpayer information in GENTS. The following is in response to the recommendations contained in the audit report.

System reconciliation of cash receipts – Discussions will be held with the Division of Revenue and the Office of Information Technology to explore the feasibility of developing a CRAS/GENTS reconciliation. It should be noted that transactional control reports between CRAS and GENTS are currently in place.

Cash collections – To further enhance existing internal controls for check processing, all checks will be endorsed to the State of New Jersey immediately upon receipt and all checks will be secured by Compliance staff after initial processing for delivery to the Division of Revenue as recommended. Division of Taxation management will continue to review assigned duties of staff and the monitoring of activity reports and will give full consideration to recommendations as staffing levels permit.

Abatement information – We acknowledge that the limitations of the GENTS system can prevent abatements from being accurately reflected when an audit assessment spanning multiple tax periods is recorded within a single tax period. However, the established procedures for recording audit assessments within a single tax period have been determined to be the most efficient and effective method for recording these assessments. The abatement amount in GENTS is not used for reporting purposes.

System access – System access was immediately terminated for the remainder of the vendor employee terminations. Procedures for the notification of vendor employee terminations have also been revised to ensure the prompt termination of system access.

We thank you for your input and appreciate the professionalism that your staff brought to the engagement.

Very truly yours,

Michael J. Bryan
Acting Director
Division of Taxation

c: Treasurer Andrew Sidamon-Eristoff
Chris Jeter
Dennis Shilling