



MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: February 12, 2019

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Rusty Cook, Director of Revenue
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Chris Ensslin, CIA, CFE, CGAP, Deputy Director of Internal Audit
Jim Quinn, CIA, CISA, Internal Auditor

RE: Springbrook Revenue System Audit MAPPR

Background

On November 1, 2017 the Office of Internal Audit issued the Springbrook Revenue System audit report. The 2017 audit report contained findings related to system user permissions being too broad, the need to update the Division of Revenue standard operating procedures, the untimely matching of estimated tax payments to filed tax returns, the Springbrook system report on delinquent tax filers being inaccurate, and some active, tax paying businesses not receiving employee payroll withholding forms due to an incomplete



interface of the Springbrook system with the LFUCG mainframe system. The scope of the audit included transactions occurring January 2016 through March 2017, and a review of unapplied credits through September 11, 2017.

This follow-up review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures. We interviewed staff from the Division of Revenue and obtained other evidence as necessary to complete our follow-up procedures. The period of review was from November, 2017 to November, 2018.

A summary of the findings from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

Finding	Summary of Original Finding	Follow-Up Results
Finding #1 High Priority	System User Permissions Too Broad	The Director of Revenue reviews system user permissions on an annual basis and last performed a review on December 13, 2017. Return Entry group users cannot access the cash receipts menu to post payments. New Accounts group is given permission to enter payments because it would be inefficient to separate the collection and posting of these payments into another Revenue group for data entry. New Accounts users do not prepare deposits or reconcile accounts, provided a sufficient separation of duties. The BT Core user group currently has 17 users for cross-training and back-up purposes. The Director has compared the BT Core user



		Springbrook rights with the duties of those personnel to provide sufficient management oversight, and it is a management decision how much cross-training and back-up is needed within the use of Springbrook. The two Accounting employees mentioned in the original finding have read only access and cannot post payments in Springbrook. The finding is resolved.
Finding #2 High Priority	Division of Revenue SOPs Need To Be Updated	Revenue's standard SOPs cover a range of topics, and one job aid/SOP could relate to many reasons to perform a task. Ordinances and Regulations also serve as SOPs for Revenue. Revenue now has 20 Springbrook job aids (essentially Springbrook SOPs) and new ones are added as needed. Taken together, the SOPs appear sufficient. The finding is resolved.
Finding #3 Moderate Priority	Timely Matching of Estimated Payments to Tax Returns Needed in the Springbrook System	The Division of Revenue has a process to regularly review the Unapplied Credits report from the Springbrook system in order to redistribute applicable taxpayer account credits to outstanding taxpayer account balances. The finding is resolved.



<p>Finding #4 Moderate Priority</p>	<p>Springbrook System Report on Delinquent Filers Inaccurate</p>	<p>The Delinquent Filers report is not accurate and it is not being used. Revenue's efforts to use the BT Tax Type Listing Report to identify delinquent filers had not succeeded either. Springbrook Customer Service has not been able to resolve the issues related to those two reports. Revenue performs a manual review for delinquent taxpayers after the April 15th tax payment deadline, and the Revenue Director considers it to be sufficiently effective. Revenue is still working with Springbrook on a method to automate this process in the future. Internal Audit supports the effort to automate this process. Since the inaccurate Delinquent Filers report has been scrapped, and Revenue is performing its own manual review as an alternative solution to identify delinquent filers, the finding is resolved.</p>
<p>Finding #5 Moderate Priority</p>	<p>Some Active Businesses May Not Have Received Employee Withholding Payroll Tax Return Forms Due to Incomplete Interface</p>	<p>In January 2018, the Division of Revenue was able to print all employee withholding payroll tax return forms directly from the Springbrook System without the need for an interface with the LFUCG mainframe system. It is no longer necessary for Revenue to reconcile the mainframe active business list to the Springbrook active business list to ensure all active businesses</p>



		<p>are being mailed the appropriate payroll tax forms at the beginning of the calendar year. During the year, Revenue still prints employee withholding tax return forms for new businesses via the mainframe because the current Revenue printers do not correctly process print commands for those forms when received from Springbrook. Revenue hopes to upgrade soon to a printer that will process those commands directly from Springbrook. This issue is inconsequential to the resolution of the original finding. The finding is resolved.</p>
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ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Original Finding #1: System User Permissions Too Broad Priority Rating: High

Condition:

The information security principle of least privilege indicates that user accounts should be given access or privileges only to those areas of the system necessary to perform their duties. The SB System has many user groups, each with defined and distinct user permissions and privileges. Some user groups include Compliance, New Accounts, and Return Entry. It appears the Division of Revenue tried to set up these user groups along department organizational lines with the intent of providing some segregation of duties control.

However, user permissions given to these particular groups provide access to more system functionality than it appears is needed in order to perform their various duties. For example, New Accounts and Return Entry user groups have been given access to



enter cash receipts and payments in addition to their regular duties of entering new business account information and tax returns, thereby creating a segregation of duties issue. Users who set up new accounts should not be able to enter payments for those accounts. We also identified two employees from the Division of Accounting who were given access to the SB System when it was first activated, apparently in order to assist with entering payments. These two employees have since moved back to Accounting, but they still have the ability to post payments in the SB System, thereby granting them unnecessary system access. This also presents a segregation of duties issue if their accounting duties include reconciling revenue and cash accounts.

We also noted a system user group named BT Core (Business Tax Core) which Revenue personnel stated was apparently set up to give certain user permissions during the implementation phase of the SB system. A Compliance Supervisor informed us that since the SB system has been live for over two years, this user group's permissions can probably be deleted.

Effect:

System security can be weakened when users are given access to more areas than necessary to perform their job functions. Segregation of duty issues weaken internal controls and increase the risk of asset misappropriation.

Recommendation:

The Division of Revenue should review user permissions and privileges currently set up in the SB System and reassign system access rights to only those functions necessary for the completion of assigned duties.

Director of Revenue Response:

The Division of Revenue concurs that this needs to be reviewed. We have updated access since we went live to get more in line with where we need to be; however, we believe that we are at a point to completely review the security set up to make sure our segregation of duties still fit where we need to be. There is no reason to believe that our setup represents unnecessary system access, but a full review with the supervisor of the area will be completed. Any updates and changes needed should be completed by end the first quarter of calendar year 2018.

Commissioner of Finance & Administration Response:

I concur with the Director.



Follow-Up Detail Results:

The Director of Revenue reviews system user permissions on an annual basis and last performed a review on December 13, 2017. The Director of Revenue stated that a Return Entry group user cannot access the cash receipts menu to post payments, and a review of the Return Entry user test account verified this statement. The Director of Revenue stated that the New Accounts group is given permission to enter payments because new business fee payments are received when new accounts are established and it would be inefficient to separate the collection and posting of these payments into another Revenue group for data entry. The Director stated that New Accounts users are not involved in preparing deposits or reconciling accounts, thereby provided a sufficient separation of duties.

We noted that the BT Core user group still exists and currently has 17 users. The Director of Revenue explained that the BT Core users exist for cross-training and back-up purposes, and at some point in the future he plans to reduce or eliminate this group. Since the Director has compared the BT Core user Springbrook rights with the duties of those personnel, there appears to be sufficient management oversight of the BT Core group and their duties. It is a management decision how much cross-training and back-up is needed within the use of Springbrook.

We confirmed that the two Accounting employees mentioned in the original finding who had been given temporary access to post payments in the Springbrook system cannot post payments. They have read only access to run queries and reports to perform bank reconciliations.

The finding is resolved.

Original Finding #2: Division of Revenue SOPs Need To Be Updated
Priority Rating: High**Condition:**

The Division of Revenue has extensive standard operating procedures (SOPs) regarding operational and cash handling procedures; however, those procedures have not been updated to reflect changes resulting from the implementation of the SB System. Job aids prepared for the SB System are being used to train staff, but do not cover all functional areas of Revenue where the SB System is used and do not adequately address



needed internal controls such as proper authorization and recording of transactions within the SB System.

Effect:

Up to date SOPs provide guidance and training for staff and establish performance expectations on the part of management. With the establishment and enforcement of updated SOPs, the Division of Revenue will enhance its ability to ensure tax revenue received is correctly processed in the SB System.

Recommendation:

The Division of Revenue should review their current SOPs and update them where necessary to reflect the use of the SB System and ensure correct procedures exist for authorizing, recording, and reporting transactions on this system. These procedures and policies should be accessible to all Revenue employees and should be consistently enforced by Revenue management.

Director of Revenue Response:

The Division of Revenue created new Job Aids when it went live with the new Springbrook system. These job aids are used throughout the Compliance team; however, in some cases they have not been merged with SOPs. The Division concurs that the SOPs should be updated to reflect the SB System. This cleanup will be completed by end of Q3 in calendar year 2018. The process will begin earlier; however, if all SOPs aren't not updated by April 1st they will be completed by end of Q3 in calendar year 2018. The staff will have to pause updating them in April for the busy tax season.

Commissioner of Finance & Administration Response:

I concur with the Director.

Follow-Up Detail Results:

A review of Revenue's standard SOPs noted they cover a range of topics, from processing mail to walk-in payments to Domestic Relations payments to CAO Policy 40 (Cash Handling Procedures). As the Revenue Director noted during our fieldwork, Revenue also performs tasks in LEXServ, the Revenue Collections Counter, etc., and one job aid/SOP could relate to many reasons to perform a task. Ordinances and Regulations also serve as SOPs for Revenue. We noted that Revenue now has 20 Springbrook job aids (essentially Springbrook SOPs) and new



ones are added as needed. Taken together, the SOPs appear sufficient. The finding is resolved.

Original Finding #3: Timely Matching of Estimated Payments to Tax Returns Needed in the Springbrook System

Priority Rating: Moderate

Condition:

We reviewed a number of different reports produced by the SB System. As of September 12, 2017, an unapplied credits report identified numerous taxpayer accounts having both unapplied credits and outstanding balances. The grand total of unapplied credits for all taxpayer accounts on this report was \$40,078,697. 2,534 taxpayer accounts had unapplied account credits equal to or over \$1,000, with an average value of \$15,241. This same report also indicated outstanding balances (amounts due from businesses) for net profit and payroll accounts totaling \$8,852,223. 686 taxpayer accounts had outstanding balances over \$1,000, with an average value of \$11,763. 245 of these accounts with outstanding balances over \$1000 (or 35.7% of the total number of such accounts) also had unapplied taxpayer account credits. We also ran a Springbrook Outstanding Balances Report as of September 12, 2017 which indicates a significant amount of the outstanding balances for tax years 2015, 2014, and earlier years.

The Director of Revenue explained that the majority of unapplied taxpayer account credits are estimated net profit payments made by businesses, which must make quarterly payments equaling their estimated year-end tax amount due (which is then reconciled against the actual year-end net profit return when it is filed). He also stated that businesses will sometimes tell Revenue to hold any credit balances against future taxes due, but if a business asks for a refund, Revenue performs a full audit to make sure the business is due the refund. The Director of Revenue examined some of the unapplied taxpayer account credits and stated that the majority are estimated net profit payments. He stated that significant outstanding balances typically occur when a business files a return but does not include payment, or when a tax return is posted in the SB System but is not offset against previously estimated payments.

The Director of Revenue also explained that payments are posted in the General Ledger as debits to Cash and credits to Revenue when payments are actually received, but that the SB System does not serve as a traditional Accounts Receivable system. That is,



outstanding account balances are tracked for tax payment amounts due in the SB System but do not post as a Receivable in the General ledger. The only postings to the General Ledger are for payments actually received, as noted above.

Effect:

While the explanations provided by the Director of Revenue are reasonable, the sheer volume of taxpayer accounts with both unapplied credits and outstanding balances indicate there is an opportunity for a more timely reconciliation of estimated payments to tax returns in order to clean up this report and make it a useful tool for monitoring taxpayer account activity.

Recommendation:

A process should be developed whereby Revenue staff systematically offset estimated payments against any tax returns posted in the SB system. This will make the report more useful to management as a tool to monitor taxpayer accounts for genuine unpaid or underpaid balances, and improve the selection of accounts for tax audits.

Director of Revenue Response:

At any time throughout the year there could/will be a significant amount of credits on an open credit report in Springbrook. This is due to a large volume of estimated payments made throughout the year by taxpayers for net profit taxes. When a return is filed, Revenue staff has to go back and redistribute open credits to offset the open return balance. The Revenue staff will go through retraining by March 31st in preparation of the busy season when returns are filed to match up against credits to remind the staff to complete the return process.

Commissioner of Finance & Administration Response:

I concur with the Director.

Follow-Up Detail Results:

The Division of Revenue has instituted a process to regularly review and use the Unapplied Credits report from the Springbrook system in order to redistribute applicable taxpayer account credits to outstanding taxpayer account balances. We examined work papers used by Revenue staff to document this process. The finding is resolved.



Original Finding #4: Springbrook System Report on Delinquent Filers
Inaccurate
Priority Rating: Moderate

Condition:

We examined a system report entitled Delinquent Filers which can be used to identify business taxpayer accounts which have not filed taxes for a specified tax type (i.e., net profit or payroll) within a specified date range. The report indicated a range of 27.7% to 45.5% of business taxpayers were delinquent during the months of July 2016 through December 2016, a very significant percentage. We investigated this further with the Director of Revenue and determined the report to be inaccurate due to its inclusion of:

- Numerous business accounts that were not created until well after the tax period used for the report
- Business accounts known by Revenue to be closed
- Business accounts not required to make payments for the specified tax type
- A business taxpayer account found to be making timely payments

While the Delinquent Filers report had a number of inaccuracies, it appears that many can be attributed to the way these accounts were initially set up in the system, how the accounts were classified in the system (i.e. tax type), and whether account statuses (active, closed, inactive) were correct. For example, the report included taxpayer accounts not created until well after the report's date range because if accounts are not initially set up with a defined activity range, the SB System is apparently programmed to assume that a business was active in all past periods. Closed businesses were included in the report because their account status was still "active" and had not been changed to "inactive" or "closed". Business accounts not required to make payments for the specified tax type were included because they were initially set up with an inaccurate tax type.

Effect:

In our opinion, this report can be a useful tool for monitoring delinquent accounts if its inaccuracies are corrected. It appears that most of the inaccuracies in this report can be traced to user input errors and the failure to maintain up to date information on business accounts.



Recommendation:

The Division of Revenue should consider assigning a member of its staff to review all current taxpayer accounts in the SB System to ensure that the account information is correct and up to date. Staff training should also be provided to ensure new accounts are correctly set up and classified. Once these steps are implemented, the Delinquent Filers report should be a useful tool that will enhance Revenue's tax compliance and collections effort.

Director of Revenue Response:

As mentioned, the report is inaccurate and unable to be used. A request will be made to Accela in Q4 of calendar year 2017 for a functional report. In the interim, the Revenue staff will continue manual review of their assigned accounts to monitor for delinquent filers.

Commissioner of Finance & Administration Response:

I concur with the Director.

Follow-Up Detail Results:

The Director of Revenue confirmed that the Delinquent Filers report is not accurate, and attempts by Springbrook to make it so have failed. The report therefore should not be used by Revenue management, and it is not being used. We also confirmed that Revenue's efforts to use the BT Tax Type Listing Report to identify delinquent filers had not succeeded either, because of report errors that Springbrook Customer Service has not been able to resolve. The Director of Revenue stated that for now, Revenue must perform a manual review for delinquent taxpayers. He said this review takes place after the April 15th tax payment deadline after taking into account any Extensions that were filed. The Director of Revenue considers this manual process to be sufficiently effective. He is still working with Springbrook on a method to automate this process in the future. Internal Audit supports the effort to automate this process. Since the finding was about the inaccuracy of the Delinquent Filers report and that report has been scrapped, and since Revenue is performing a manual review as an alternative solution to identify delinquent filers, the finding is resolved.



Original Finding #5: Some Active Businesses May Not Have Received Employee Withholding Payroll Tax Return Forms Due to Incomplete Interface
Priority Rating: Moderate

Condition:

LFUCG mails employee withholding payroll tax return forms to all active businesses at the beginning of the calendar year. These forms are to be completed by those businesses and sent in with their payroll tax payments throughout the year. These particular forms are scannable for processing purposes, and businesses are instructed to use only these forms to report payroll taxes paid. The Division of Revenue webpage indicates that failure to use these original forms may delay processing, and if the forms are lost or damaged businesses are instructed to call the Division of Revenue for replacement.

The list of active businesses and their addresses is maintained on the SB System. The LFUCG mainframe interfaces with the SB System to obtain the active business addresses and prints out these forms to be mailed to all active businesses. Our comparison of the January 2017 mainframe list (from which the forms would be printed) to the SB System list noted 13,103 active businesses listed in the mainframe system and 14,353 active businesses listed in the SB System, indicating 1,250 active businesses (8.7%) may not have been mailed payroll tax return forms.

Effect:

By not receiving these tax forms at the beginning of the year, the tax payment process for these businesses is affected. Use of these forms also facilitates the processing of payments in the Division of Revenue, and therefore the efficiency of this process may also be affected.

Recommendation:

Division of Revenue personnel informed us during fieldwork that they are working towards the goal of printing these forms directly from the SB System in order to eliminate the need for the interface with the mainframe system. Until that is accomplished, the Division of Revenue should reconcile the mainframe active business list to the SB System active business list to ensure that all active businesses are being mailed the appropriate payroll tax forms.



Director of Revenue Response:

The Division of Revenue concurs that returns should be printed from Springbrook instead of the mainframe system. The Division will be testing the Springbrook solution during this tax system for potential implementation in calendar year 2019.

Commissioner of Finance & Administration Response:

I concur with the Director.

Follow-Up Detail Results:

In January 2018, the Division of Revenue was able to print all employee withholding payroll tax return forms sent to businesses. The forms were printed directly from the Springbrook System without the need for an interface with the LFUCG mainframe system. We reviewed a file Revenue provided which showed the forms printed for each business. We tested this file for completeness and accuracy and found no exceptions. We also confirmed with Computer Services that these forms were printed directly from the Springbrook system and not from the mainframe system as had been done in previous years. Therefore, it is no longer necessary for Revenue to reconcile the mainframe active business list to the Springbrook active business list to ensure all active businesses are being mailed the appropriate payroll tax forms at the beginning of the calendar year.

The Director of Revenue stated that during the year they still print employee withholding tax return forms for new businesses via the mainframe, because the current Revenue printers do not correctly process the print commands for those forms when received from Springbrook. Revenue hopes to upgrade soon to a printer that will process those commands directly from Springbrook. This issue is inconsequential to the resolution of the original finding. The finding is resolved.

