



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

---

**Department of the Treasury  
Division of Taxation  
Generic Tax System and the  
Taxation Unremitted Liability Inventory  
Plotting System**

July 1, 2000 to May 31, 2002

---

**Richard L. Fair**

You're viewing an archived copy from the New Jersey State Library.

## **State Auditor**

LEGISLATIVE  
SERVICES COMMISSION

SENATE

BYRON M. BAER  
JOHN O. BENNETT  
ANTHONY R. BUCCO  
RICHARD J. CODEY  
NIA H. GILL  
BERNARD F. KENNY, JR.  
ROBERT E. LITTELL  
ROBERT W. SINGER

GENERAL ASSEMBLY

PETER J. BIONDI  
FRANCIS J. BLEE  
ALEX DECROCE  
PAUL DIGAETANO  
JOSEPH V. DORIA, JR.  
JOSEPH J. ROBERTS, JR.  
ALBIO SIRES  
LORETTA WEINBERG



# New Jersey State Legislature

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

RICHARD L. FAIR  
*State Auditor*  
(609) 292-3700  
FAX (609) 633-0834

---

ALBERT PORRONI  
*Executive Director*  
(609) 292-4625

The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
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 for the period July 1, 2000 to May 31, 2002. The scope of this audit was limited to the Generic Tax System and the Taxation Unremitted Liability Inventory Plotting System, the systems used by the division to monitor taxpayer activity. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Richard L. Fair".

Richard L. Fair  
State Auditor

December 12, 2002

## Table of Contents

	<b>Page</b>
Scope .....	1
Objectives .....	1
Methodology .....	1
Conclusions .....	2
Findings and Recommendations	
Taxation Unremitted Liability Inventory Plotting System .....	3
Generic Tax System .....	5

---

**Department of the Treasury  
Division of Taxation  
Generic Tax System and the  
Taxation Unremitted Liability Inventory Plotting System**

***Scope***

We have completed an audit of the Department of the Treasury, Division of Taxation for the period July 1, 2000 to May 31, 2002. Our audit was limited to internal controls related to the ability to adjust the Generic Tax System (GENTS) and to the reliability of the Taxation Unremitted Liability Inventory Plotting System (TULIPS) for utilization by management.

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. The Division of Taxation collects approximately \$650 million per year through these efforts.

***Objectives***

The objectives of our audit were to evaluate internal controls related to adjustments made to taxpayer accounts within the GENTS system and to determine the reliability of the TULIPS system for utilization by management. We also tested for resolution of a significant condition noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, 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, administrative codes, circular letters promulgated by the State Comptroller, and policies and publications of the division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, 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.

Due to our limited scope, we did not ascertain the status of all findings included in our prior report. However, a prior audit finding which pertained to a lack of restrictive endorsements did relate to our current audit and was evaluated for compliance.

### *Conclusions*

We found that internal controls did not ensure that adjustments made to taxpayer accounts within the GENTS system were proper. We also found the TULIPS system to be unreliable for utilization by management. In addition, the division has not resolved the significant issue of restrictive endorsements. This issue has been updated and restated in the finding related to GENTS internal controls.

## Taxation Unremitted Liability Inventory Plotting System

**The TULIPS system must be properly maintained to be an effective tool for management.**

The Taxation Unremitted Liability Inventory Plotting System (TULIPS) is the division's case management information system. Cases result when taxpayers are deficient and/or delinquent in their payments. The system was designed to track case information through all phases of collection until it is closed. To properly maintain TULIPS, employees are required to post the status and activity of the taxpayer's case, including the transfer of the case to another unit. We found the information in the system was not current or complete. Thus, management cannot rely on the system because it may not identify all activity or show the current status of a case. Since the division does not consistently maintain the case files, an underutilization and lack of confidence in the system results.

There were two main causes for the problem. First, employees were permitted to maintain manual history sheets instead of updating the system when events occurred. As a result, management did not have a clear picture of the status of each case without both the paper and the electronic file. Second, unrecorded case activity within TULIPS was not detected because it was assumed that a manual record existed. Our sample of 187 cases found that 43 cases did not have manual history sheets or any system updates. From our test cases we noted the following examples of why TULIPS is not reliable.

- An employee who had 185 cases assigned to him maintained no manual history sheets and did not post any activity to TULIPS.
- A case that was assigned to the Conferences and Appeals section had been closed in 1999. However, TULIPS was never updated for the closure. The case remained open through our

review period and incorrectly showed an amount owed of \$280,512.

- A case assigned to an investigator in December 2000 showed no entries to the system even though there were 19 entries to the manual history sheet.

We further noted that, since TULIPS is not reliable, supervision over cases and case activity is hindered. Supervisors cannot rely on the system to identify inactive cases or lack of progress by their staff. This could have the effect of hindering collection efforts. Our testing identified the following situations which occurred without being detected by management.

- A case that was assigned to an auditor in October 1998 was forwarded to Conference and Appeals and then returned. There were no notations in the system for these movements. Subsequently, the paper case file could not be located. Without the physical file or any history in the system, the case could not be pursued and was closed in April 2002.
- A case was assigned to an investigator in September 1998; however, the manual history sheet showed that the first action was not taken until July 2001.
- A case assigned in June 1997 to an auditor had no work performed on it. The auditor stated that this particular audit must have “slipped through the cracks” and he would begin work on the audit.
- An employee retired in December 2001 with six cases remaining in her caseload. These cases were not reassigned until April 2002.
- An auditor that had been temporarily reassigned to a special project was assigned 23 cases for

audit from April 1997 to March 1999. There was no work performed on these cases until the auditor returned in January 2002.

- A case that should have been forwarded to the Judgement section in August 2000 was still in a caseworker's caseload as of our review. After this was brought to the supervisor's attention, the case was forwarded in April 2002. The employee had been temporarily reassigned while the case remained in his caseload losing valuable collection time.

Proper maintenance of the TULIPS system would provide management with a valuable tool to monitor the collection of taxes from deficient and/or delinquent taxpayers and help improve collection efforts.

***Recommendation***

We recommend the division fully utilize the TULIPS system to provide management with accurate case information. The division should eliminate manual history sheets and require staff to update the system as events occur.

***Auditee's Response***

The Division agrees that caseworkers should in some instances, better document the case histories. The Division senior management will work with the affected areas to ensure the information needed to evaluate case status is properly recorded.



**Generic Tax System**

**I**nternal controls applicable to the GENTS system must be strengthened.

The Generic Tax System (GENTS) is the main system used to enter, process, and monitor taxpayer account activity. Our review of system data for the 90 working days preceding June 1, 2002 found that over 250,000 manual entries had been made. We found that 2299 authorized users have the ability to make changes to the system. Due to the volume of activity and the number of authorized users, good

internal controls are a necessity. Our review of the GENTS system disclosed several internal control weaknesses which could result in erroneous or inappropriate transactions being entered without being detected.

Our review of activity over the sample period of 90 working days found that, of 2299 authorized users with access to the system, only 992 (43%) had made entries. This would indicate that a review of authorized users is warranted. By removing inactive or unnecessary users' access privileges, internal controls would be strengthened by reducing the number of users that would have to be monitored or that could initiate undetected errors or inappropriate transactions. Following are examples where reducing the number of individuals with access would improve controls:

- Twenty upper-level management personnel had extensive access to the GENTS system. Of those, 16 did not make any entries during our test period. Internal controls would be strengthened by restricting upper-level management's access. Management should approve entries rather than have the ability to initiate transactions that would not be subject to review.
- We noted that 27 of 43 computer technical support personnel had access to the GENTS system, primarily to assist employees who encounter problems. Of the 27 employees, 20 did not make any entries during our test period. In addition to reducing the number of computer technical support personnel having the ability to change taxpayer accounts, independent reviews of their entries should be performed due to their extensive access to the system and inherent knowledge of system operations.
- The seven employees comprising the Taxpayer Accounting Support unit had the capability of initiating several types of transactions on the GENTS system yet they only entered the

redeposits of undeliverable and returned checks. To strengthen internal controls, employee access to the system should be limited to the types of transactions they process.

The main compensating control was the “Taxpayer Account Maintenance Activity Report” which was found to be inadequate. It was generated on a daily basis to be reviewed by the supervisors of employees making entries to GENTS. We found that there was no consistency in the review of this information. Some supervisors stated that they review this report on a daily basis and then discard it due to the volume. Other supervisors reviewed the report on a weekly basis, most on a monthly basis, while others did not review the report.

When asked what they looked for upon review, some looked for large amounts, others performed spot-checks, but none of the supervisors interviewed were aware of any entries or combination of entries that might suggest an employee be investigated. One supervisor noted that he just performs spot-checks since the Office of Criminal Investigation (OCI), Internal Security unit monitors entries made on the GENTS system. However, a meeting with OCI found that they were not familiar with the “Taxpayer Account Maintenance Activity Report” and did not monitor employee activity on the GENTS system. For OCI to conduct an investigation, an allegation would have to be made. In order to strengthen internal controls, a methodology must be developed to monitor the entries made by authorized users in a more consistent and sufficient manner.

This lack of oversight creates an even more serious control weakness where division personnel with access to the GENTS system receive actual payments from taxpayers whose cases are assigned to them. Such payments are received at the Division of Taxation and forwarded directly to the caseworker. Not only is there no central unit to separate and deposit payments prior to distribution to the

caseworkers, but restrictive endorsements are not being routinely stamped on the checks as recommended in our prior audit report.

A sample test found that 135 out of 189 checks were not restrictively endorsed when opened. We found that 95 of the 135 had already gone through processing by the various caseworkers and were about to be forwarded to the Division of Revenue. Since the access given to these caseworkers allows them to adjust taxpayer accounts, the separation and restrictive endorsement of checks would be an important internal control.

### ***Recommendations***

Based on the number of users involved and the high dollar amount of activity, we recommend a more stringent methodology be developed to monitor transactions. In addition, the following recommendations would improve the division's internal controls.

- An analysis and evaluation of the access provided to users on GENTS should be performed.
- Upper-level management should have inquiry status only and coordinate with designated personnel when an entry to GENTS must be completed.
- The number of computer technical support personnel with the ability to make entries to GENTS should be reduced and independent reviews of the remaining staff should be performed periodically due to the extensive access available to some of them.
- A procedure should be developed to divert checks prior to processing by the caseworker and ensure that these checks are restrictively endorsed.

---

---

*Auditee's Response*

The agency responded that:

- The Division will review user access for GENTS and reduce access where it will not adversely affect productivity.
- The Division will remove GENTS adjustment ability from most senior managers.
- The access granted to each type of employee will be reviewed. Access will be limited in cases where such limitations will not affect operational efficiency.
- Creating a diversion of checks before reaching caseworkers, especially in the Compliance Activity, is not practical at this time. This is especially true due to the non-replacement of support personnel due to budget considerations. However, when practical, clerical personnel will restrictively endorse payments prior to processing by caseworkers. In instances where this is not possible, the caseworkers will be responsible to ensure the payments are restrictively endorsed. To this end, all areas have been supplied with stamps to be used in applying the restrictive endorsement.

