

2000

Audit of double payments of 1995 Corporate Tax rebates to 11 taxpayers

(March 14, 2000)

OPA released today Letter Report no. LT-00-02 titled "Audit of the Department of Finance's Double Payments of 1995 Corporate Tax Rebates to Eleven Taxpayers in Fiscal Year 1997."

Report Summary

This report presents the results of our audit of the Department of Finance's (DOF) double payments of 1995 corporate tax rebates to eleven taxpayers in fiscal year (FY) 1997. The objectives of the audit were to determine whether (1) DOF processed payments of corporate tax rebates in accordance with its established control procedures, and these procedures were adequate to ensure that only valid obligations were processed for payment; and (2) CNMI accounting records were adjusted accordingly to correct the accounting errors brought about by the double payments.

Our audit showed that DOF did not perform the established control procedure for processing complaints of nonreceipt of corporate tax rebate payments. Specifically, the Accounts Payable Section did not verify whether previous payments had already been made, resulting in double payments of 1995 corporate tax rebates to eleven taxpayers in FY 1997 amounting to \$469,798. We also found that the established controls were inadequate. No control procedure was in place in the DOF financial management system to detect duplicate presentations of the Division of Revenue and Taxation (DRT) payment voucher listing(s) of corporate tax rebate(s), and thus the likelihood of duplicate payments in the future is not minimized.

Our audit also showed that although FY 1997 operating accounts were still open when DOF discovered the double payments (i.e., the FY 1997 audit was completed in October 1998 while DOF had knowledge of the double payments in November 1997), DOF failed to accrue receivables from the eleven corporate taxpayers and correct the overstatement of rebate tax expense at the end of FY 1997. These omissions caused the FY 1997 assets, income, and ending fund balance (and thus the FY 1998 beginning fund balance) to be understated by \$469,798. DOF's recording of the collection of the double payments in FY 1998 as revenues caused FY 1998 income to be overstated.

We recommended that the Secretary of Finance (1) require the DOF-Accounts Payable Section of the Division of Finance and Accounting to strictly comply with its established control procedures for processing complaints about nonreceipt of corporate tax rebate payments, in particular verifying if previous payment has been made before processing a new payment; (2) develop and implement control procedures in its financial management system which will recognize and flag potential duplicate processing of corporate tax rebate payments; and (3) ensure that prompt and proper adjustments to the CNMI accounting records are made for the affected fiscal year(s) in case any other double payment is found.

In her letter response dated January 27, 2000 (Appendix B), the Secretary of Finance addressed Recommendations 1 and 2 by stating that a new tax system is currently being developed to give DOF the capability to automate processing of the corporate rebate tax returns. Because the annual returns will be entered and processed through the tax system, the rebate computations and preparation of rebate checks will be part of the automated process. Since the payment data are stored, the system will automatically flag a warning if a rebate check has already been issued to a particular corporation for a specific tax year. This process will ensure the detection of duplicate processings of a return and potential double payment of a tax rebate. The new tax system is expected to be completed by the summer of year 2000. DOF anticipates processing the 1999 tax returns using the new system.

Based on the response we received from the Secretary, we consider Recommendations 1 and 2 resolved and Recommendation 3 closed. We agree that the alternative course of action cited by the Secretary in addressing Recommendations 1 and 2 is a reasonable course of action. The additional information or action required to close the recommendations is presented in the report.