

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

DEPARTMENT OF REVENUE

Taxpayer Refunds and
Selected Administrative Activities



Sherrill F. Norman, CPA
Auditor General

Executive Director of the Department of Revenue

The Department of Revenue is established by Section 20.21, Florida Statutes. The head of the Department is the Governor and the Cabinet. Pursuant to Section 20.05(1)(g), Florida Statutes, the Governor and Cabinet are responsible for appointing the Executive Director of the Department. During the period of our audit, the following individuals served as Executive Director:

Leon Biegalski From April 1, 2016
Marshall Stranburg Through April 1, 2016

The team leader was Barry Bell, CPA, and the audit was supervised by Kathryn Walker, CPA.

Please address inquiries regarding this report to Kathryn Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 412-2781.

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DEPARTMENT OF REVENUE

Taxpayer Refunds and Selected Administrative Activities

SUMMARY

This operational audit of the Department of Revenue (Department) focused on the administration of taxpayer refunds and selected administrative activities. Our audit disclosed the following:

Taxpayer Refunds

Finding 1: Department controls for timely and appropriately processing taxpayer refunds need enhancement.

Selected Administrative Activities

Finding 2: The Department did not always timely cancel purchasing cards upon a cardholder's separation from Department employment.

Finding 3: The Department did not always comply with the requirements of State law regarding public deposits.

BACKGROUND

The three primary functions of the Department of Revenue (Department) are to collect and distribute various State taxes and fees, oversee the State's property tax system, and provide child support enforcement services. To perform these functions, the Legislature appropriated over \$575 million to the Department for the 2015-16 fiscal year and funded 5,133 positions.¹

FINDINGS AND RECOMMENDATIONS

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| TAXPAYER REFUNDS |
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The Department's General Tax Administration (GTA) program is responsible for collecting and distributing State revenues accurately and efficiently. According to Department records, the Department is responsible for administering 34 taxes and fees, including the State's sales and use tax, corporate income tax, motor fuel tax, and insurance premium tax. The GTA program provides taxpayer assistance through a call center, service centers, and the Department's Web site, and uses collections, audits, dispute resolutions, and investigations to bring taxpayers into compliance with State law.

The GTA program is also responsible for identifying, calculating, and distributing taxpayer refunds, which may originate from taxpayers filing returns that show that the taxpayers overpaid taxes and are due refunds. The Department may also initiate refunds when the Department finds taxpayer errors and taxpayers may request refunds pertaining to previously filed tax returns by submitting to the Department the appropriate refund application and supporting documentation. Taxpayers can request refunds by

¹ Chapter 2015-232, Laws of Florida.

mail or online through the Department's eRefunds application and the Department utilizes the Refund Case Management module of the Department's System for Unified Taxation (SUNTAX) to process taxpayer refunds. Department records indicated that, during the period July 2014 through February 2016, the Department paid over \$918 million via direct payments, including over \$3 million in interest, to taxpayers for refunds. During that same period, the Department also applied refunds of over \$24 million to taxpayer accounts to reduce future tax liabilities (refund offsets).

Finding 1: Administration of Taxpayer Refunds

State law² and Department rules³ specify that, within 30 days of receiving a refund application, the Department is to examine the application and notify the applicant of any apparent errors or omissions and request any additional information the Department is permitted by law to require. A refund application is considered complete upon the receipt of all requested information and the correction of any error or omission for which the applicant was timely notified, or when the time for such notification has expired, whichever is later.

Pursuant to State law,⁴ interest is not to accrue on a tax overpayment until 90 days after a complete refund application has been filed and the overpayment has not been refunded to the taxpayer or applied as a credit to the taxpayer's account. However, for the corporate income tax, State law⁵ requires overpayments to be refunded within 3 months of the date the applicant filed written notice advising the Department of the overpayment. After 90 days, interest is to be accrued and paid based on the date the applicant filed written notice of the overpayment to the Department.

Department procedures specified that, within 30 days of receiving a refund application, the Department was to review the application's supporting documentation and determine whether the application was complete. If the Department determined that the application was not complete, additional documentation was needed to support the claim, or the Department did not have the statutory authority to approve all or part of the claim, the Department was to notify the applicant in writing. The Department utilized interest keys⁶ to help ensure that, for refunds that were not timely paid, interest was calculated correctly.

As part of our audit, we evaluated the Department's administration of taxpayer refunds and found that the Department did not always timely examine refund applications, timely notify applicants of incomplete applications, timely apply refund offsets, or correctly calculate and pay interest on refunds. Specifically:

- Our test of 25 refund applications, totaling \$17,882,121, approved by the Department during the period July 2014 through February 2016 disclosed that:
 - For a \$10,000 corporate income tax refund, the Department notified the applicant 53 days late that the application was incomplete. Consequently, the Department paid the refund, plus interest totaling \$353, 184 days late.⁷ We also noted that, when paying the interest, the

² Section 213.255(3), Florida Statutes.

³ Department Rule 12-26.003(4), Florida Administrative Code.

⁴ Section 213.255(4), Florida Statutes.

⁵ Section 220.723, Florida Statutes.

⁶ SUNTAX is pre-programmed with an interest key for each tax type and the interest keys control the date on which interest is to begin to accrue. For manual refund postings, the interest key is manually entered by the Department.

⁷ For audit purposes, we considered refunds to be timely paid if they were paid prior to the date interest would begin to accrue.

Department utilized an incorrect interest key which resulted in a \$173 underpayment of interest to the taxpayer.

- The Department did not begin examining an application for a \$275 corporate income tax refund until more than 6 months after receiving the application. The Department subsequently credited the refund amount, plus interest totaling \$20, to the taxpayer's account to offset other amounts owed to the Department by the taxpayer. However, the Department applied this offset 297 days late.

In response to our audit inquiry, Department management indicated that staff turnover, the corporate tax busy season, and errors in submitted tax returns contributed to examination and notification delays and the untimely refunding of tax overpayments.

- Our test of 30 refund offsets, totaling \$11,987,076, applied to taxpayer accounts to reduce existing liabilities during the period July 2014 through February 2016 disclosed that:
 - For 3 corporate tax income tax refunds totaling \$5,111, \$10,258, and \$140,173, which included refund offsets totaling \$15, \$23, and \$140,173, respectively, the Department notified the applicants that their applications were incomplete 30 to 36 days (an average of 33 days) late. As a result, the Department applied the refund offsets to the taxpayers' accounts 10 to 77 days (an average of 34 days) late and, for 2 of the refunds, paid interest totaling \$370. For the third refund, although required, as of October 27, 2016, the Department had not paid the taxpayer the interest due, totaling \$2,688, or otherwise utilized the interest to offset any additional tax liabilities.
 - For a \$262 corporate income tax refund that included a \$37 refund offset, the Department incorrectly calculated and paid interest to the taxpayer when no interest was due, resulting in an overpayment of interest to the taxpayer totaling \$97.

In response to our audit inquiry, Department management indicated that the corporate tax busy season and staff workload contributed to the notification delays and the untimely application of refund offsets to taxpayer accounts. In addition, Department management indicated that the \$97 overpayment of interest resulted from an interest lock not being placed in SUNTAX to prevent the calculation and payment of interest.

- Our test of 51 refund payments, totaling \$88,646,410, made to taxpayers during the period July 2014 through February 2016 disclosed that:
 - For 6 refund payments (3 corporate tax, 2 sales and use tax, and 1 estate tax), totaling \$2,711,548, the Department paid the refund from 9 to 597 days (an average of 266 days) late. As a result, the Department paid interest totaling \$25,653 on these 6 refunds. In addition, for 1 of the corporate tax refunds totaling \$1,634, the Department utilized an incorrect interest key, resulting in a \$13 interest overpayment to the taxpayer.
 - For a \$2,888 sales and use tax refund and a \$141 corporate income tax refund, the Department notified the applicants 26 and 41 days late, respectively, that the applications were incomplete. As a result, the Department paid the refund, plus interest totaling \$2, to one applicant 2 days late.
 - The Department incorrectly accrued interest for a \$14,858 sales and use tax refund resulting in an \$85 overpayment. In this instance, contrary to State law, the Department began accruing interest the 91st day after the date the application was received and did not consider the 30 days provided for the Department to determine whether the application was complete.

In response to our audit inquiry, Department management indicated that the corporate tax busy season, staffing issues, and delays in creating refund cases and in processing submitted tax returns contributed to the untimely refunding of tax overpayments.

- Our test of 25 taxpayer refund applications, totaling \$182,765, denied by the Department during the period July 2014 through February 2016 disclosed that, for 8 denied refund applications, totaling \$22,160, the Department notified the applicant that their application was incomplete from 1 to 544 days (an average of 156 days) late. Although the refund applications were denied and the Department did not pay out refunds, the risk that the Department could incur, and be liable to the taxpayer for, interest on requested refund amounts that are subsequently approved is increased when the Department does not timely notify applicants of errors or omissions and request additional information. In response to our audit inquiry, Department management indicated that staff turnover was a factor in the notification delays.

Recommendation: We recommend that Department management ensure that refund applications are timely examined, applicants are timely notified of any apparent application errors or omissions, and overpayments of tax are timely refunded. Additionally, we recommend that Department management ensure interest due on tax overpayments is calculated and paid in accordance with State law.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected Department administrative activities and controls, including those related to purchasing cards and public deposits.

Finding 2: Purchasing Card Cancellations

As a participant in the State's purchasing card program, the Department is responsible for implementing key controls, including procedures for the timely cancellation of purchasing cards upon a cardholder's separation from Department employment. Department policies and procedures specified that, immediately upon notification of an employee's separation from Department employment, the Department's Purchasing Card Administrator (PCA) was to cancel an employee's purchasing card. In response to our audit inquiry, Department management indicated that, when an employee separated from Department employment, the employee's supervisor was to complete a form located on the Department's intranet requesting that the employee's network access privileges be deactivated. The form was to include the employee's separation date and, upon submission of the form, an information security e-mail containing the employee's separation date was to be sent to all Department security administration groups, including Department purchasing card program staff within the Office of Financial Management (OFM). OFM staff were to forward the e-mail to the applicable Program Purchasing Card Administrator (PPCA) for approval to cancel the employee's purchasing card and upon approval, the PCA was to cancel the employee's purchasing card.

Our audit procedures included comparing Department employee separation dates recorded in People First, the State's human resource information system, to purchasing card cancellation dates recorded in Florida Accounting Information Resource Subsystem purchasing card records. We identified 344 cardholders who separated from Department employment during the period July 1, 2014, through February 17, 2016, and noted that 92 of the employees' purchasing cards had not been timely canceled. Specifically, we found that the former employees' purchasing cards were canceled from 2 to 55 business days (an average of 10 business days) after the employees' separation dates. In response to our audit inquiry, Department management indicated that the delays in canceling purchasing cards were due to

staff turnover, staff absences, and staff oversight, as well as delays associated with the PPCA approval process.

Although our audit tests did not disclose any charges incurred subsequent to the 92 cardholders' separation from Department employment, timely cancellation of purchasing cards upon a cardholder's separation from Department employment reduces the risk that unauthorized purchases will be made.

Recommendation: We recommend that Department management promptly cancel purchasing cards upon a cardholder's separation from Department employment.

Finding 3: Public Deposits

State law⁸ requires all public deposits to be made in a qualified public depository (QPD)⁹ unless exempted by law. State law¹⁰ specifies that all public deposits are considered secured and protected from loss when public depositors (e.g., the Department) comply with the requirements of Chapter 280, Florida Statutes.

Pursuant to State law,¹¹ each public depositor is to confirm annually that public deposit information as of September 30th has been provided by each QPD and is in agreement with public depositor records. Additionally, each public depositor is to submit to the State Chief Financial Officer an annual report by November 30th. The annual report is to include, among other things, public deposit information, verification that the public depositor confirmed the public deposit information as of September 30th, and confirmation that a current public deposit identification and acknowledgment form had been completed for each public deposit account and was in the possession of the public depositor.

As of September 30, 2015, the Department had public deposit accounts with two public depositories. Our examination of Department records disclosed that, for one of the public depositories, due to staff oversight, the Department had neither confirmed public deposit information as of September 30, 2015, nor included the depository's accounts in the Department's 2015 annual report to the State Chief Financial Officer. The Department's cumulative account balance with this depository totaled \$46.2 million on September 30, 2015.

Absent compliance with the requirements of State law regarding each public deposit account, the protection from loss provided in State law to the Department is not effective as to that public deposit account.

Recommendation: We recommend that Department management take steps to ensure compliance with the public deposits requirements in State law.

⁸ Section 280.03(1)(b), Florida Statutes.

⁹ A qualified public depository (QPD) means any bank, savings bank, or savings association that meets the requirements of Chapter 280, Florida Statutes, and has been designated by the State's Chief Financial Officer as a QPD.

¹⁰ Sections 280.03(1)(a) and 280.18(1), Florida Statutes.

¹¹ Section 280.17(5), Florida Statutes.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2016 through October 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of the Department of Revenue (Department) focused on the administration of taxpayer refunds, county contributions to the Medicaid program, and selected administrative activities. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, Department policies and procedures, and other guidelines to gain an understanding of taxpayer refund processes.
- Obtained an understanding of internal controls and evaluated the effectiveness of key processes, policies, and procedures related to taxpayer refunds.
- Obtained an understanding of information technology (IT) controls for the Refund Case Management (RCM) module of the System for Unified Taxation (SUNTAX), assessed the risks related to those controls, evaluated whether selected general IT controls were in place, and tested the effectiveness of the controls.
- From the population of 29,546 taxpayer refund applications, totaling \$725,075,118, approved by the Department during the period July 2014 through February 2016, examined Department records for 25 approved taxpayer refund applications, totaling \$17,882,121, to determine whether the Department appropriately and timely approved the application and paid the refund in a timely manner.
- From the population of 5,619 applications for taxpayer refunds, totaling \$211,701,482, denied by the Department during the period July 2014 through February 2016, examined Department records for 25 denied applications for taxpayer refunds, totaling \$182,765, to determine whether the Department timely processed and appropriately denied the application.
- From the population of 220,036 refund payments, totaling \$918,712,578, made to taxpayers during the period July 2014 through February 2016, examined Department records for 51 taxpayer refund payments, totaling \$88,646,410, to determine whether the refunds were properly reviewed and approved and the payments were accurately and timely processed.
- From the population of 30,893 taxpayer refund offsets, totaling \$24,936,796, that were applied to taxpayer accounts during the period July 2014 through February 2016, examined Department records for 30 taxpayer refund offsets, totaling \$11,987,076, to determine whether the offsets were made timely, in the correct amounts, and only to eligible taxpayers.
- From the population of 65 Department employees with update access to the RCM module of SUNTAX as of May 18, 2016, examined Department records for 7 selected employees to determine whether controls over the employees' assigned access privileges, job functions, and administrative authority were adequately designed and implemented.
- From the population of nine program modifications made to the RCM module of SUNTAX during the period July 2014 through February 2016, examined Department records for two program modifications to determine whether Department controls for testing, production, and acceptance of program modifications were appropriate and provided for an appropriate separation of duties.
- Analyzed Department records for the 29,546 taxpayer refund applications that were approved by the Department during the period July 2014 through February 2016 to determine whether there was no indication of duplicate records, the approved refund application amounts appeared consistent across the same taxpayer, approved refund application amounts did not appear

unreasonable, and multiple refund applications were not approved for the taxpayer on the same day.

- Analyzed tax refund payment data from the RCM module of SUNTAX and the Florida Accounting Information Resource Subsystem (FLAIR) for the \$918,712,578 in taxpayer refunds paid during the period July 2014 through February 2016 to determine whether monthly fluctuations in taxpayer refunds paid appeared reasonable.
- Reviewed applicable laws and Department policies and procedures to gain an understanding of county contributions to the Medicaid program.
- Obtained an understanding of internal controls and evaluated the effectiveness of key processes, policies, and procedures related to county contributions to the Medicaid program.
- From the population of 1,340 monthly county contributions to the Medicaid program, totaling \$464,213,850, that were due to the Department during the period July 2014 through February 2016, examined Department records for 40 contributions, totaling \$42,448,816, to determine whether the Department collected the required contribution amount and accurately recorded remittances of county contributions to the Medicaid program in Department accounting records. In addition, if a county did not remit a Medicaid contribution payment by the required due date, examined Department records to determine whether the Department reduced the county's monthly distribution as required by Section 409.915(4), Florida Statutes.
- From the population of 67 annual county contribution to Medicaid program notifications that the Department was required to send to counties during both the 2014-15 and 2015-16 fiscal years, examined Department records for 7 notifications from each fiscal year to determine whether the Department timely notified counties of their required annual contribution to the Medicaid program and communicated to the counties the correct amount of the required annual contribution.
- From the population of 40 monthly reconciliations (20 SUNTAX to FLAIR reconciliations and 20 reconciliations of FLAIR to amounts due to the Medicaid program from counties) that were to be performed by the Department during the period July 2014 through February 2016, examined Department records for 4 reconciliations (2 SUNTAX to FLAIR reconciliations and 2 reconciliations of FLAIR to amounts due to the Medicaid program from counties) to determine whether the Department timely completed the reconciliations pursuant to Department procedures, appropriately resolved reconciling items, and updated Department records, as applicable.
- Performed inquiries of Department staff and analyzed SUNTAX and FLAIR records to determine whether county contributions to the Medicaid program during the 2013-14 through 2015-16 fiscal years materially agreed to the total county contributions owed to the Department for the Medicaid program as calculated by the Agency for Health Care Administration.
- Observed, documented, and evaluated the effectiveness of selected Department processes and procedures for:
 - Budgetary, cash management, cash receipt, and revenue activities.
 - The administration of purchasing cards in accordance with applicable guidelines. As of February 17, 2016, the Department had 1,088 active purchasing cards.
 - The administration of Department travel in accordance with State law and other applicable guidelines. During the period July 2014 through June 2015, Department travel expenditures totaled \$3,006,283.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



FLORIDA

Executive Director
Leon M. Biegalski

Child Support
Ann Coffin
Director

General Tax Administration
Maria Johnson
Director

Property Tax Oversight
Dr. Maurice Gogarty
Director

Information Services
Damu Kuttikrishnan
Director

March 10, 2017

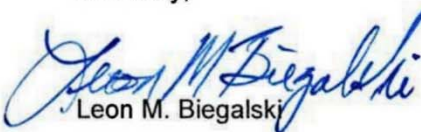
Ms. Sherrill F. Norman, CPA
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G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

As required by section 11.45(4)(d), Florida Statutes, attached is the Department's response to the preliminary and tentative findings and recommendations related to your audit of the Department of Revenue, Taxpayer Refunds and Selected Administrative Activities.

We appreciate the professionalism displayed by your audit staff. If you have questions or need additional information, please contact Marie Walker, Director of Auditing, at 717-7598.

Sincerely,



Leon M. Biegalski

LB/mw

Attachment

cc: Sharon Doredant, Inspector General
Angela Welch, Deputy Inspector General
Marie Walker, Director of Auditing

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Response to Preliminary and Tentative Audit Findings
Department of Revenue Operational Audit:
Taxpayer Refunds and Selected Administrative Activities

ADMINISTRATION OF TAXPAYER REFUNDS

Finding 1: Department controls for timely and appropriately processing taxpayer refunds need enhancement.

Recommendation: We recommend that Department management ensure that refund applications are timely examined, applicants are timely notified of any apparent application errors or omissions, and overpayments of tax are timely refunded. Additionally, we recommend that Department management ensure interest due on tax overpayments is calculated and paid in accordance with State law.

Response: A primary goal of the Department's Refunds Process is to provide assurance to the public that state tax dollars being refunded by the Department are properly authorized disbursements. Section 213.255(8), Florida Statutes, states: "Nothing in this section is intended to alter the department's right to audit or verify refund claims either before or after they are paid."

The Department is pleased that no errors were identified regarding erroneous approval of refunds as we have diligently sought to fulfill our delegated fiduciary responsibility of ensuring tax refund claims are valid. During the most recent fiscal year the Department processed 152,000 refunds and incurred interest on approximately 1%. The interest accrual represents less than 0.03% of the total value of refunds processed.

Regarding the calculation of interest, the Department is in agreement with the six items noted. Programming changes have been initiated to default the interest key into the record based on the tax type, rather than having a manual selection of the key. Additionally, the Department will re-address the programming logic for interest accrual so it is expanded beyond the CIT interest provision.

Regarding the interest in those rare instances of refund offset reversals, the Department will ensure that existing procedures are re-emphasized to staff handling those situations as a part of our routine training.

Regarding the timeliness of refund processing, the Department places heightened focus on cycle time with established measures specifically addressing this area of performance. There are two primary performance measures regarding timely processing of refund claims. These measures have been established with an understanding of both the complex nature of refund processing and the impact fluctuating refund volumes have on our ability to process refund claims within the stated time frames.

Due to the combination of staffing, refund volume fluctuations, and emerging tax issues, there may be instances where refund claims are not processed within 90 days and as such, the interest provisions as prescribed in section 213.255 and section 220.726, Florida Statutes, are enacted. However, the Department will continue to make every effort to process the refund claims in a timely manner.

Response to Preliminary and Tentative Audit Findings
Department of Revenue Operational Audit:
Taxpayer Refunds and Selected Administrative Activities

SELECTED ADMINISTRATIVE ACTIVITIES

Finding 2: The Department did not always timely cancel purchasing cards (PCards) upon a cardholder's separation from Department employment.

Recommendation: We recommend that Department management promptly cancel purchasing cards upon a cardholder's separation from Department employment.

Response: We agree that PCards for employees leaving the Department were not always cancelled timely.

We have updated our PCard procedures and communicated to Program PCard Administrators that employees should discontinue use of their PCards two weeks prior to leaving the department or as soon as possible. We will continue to monitor the daily report for PCard holders leaving the agency and will work with the programs to ensure timely cancellation of the PCards. Cards will be terminated no later than the employee's last day of employment, whenever we have advanced notice of their termination. The DOR PCard Administrator Guide will be updated as well to provide direction on this issue.

Finding 3: The Department did not always comply with the requirements of State law regarding public deposits.

Recommendation: We recommend that Department management take steps to ensure compliance with the public deposits requirements in State law.

Response: We agree that the Department's 2015 Public Depositor Annual Report to the Chief Financial Officer was inaccurate.

Wells Fargo was inadvertently left off our 2015 Public Depositor Annual Report to the Chief Financial Officer. However, we did have Public Deposit Identification and Acknowledgment Forms on file for all DOR accounts outside the State Treasury.

Over the past few months, we have worked closely with State Treasury staff to confirm all the reporting requirements for bank accounts outside the State Treasury. We have developed detailed procedures to explain the reporting requirements for bank accounts held outside the State Treasury. Our 2016 Public Depositor Annual Report to the Chief Financial Officer included both banks.