

STATE OF NORTH CAROLINA
Office of the State Auditor



Ralph Campbell, Jr.
State Auditor

2 S. Salisbury Street, Raleigh, NC
Mailing Address: 20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us/osa>

PRESS RELEASE

For Immediate Release:

October 27, 2000

For additional information contact:

Ralph Campbell, Jr., State Auditor
(919) 807-7500
rcampbel@ncauditor.net

STATE AUDITOR RALPH CAMPBELL RELEASES PERFORMANCE AUDIT ON THE NORTH CAROLINA DEPARTMENT OF REVENUE

The 1999 Session of the General Assembly directed the State Auditor to conduct an audit of the North Carolina Department of Revenue (Department). The major issues the legislation directed the Auditor to examine included the Integrated Tax Administration System (ITAS), other automation projects in the Department, and the Department's overall use of technology to improve services to our citizens. The review also included examining methods used to process tax returns and payments. Because of the specialized nature of the automated systems used by the Department, KPMG LLP was employed by the State Auditor to assist our performance audit and information systems audit staffs in the examination of ITAS and the other automated systems at the Department of Revenue. KPMG's findings and recommendations are included as part of this report.

State Auditor Ralph Campbell stated, "Performance audits are designed to identify improvements that could result in more effective operations. To this end, we believe that the Department has opportunities in several areas to further improve operations through the use of increased automation. One significant recommendation is that the North Carolina Department of Revenue should set a goal of a seven-day turnaround for processing individual income tax refunds for taxpayers who file electronically and choose the direct deposit option. This goal is clearly within the Department's reach if the General Assembly approves funds for the Department to implement a direct deposit option to taxpayers' bank accounts. Our analysis shows that this change alone would save the State approximately \$2.2 million per year if just 60% of taxpayers elected to use this option. It would also mean that a significant sum would be returned to individual taxpayers sooner, both to their benefit and to the economy of North Carolina. For the 1999 tax year, over 2.4 million individual tax refunds were distributed totaling over \$1.1 billion. Obviously, the more taxpayers using this option, the more the savings to the State and the greater the economic impact overall.

"Perhaps more important than the savings to the State," Auditor Campbell said, "is that this change would allow the Department to get refunds back to taxpayers in a more timely manner. Our examination of the issues surrounding the tax refund problems from the 1999 tax season showed that a number of events caused delays. First, the number of returns that the Department handles has grown dramatically as North Carolina's population has increased. The second major event that occurred this year was the deployment of the Data Capture system that allows the Department to digitally scan tax returns. This allows ITAS to detect more



errors than had been the case in the past. These errors had to be manually researched and resolved before the refund could be processed. Lastly, because North Carolina has not offered a direct deposit option, a check for each refund had to be produced, processed, and mailed. This step alone adds six to eight days to the time required for the taxpayer to receive a refund.”

Auditor Campbell continued, “Our review of the Department’s overall operations showed that it is operating as effectively as it can with the current levels of staff and automation. In our opinion, there are still considerable opportunities for the Department to increase tax revenues for the State. However, to increase revenues the Department will need additional resources, both in personnel and in technology. We found that currently Department management is forced to shift permanent employees from their main functions to assist in the processing of the influx of individual tax returns each year. This practice has resulted in significant backlogs of work in a number of areas such as working accounts receivables, Revenue Agent Reports (notices from the IRS of a change on a federal tax return that would likely change the State tax return), and bankruptcy cases. We estimate that given adequate staff to focus on these functions to eliminate the existing backlogs, the Department could increase the State’s tax revenues by almost \$72 million dollars.

“A major recommendation from the report is the need to establish a centralized taxpayer telephone assistance center with toll-free numbers for use by citizens. Currently, the main telephone line for taxpayer assistance can only handle three calls at the same time, with two additional calls waiting. To create an effective call center using automated and interactive telephone devices, the Department would require adequate funding for automated equipment and programs. This would allow the Department to offer access to both a voice response option, as well as live assistance,” State Auditor Campbell said. “The recent reorganization undertaken by the Secretary would facilitate the creation of such a call center.”

Auditor Campbell noted, “Another recommendation describes the need to process amended returns in a more timely manner. This is one of the areas where staff is shifted to help with processing of individual tax returns, thus creating a backlog of amended returns. Additionally, the Department needs to develop a specific form for amended sales and use tax returns. The report also identified a number of other areas where improvements can be made in the processing of other types of returns. Based on our review, we believe the Department could justify 74 additional positions to improve effectiveness and efficiency as identified in the report. The estimated total cost (including benefits) of these positions would be \$4.4 million.”

“The North Carolina Department of Revenue provides a critical service to our citizens and to our State government. The Secretary and her staff have made strides in greatly improving that service and should be recognized for those efforts. North Carolina’s Department of Revenue is a leader in many aspects of tax collection and processing. I want to commend Secretary Offerman and her staff for the many innovations they have put in place to better perform the tax administration function for the State,” Auditor Campbell noted.

“The Department has, however, a number of unique opportunities to vastly improve its image with our citizens, its services to our citizens, and revenue generation for the State. The General Assembly has an important role to play in the continued improvement of the North Carolina Department of Revenue by prioritizing new technological initiatives and providing the needed funds for increased personnel and automation. The Secretary has reviewed the draft report and is in agreement with many of the recommendations contained therein. In fact, the Secretary and her staff initiated a number of the recommended changes as the audit progressed,” Auditor Campbell concluded.

Copies of this performance report, including the response from the Secretary of the Department of Revenue, are available by contacting the Office of the State Auditor at the address above or by electronic mail (**reports@ncauditor.net**). The full report is available on the OSA Internet home page, **<http://www.osa.state.nc.us>**, under the section, "What's New?" Click on the heading "Audits" to view the report.

#####

An Equal Opportunity/Affirmative Action Employer

