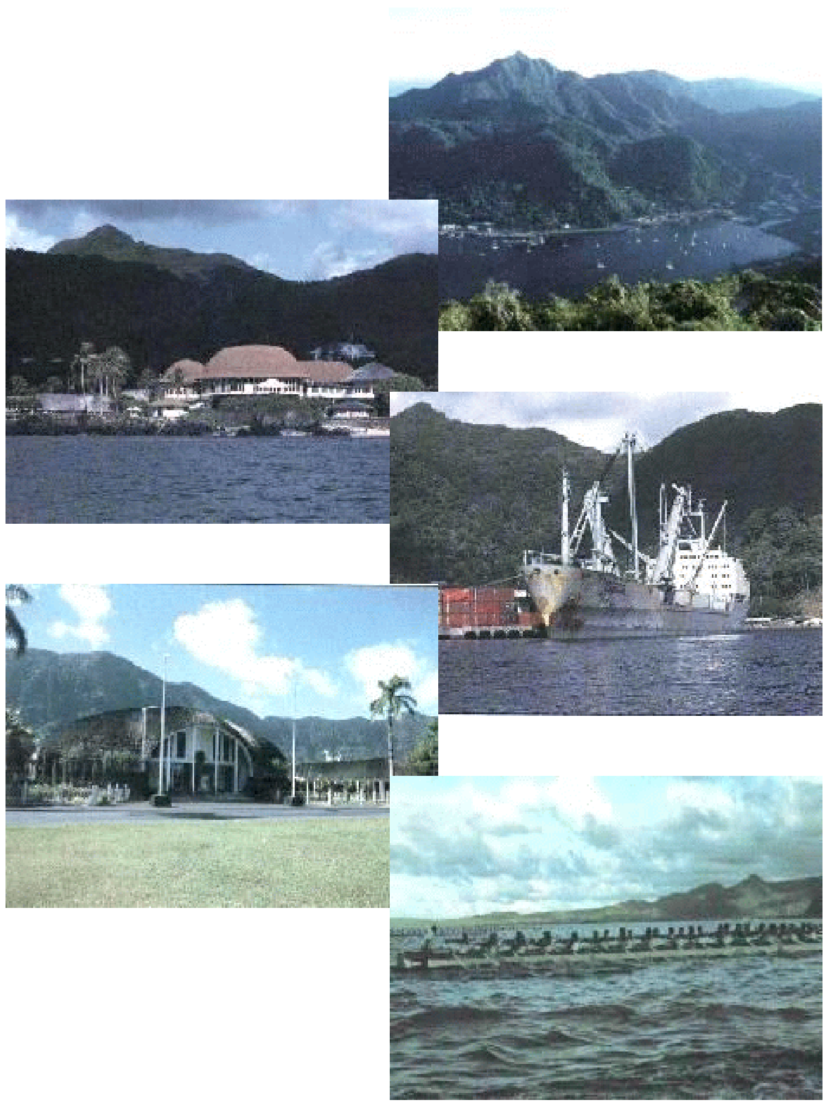
U.S. Department of the Interior
Office of Inspector General

Audit Report

Assessment and Collection of Taxes American Samoa Government



Report No. 2002-I-0003
November 2001

N-IN-AMS-001-00-M

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Pacific Field Office
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Tamuning, Guam 96913

November 15, 2001

Honorable Tauese P.F. Sunia
Governor
American Samoa Government
Pago Pago, American Samoa 96799

Subject: Audit Report on the Assessment and Collection of Taxes, American Samoa Government (No. 2002-I-0003)

Dear Governor Sunia:

This report presents the results of our audit of the assessment and collection of taxes by the American Samoa Government.

Section 5(a) of the Inspector General Act (5 U.S.C. app.3) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Please provide a response to this report by December 17, 2001. The response should provide the information requested in Appendix 3 and should be addressed to our Pacific Field Office, 415 Chalan San Antonio, Baltej Pavilion - Suite 306, Tamuning, Guam 96913.

Sincerely,

Arnold E. van Beverhoudt, Jr.

Arnold E. van Beverhoudt, Jr.
Audit Manager for Insular Areas

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Pacific Field Office
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Tamuning, Guam 96913

November 15, 2001

Memorandum

To: Nikolao Pula - Acting Director, Office of Insular Affairs

Arnold E. van Beverhoudt, Jr.

From: Arnold van Beverhoudt, Jr. - Audit Manager for Insular Areas

Subject: Audit Report on the Assessment and Collection of Taxes, American Samoa Government (No. 2002-I-0003)

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Please provide a response to this report by December 17, 2001. The response should provide the information requested in Appendix 4 and should be addressed to our Pacific Field Office, 415 Chalan San Antonio, Baltej Pavilion - Suite 306, Tamuning, Guam 96913.

EXECUTIVE SUMMARY

BACKGROUND

The American Samoa Code Annotated states that the income tax laws in force in the United States, except where clearly inapplicable to American Samoa, "are adopted by American Samoa, and shall be deemed to impose a separate territorial income tax, payable to the government." The Income Tax Division of the American Samoa Department of Treasury is the agency charged with administering and enforcing the American Samoa income tax laws. The Division (commonly referred to as the Tax Office) collected taxes totaling $31.3 million during fiscal year 1997 (the most recent year for which financial statements had been published).

OBJECTIVE

The objective of the audit was to determine whether the American Samoa Government (1) implemented the recommendations contained in our June 1994 audit report on American Samoa's financial condition and (2) effectively assessed and collected income taxes.

RESULTS IN BRIEF

Deficiencies that were disclosed in five prior audit reports issued since 1986 continued to exist in the administration and collection of income taxes. Specifically, we found that the Tax Office did not:

- Select for examination tax returns that had the highest potential for additional tax assessments.
- Complete tax return examinations prior to the expiration of the statute of limitations.
- Ensure that prompt collection action was taken on taxes receivable.
- Pursue collection action against taxpayers who had left American Samoa.
- Adequately justify and document the abatement of taxes, penalties, and interest.
- Maintain accurate tax receivable records.

- Effectively identify and collect income taxes from persons and businesses that did not file tax returns.

- Ensure that the new automated income tax system functioned properly before it was implemented.

The deficiencies resulted in lost potential tax revenues of at least $7.1 million during fiscal years 1997 through 1999.

General Fund deficits have increased from $11.7 million in fiscal year 1990 to $41.1 million in fiscal year 1997 (the most recent audited financial statements). This occurred despite annual operating subsidies to the Government of about $23 million from the U.S. Department of the Interior. We believe this condition will persist until decisive action is taken to improve the administration of income tax collections.

RECOMMENDATIONS

We made 13 recommendations to the Governor of American Samoa. Key actions include the developing and implementing annual audit plans to serve as a formal strategy for selecting income tax returns for examination, providing Tax Office employees with adequate training, developing and implementing written procedures to assist Tax Office employees in performing their income tax assessment and collection functions, establishing adequate accounting controls over income tax receivables, adopting a formal nonfiler program to identify individuals and businesses that had not filed income tax returns, and correcting problems with the Tax Office's automated income tax system. We also recommended that the Director of the Office of Insular Affairs, U.S. Department of the Interior, provide technical assistance in developing policies and procedures and in implementing the new automated income tax system, and monitor the progress of correction actions by the Government.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL EVALUATION

The Governor of American Samoa did not provide a response to the draft report and, therefore, the 13 recommendations addressed to the Governor are considered unresolved. The Acting Director of the Office of Insular Affairs indicated concurred with the two recommendations addressed that office, but did not provide a specific plan of action, including target dates, for implementing the recommendations. Therefore, we requested additional information for the two recommendations.

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INTRODUCTION

BACKGROUND

Title 11 of the American Samoa Code Annotated contains the laws related to the administration of income taxes in American Samoa. The Code (11 A.S.C.A. § 11.0403(a)) states, "The income tax and the income tax rules in force in the United States of America and those which may hereafter be enacted or adopted, where not clearly inapplicable or incompatible with the intent of this section, are adopted by American Samoa, and shall be deemed to impose a separate territorial income tax, payable to the government." In addition, the Code (11 A.S.C.A. § 11.0404(a)) states, "The administration and enforcement of the American Samoa income tax shall be the responsibility of the treasurer of American Samoa under the general supervision of the Governor." The Code (11 A.S.C.A. § 11.0404(b)) further states, "The treasurer shall have the same administrative and enforcement powers and remedies with regard to the American Samoa income tax as the Secretary of the Treasury, and other United States officials of the Executive branch, have with regard to the United States income tax." The Income Tax Division of the American Samoa Department of Treasury is the entity responsible for administering and enforcing the American Samoa income tax laws.

The Income Tax Division (commonly referred to as the Tax Office) has six sections: Processing, Compliance, Collection, Audit, Information Systems, and Special Unit. During the audit, the Treasurer served as the Tax Office's acting Tax Manager because the Tax Manager's position was vacant. As of January 31, 2000, the Tax Office had a staff of 33 employees. American Samoa's Comprehensive Annual Financial Report for fiscal year 1997 (the most recent report issued) reported total tax revenues of $31.3 million.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the American Samoa Government (1) implemented the recommendations contained in our June 1994 audit report on American Samoa's financial condition and (2) effectively assessed and collected income taxes. The scope of the audit included a review of income tax assessments and collections that occurred and the policies and procedures that were in effect during fiscal years 1998 and 1999 and other periods as appropriate. However, we were unable to determine the status of the recommendations contained in the June 1994 audit report because the

American Samoa Government could not provide us with the tax records needed to determine if the recommendations relating to income taxes were implemented.

To obtain information on the assessment and collection of income taxes, we interviewed officials and/or reviewed records at the offices of American Samoa's Department of Treasury, Tax Office, Territorial Auditor's Office, Office of the Attorney General, High Court, Office of Procurement, Budget Office, Department of Human Resources, and Telephone Authority. In addition, we visited the Office of Insular Affairs Field Representative's office in American Samoa.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the system of internal controls related to the assessment and collection of income taxes by the Tax Office to the extent that we considered necessary to accomplish the audit objective. Based on our review, we identified internal control weaknesses, which are discussed in the Results of Audit section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

During the past 5 years, the Office of Inspector General has not issued any reports on the American Samoa Government's administration of income taxes. However, since 1986, the Office of Inspector General, the U.S. General Accounting Office, and American Samoa's Territorial Audit Office have issued a total of five reports related to American Samoa's tax system (see Appendix 2).

RESULTS OF AUDIT

OVERVIEW

The American Samoa Government lost potential revenues of at least $7.1 million during 1998 and 1999 because of weaknesses in the administration and collection of income taxes. These weaknesses had been disclosed in five prior audit reports issued since 1986 by the Office of Inspector General, the U.S. General Accounting Office, and the American Samoa Territorial Audit Office (see Appendix 2). However, the American Samoa Government had not taken decisive action to correct all of the deficiencies cited in these audit reports. Specifically, we found that the American Samoa Tax Office did not:

- Select for examination tax returns that had the highest potential for additional tax assessments.
- Complete tax return examinations prior to the expiration of the statute of limitations.
- Ensure that prompt collection action was taken on taxes receivable.
- Pursue collection action against taxpayers who had left American Samoa.
- Adequately justify and document the abatement of taxes, penalties, and interest.
- Maintain accurate tax receivable records.
- Effectively identify and collect income taxes from persons and businesses that did not file tax returns.
- Ensure that the new automated income tax system functioned properly before it was implemented.

These conditions occurred because the Tax Office did not (1) develop and implement annual audit plans to serve as a formal strategy for selecting income tax returns for examination, (2) provide its employees with adequate training, (3) develop and implement written procedures to assist Tax Office employees in performing their income tax assessment and collection functions, (4) establish adequate accounting controls over income tax receivables, (5) adopt a formal nonfiler program to identify individuals and businesses who had not filed income tax returns and (6) ensure that the new automated income tax system functioned properly before it was implemented.

Since at least 1990, General Fund expenditures have exceeded revenues and, although the Government received annual operating subsidies of about $23 million from the U.S. Department of the Interior, General Fund deficits have increased from $11.7 million in 1990 to $41.1 million in 1997 (the most recent audited financial statements). Until the American Samoa Government takes decisive action to correct the problems with its income tax system, the collection of income tax revenues will not be sufficient to fund the operations of the American Samoa Government. If the Government does not make significant improvements in the administration of income taxes, the Office of Insular Affairs should consider whether it would be appropriate to obtain assistance from outside experts to manage the administration and collection of taxes in American Samoa.

During the June 26, 2001, exit teleconference on the preliminary draft of this report, the Lieutenant Governor of American Samoa expressed concern over the recommendation that the Office of Insular Affairs should obtain assistance from outside experts to manage the administration and collection of taxes. This recommendation was made because repeated prior audits by the Office of Inspector General, the U.S. General Accounting Office, and the American Samoa Territorial Auditor have made recommendations to improve the effectiveness of the tax collection function in American Samoa, but little improvement has actually been made by the Government. The recommendation is intended to be a "worst case scenario" alternative that would be necessary only if the American Samoa Government does not take meaningful action to correct the deficiencies cited in this report.

AUDITS OF INCOME TAX RETURNS

The Tax Office did not have procedures to ensure that tax returns selected for audit had the highest potential for additional tax assessments, did not ensure that tax audits covered all potential tax issues, and did not ensure that the returns selected for review were audited prior to the expiration of the statute of limitations. In that regard, we found that the Tax Office's Audit Section closed 152 cases, including 4 cases where additional taxes of $677,231 had been identified, because the statute of limitations had expired.

Formal Procedures and Revenue Agent Training Not Adequate to Ensure Effective Tax Audits

The Tax Office did not have standards for "classifying" (or prioritizing) income tax returns for audit and conducting audits of income tax returns. Furthermore, the Chief of Audit stated that the revenue agents did not use the Internal Revenue Manual developed by the U.S. Internal Revenue Service (IRS) because it was complex and difficult for the revenue agents to use.

Training was not currently provided to revenue agents. Only 2 of 7 revenue agents employed as of February 6, 2000 had received any formal training related to auditing income tax returns. A formal IRS training course was provided to the revenue agents during July and August 1999. However, the training course was discontinued by the Treasurer because tax revenues were declining. The Treasurer said that "training was not a priority" and that "no money was allocated for training." However, during our interviews, all of the revenue agents expressed a need for training to develop their audit skills and enhance their level of expertise and knowledge regarding taxes.

The Tax Office could not provide us an accurate report, whether automated or manual, regarding the number of tax return audits that were completed or in process during the period of our audit. The manual records maintained by the Tax Office showed that 611 income tax returns were reviewed by revenue agents during the period of January 1997 to February 2000. However, computer-generated reports for the same period showed that the number of tax returns reviewed ranged from 631 to 704. We discussed this discrepancy with the Information System Supervisor, and she was unable to provide an explanation for the discrepancy.

In our opinion, the lack of written operating procedures and revenue agent training contributed to the Audit Section's inability to identify additional tax assessments and to complete tax return audits prior to the expiration of the 3-year statute of limitations. To resolve these deficiencies, the Tax Office should develop and implement (1) annual audit plans to focus audit efforts on issues with the greatest potential for increased tax assessments; (2) standard operating procedures to ensure that revenue agents' audits of tax returns are thorough and timely; and (3) an ongoing comprehensive training program for its revenue agents, supervisors, and managers.

Potential Tax Audit Issues Not Addressed

During the period of January 1997 to February 2000, the Tax Office closed approximately 611[1] tax audit cases that had been selected for audit by the Audit Section. Of the 611 tax audit cases, 338 found no additional taxes. We selected for review 58 of these 338 tax audit cases and determined that 43 cases had potential audit issues that were not detected by revenue agents because the revenue agents had been instructed to examine the tax returns only for dependency and filing status issues. Potential audit issues that were not addressed included expenses (shown on Schedule A, "Itemized Deductions," and Schedule C, "Profit or Loss From Business" of the filed income tax returns) that appeared excessive when compared to the amount of income shown on the tax returns. We also noted that 52 of the 58 tax audit cases we reviewed had been open for more than 1 year, 25 of the 58 cases had been closed without the tax returns ever having been audited, and none of the 58 tax audit cases had resulted in additional tax assessments.

Of the remaining 273 tax audit cases (611 minus 338) for which taxpayers were assessed additional taxes, we reviewed 60 tax cases with additional tax assessments totaling $789,216 to determine if the assessment amounts were proper. Of the 60 cases we reviewed, 10 cases appeared to have potential audit issues (such as large amounts claimed on business tax returns for rental expenses, cost of goods sold, utilities, vehicle repairs, and gifts) that were not addressed by revenue agents. According to the Audit Section Supervisor and the Chief of Audit, the former Tax Manager established an audit selection criterion that was limited primarily to dependency and filing status issues because most of the revenue agents had not received any formal training in auditing tax returns and were therefore not able to examine complex issues associated with business tax returns. The Audit Section Supervisor also told us that there were no written operating procedures for revenue agents to follow when examining tax returns. The Audit Section Supervisor said that the former Tax Manager was in the process of preparing written procedures but had not completed the procedures before she resigned from her position in January 2000.

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[1]Because of discrepancies between the manual and automated records, we could not determine the exact number of tax returns that were examined by the Audit Section. Therefore, we based our review on the information contained in the manual records.

Statute of Limitations Allowed to Expire on Incomplete Tax Audit Cases Valued at $677,231

We reviewed the tax returns for 227 of the 611 tax audit cases selected for audit by the Audit Section and found that the Audit Section had closed 152 tax audit cases because the 3-year statute of limitations[2] had expired. Of these 152 cases, 100 had not been assigned to revenue agents. Of the remaining 52 tax audit cases that had been assigned to revenue agents, 43 cases had not been examined, examinations of 5 cases had been started but not completed, and examinations of 4 cases had been completed. We found that for the 4 tax audit cases that had been completed, revenue agents had identified additional income taxes totaling $677,231 that were owed to the American Samoa Government, However, these taxes were not collected, and the Tax Office had lost the opportunity to collect these taxes. Based on our review of the case files and on interviews with revenue agents assigned to the four cases, we determined the following:

- A revenue agent completed an audit of a tax return for tax year 1994, that resulted in an additional tax assessment of $107,618. However, the case was not transferred from the Audit Section to the Collection Section so that collection action could be initiated against the taxpayer. The case file did not indicate why the case was not transferred for collection action, and we could not discuss the case with the revenue agent or audit supervisor because they were no longer employed at the Tax Office.

- A revenue agent completed audits of 2 tax returns filed by a taxpayer for tax years 1993 and 1994. The revenue agent identified additional tax assessments totaling $217,767, including interest and penalties. Based on entries in the case file, the case file was to have been referred to the Office of the Attorney General because the taxpayer failed to provide support for specific items reported on the tax return. However, we found the case file in a filing cabinet maintained by the Audit Section's secretary. We discussed this matter with the revenue agent and the secretary to determine why the case was not transferred to the Attorney General, and neither of these employees could explain how this oversight occurred. Because the 3-year statute of limitations on this case expired on April 15, 1997 (for the tax year 1993 return) and April 15, 1998 (for the tax year 1994 return), the Tax Office lost the opportunity to collect additional taxes of $217,767 due from the taxpayer.

[2]The statute of limitations for auditing tax returns runs for 3 years from the date that a tax return is filed.

- A revenue agent completed an audit of a tax return filed by a taxpayer on March 8, 1995 for tax year 1992. The revenue agent identified an additional tax assessment of $351,846. On March 6, 1998, the revenue agent forwarded the case to the Audit Section supervisor for review, and on the same date the supervisor approved the assessment. However, the case file did not leave the Audit Section until June 12, 1998, and based on an entry in the case file, we determined that the Collection Section did not receive the case file until August 5, 1998. However, since the 3-year statute of limitation period expired on March 8, 1998, the Collection Section was unable to enforce collection of the tax assessment. The audit supervisor who reviewed this case is no longer employed by the Tax Office. However, the revenue agent who worked on the case stated that the audit supervisor allowed the case to expire without obtaining a written agreement with the taxpayer to extend the statute of limitations period.

The Chief of Audit stated that he authorized the revenue agents to close tax cases for which the statute of limitations had expired or was about to expire in order to "bring the audit caseload to a manageable level." The Chief of Audit also told us that the audit of tax returns was limited to issues involving large dollar amounts to reduce the amount of time needed by revenue agents to perform tax audits. Revenue agents were not required to examine the relationships between income and expense amounts to determine if the amounts claimed on tax returns were reasonable.

COLLECTION OF INCOME TAXES

The American Samoa Government lost potential tax revenues of at least $6.4 million because the Tax Office did a poor job of collecting outstanding tax receivables. Specifically, the Tax Office did not (1) promptly act to collect tax receivables; (2) pursue collection action against taxpayers who had left American Samoa; (3) ensure that sufficient justification and documentation existed before abating taxes, penalties, and interest; and (4) maintain an accurate inventory of tax assessments and receivables. These conditions were caused by the lack of training for the revenue officers, the absence of written policies and procedures for the Collection Section, inadequate management oversight of the collection function, and insufficient accounting control over the tax receivables. In addition, there was a $3.1 million unreconciled difference between the manually generated tax receivable balance of $6.5 million as of September 30, 1997 and the automated income tax system's tax receivable report balance of $3.4 million as of January 31, 2000.

Taxes of $4,486,727 Lost Because Collection Enforcement Action Not Timely or Effective

Our review of collection records disclosed that the Tax Office did not always take prompt action to collect tax receivable cases, resulting in lost potential tax revenues of at least $4,486,727. According to Tax Officer personnel, existing undocumented procedures required the Tax Office to mail a series of three letters to delinquent taxpayers at 10-day intervals to solicit the taxpayers' cooperation to pay the taxes due. If the taxpayers did not respond within the 10-day response time after the third letter, a fourth letter was sent to notify the taxpayer that, unless arrangements were made immediately to pay the amounts due, tax liens would be filed against the taxpayers, with tax levies to follow. The statute of limitations for collection of income taxes is 10 years from the date of the assessment.

We selected for review 202 tax assessment cases with a combined outstanding balance of $628,148. Of the 202 cases, 159 cases had periods of inactivity relating to the issuance of collection letters and/or other contacts with the taxpayers. We computed the elapsed time between the last action taken by the revenue officer and the date of our review (January 31, 2000) for 116 of the 202 cases, and identified 93 cases, with outstanding assessments totaling $284,867, where the revenue officer had not made any efforts to collect the amount due for periods ranging from 3 to 32 months. For example:

- On May 15, 1997, a taxpayer was assessed additional taxes of $3,827. The case was transferred to another revenue officer on June 22, 1998, after the taxpayer had started to make monthly payments of $100. Although the last payment received was in July 1998, when the taxpayer still owed $3,282, the only recorded followup action taken by the revenue officer was 2 months later, on September 30, 1998, when the interest and penalties were revised, and 12 months later, on September 14, 1999, when the revenue officer wrote in the file that the taxpayer is "retiring from work. [I] will follow-up again." As of January 31, 2000, no other action was taken to collect the remaining taxes due.

- On August 4, 1998, another taxpayer was assessed additional taxes of $1,620. The case file showed that the revenue officer received the case 2 days later and sent out the first demand letter. A month later, on September 30, 1998, the assessment was revised to $1,660 to reflect accrued interest and penalties. The next and final entry was made more than a year later, on January 14, 2000, when the taxpayer's $39 tax refund for 1998 was offset against the outstanding balance. The file contained no indication that the taxpayer was ever personally contacted by the revenue officer.

The Internal Revenue Manual states, with regard to the importance of contacting taxpayers, "An effective first contact is the cornerstone to timely and effective case resolution." The effect of the lack of timely followup on collection cases can be seen in the inventory of tax assessments that the Tax Office considered inactive. Out of 194 cases listed as inactive, the statute of limitations[3] had expired for 49 cases with outstanding taxes totaling $4,486,727. Moreover, only $1,665 had been collected from these 49 assessments before the statute of limitations had expired. The remaining 145 assessments had outstanding balances totaling $1.87 million, with an average of 3 years remaining on the 10-year statute of limitations.

Case Files Lost for Taxes Due of $38,552

During our review of the sufficiency of the tax audits, we identified 16 cases with additional assessments totaling $38,552 that were forwarded to the Collection Section for collection action. The Collection Section, however, could not locate the files for these 16 cases, and the Tax Office could not provide any evidence that collection actions had been initiated on the 16 cases. The Collection Supervisor also could not provide us with any explanation regarding the missing case files.

Taxes of $28,792 Lost Because Efforts Not Made to Contact Off-Island Taxpayers

The Tax Office did not always attempt to collect tax receivables from taxpayers who had left the island, which resulted in the loss of potential tax revenues totaling at least $28,792. The Tax Office did not take action to locate off-island taxpayers because the Office had not developed written procedures for requesting assistance from the IRS. A 1988 agreement between the IRS and the American Samoa Government provided for the exchange of information and mutual assistance in order to prevent income tax evasion and for the IRS to assist in collecting taxes owed by American Samoa taxpayers believed to be living in the United States. However, neither the Treasurer, the Chief of Processing and Collection, the Collection Supervisor, nor the revenue officers had a copy of the agreement or were even aware that the IRS would provide such assistance. As a result, revenue officers were left to their own initiative to try to locate taxpayers

[3]The statute of limitations for collecting taxes due runs for 10 years from the date of the tax assessment.

believed to be in the United States, with the respective cases being kept in an inactive status until some additional information on the taxpayers' new addresses was obtained.

Of the 202 tax collection cases reviewed, we identified 32 cases with taxes due totaling $28,792 where the case files indicated that the taxpayers were no longer residing in American Samoa and that the taxpayers were thought to be living in the United States. However, the 32 case files indicated that the revenue officers took very limited (if any) action to locate the taxpayers. For example:

- On July 2, 1997, a taxpayer was assessed $405 for tax year 1996. A revenue officer was assigned to the case on July 18, 1997, and the officer's January 22, 1998 entry in the case file stated that he had talked to the taxpayer's last employer, who said that the taxpayer had left the island in June 1997. Although the case was transferred to another revenue officer in February 1998, the only documented work on the case after January 1998 was to revise the amounts for interest and penalty, which increased the total amount due to $479 as of September 30, 1998.

- On October 17, 1997, another taxpayer was assessed $6,095 for tax year 1994. The revenue officer's last entry in the case file, dated April 30, 1999, stated that the family moved to the United States "for good last year." The Chief of Processing and Collection reviewed the case on September 14, 1999 and advised the revenue officer to "examine office records for leads to the whereabouts of the taxpayer and take action accordingly." However, no further collection action was documented in the case file, and the amount due had increased as a result of additional accrued interest and penalties to $7,101 as of September 30, 1998.

In both cases, the Tax Office did not solicit the IRS's assistance in locating the individual taxpayers, which, in our opinion, effectively stopped any further collection action against the taxpayers.

Tax Abatements of $1,917,467 Not Adequately Supported

We judgmentally selected for review 35 tax assessment cases totaling $2,006,413 out of 222 assessments with combined taxes, interest, and penalties due of $3,695,726 that were abated during fiscal years 1998 and 1999. Based on our review, we identified 16 cases of abatements totaling $1,917,467 that did not have sufficient documentation and justification to support the abatements. For example:

- In June 1997, a taxpayer was granted an abatement of $59,405 for a 1995 assessment on the taxpayer's 1993 tax return. The justification written on the abatement form was that the tax return was erroneously filed by the taxpayer's accountant and that a new tax audit was being scheduled. However, the taxpayer did not raise the issue of the assessment until 16 months after the assessment was made, when the taxpayer stated, in an April 1997 letter to the Tax Office, that the assessment was "too much" for a business that he and his partner were "trying to build." If the taxpayer was questioning the validity of the assessment and had supporting information, the case should have been referred to the Audit Section for review. Conversely, if the taxpayer was questioning the amount of the assessment on the basis of economic hardship, then the taxpayer could have requested relief under the Offer and Compromise provisions of the Internal Revenue Manual, in which case an analysis of the taxpayer's ability to pay would have to be made by the revenue officer. However, the collection case file did not contain either the results of a new tax audit or an analysis of the taxpayer's financial resources.

- In July 1998, another taxpayer was granted an abatement of penalty and interest totaling $1,391 because the original 1991 assessment notice had been sent to an incorrect address. During our audit, the Tax Office was unable to locate the related collection file. However, from alternate sources, we were able to establish that, as of September 1997, the taxpayer had made payments of $1,223 against the assessment before the issue of the taxpayer's address was raised. Moreover, we could not determine if the taxpayer had actually requested an abatement or if it was initiated by the revenue officer.

Revenue Officer Training, Procedures, and Management Oversight Not Adequate to Ensure Effective Collection Efforts

One of the underlying causes of the lack of effective collection efforts was that the revenue officers had not received adequate formal training and there was no formal program to provide the needed training. As a result, the revenue officers received only a very limited amount of informal on-the-job training, with the effectiveness of individual revenue officers depending largely on their personal initiative and the level of skills they brought to their positions from previous work experience. Our review of the personnel files for the Tax Office staff disclosed that the last formal training received by revenue officers was in July 1988 and that only one person serving as a revenue officer had received the training. The lack of a formal training program was identified in two of our prior audit reports[4] and in a technical assessment report on the Tax Office that was issued by the IRS in February 1994. The IRS report recommended that specialized training be provided to the Tax Office staff in the areas of audit and collection techniques.

The need for the Tax Office to develop written policies and procedures for a uniform collection effort was also identified in the 1994 IRS technical assessment report, which recommended that the Tax Office develop and standardize collection procedures to improve the collection of delinquent assessment cases. Without written procedures applicable to the specific operations of the Tax Office, it will be difficult to train revenue officers in a way that will ensure a consistent collection effort. Accordingly, we believe that the American Samoa Government should work with the Office of Insular Affairs and the IRS to develop and implement a formal training program and a procedures manual for the tax collection function. Lastly, the lack of adequate management control over the Collection Section further contributed to the lack of effective collection efforts. Our review of 202 collection cases disclosed that in 145 cases (including 64 cases with individual assessments of more than $500) there was no evidence in the files of supervisory review. We also found that, although the Collection Section had a performance reporting system that required the revenue officers to report daily cash collections, the reporting system did not include information related to problems that the revenue officers might be having in locating taxpayers or whether cases were being worked at all. In addition, although various computer reports for tracking collection cases were available from the previous and current automated tax systems, the data in these reports were unreliable. Moreover, although the Collection Section supervisor knew that the reports were inaccurate, he had not initiated steps to develop a reliable list of collection cases in order to control the estimated 687 cases assigned to the Collection Section. During our audit, we suggested to the supervisor that he develop his own list of collection cases using an electronic spreadsheet program to (1) verify the accuracy of the Data Systems Section

[4] American Samos Government's Territorial Income Tax System" (No. S-TG-AMS-16-85) and "Assessment and Collection of Taxes, American Samoa Government" (No. 89-106). Additional information on these reports is in Appendix 2.

reports and (2) to provide a management tool to sort the cases by various attributes, such as the dollar amount outstanding and assessment date, to identify those cases needing special attention. The supervisor subsequently started developing the suggested spreadsheet of collection cases. The 1994 IRS technical assessment report identified the lack of effective management and recommended that management training for supervisors be emphasized at all levels with "training on a continuous basis and of adequate duration to maintain and improve their skills."

Tax Receivables Not Adequately Accounted For or Controlled

The Tax Office did not adequately account for income tax receivables valued at between $3.4 million and $6.5 million. This occurred because the Tax Office had not established adequate procedures for (1) recording tax assessments in the Tax Office's automated tax system; (2) reconciling the balances of the individual assessments with the automated reports that showed tax receivables, collections, and abatements; and (3) developing an allowance for doubtful accounts. In addition, the Tax Office did not have a designated accountant to oversee the accounting for the universe of assessments. As a result, the Tax Office was unable to determine the year-end tax receivable balances for fiscal years 1998 and 1999. The last reconciled year-end tax receivable balance was $6,538,797 as of September 30, 1997.

Although the Tax Office was under the Department of Treasury, because of the confidentiality of taxpayer data, it functioned as a quasi-autonomous agency with responsibility for maintaining its own records on tax assessments and collections, as well as for providing and maintaining accounting and administrative controls. The $6.5 million tax receivable balance for fiscal year 1997 was tabulated by an accountant from the Department of the Treasury who had been detailed to the Tax Office in December 1997 because the Tax Office was not maintaining its own tax receivable balance. The accountant stated that since no one within the Tax Office was responsible for reconciling collection cases to the automated tax collection reports on either a monthly or a quarterly basis, the only way he could determine the year-end balance was to take an inventory of tax collection case files and reconcile the individual case balances to the supporting records for cash receipts. In January 1998, after the tax receivable balance was tabulated for fiscal year 1997, the accountant was permanently transferred to the Tax Office. However, he was assigned as a revenue agent in the Audit Section rather than as an accountant.

The lack of control over the receivable balance continued until a new Tax Manager, who was hired in 1999, identified the need to establish control procedures for tax receivables. The Tax Manager directed the Chief of Processing and Collections, as part of his fiscal year 2000 performance goals, to (1) review all receivable cases and establish accurate balances; (2) draft policies and procedures for writing off bad debts, abatements, and compromises; and (3) develop meaningful performance measures for the Collections Section. However, the Tax Manager resigned in January 2000, and the performance goals were never achieved.

We attempted to determine the total number and dollar value of outstanding tax receivables as of September 30, 1999. However, because of the poor condition of the tax records, we were unable to determine the total number and outstanding balance of receivables. In addition, no one in the Tax Office, including the Chief of Processing and Collection and the Collection Section supervisor, was involved in compiling the year-end receivable balance. The Tax Office had a tax clerk who logged in tax receivable cases as they were transferred from the Processing Section to the Collection Section and had started performing daily cash collection reconciliations. However, this clerk performed many different tasks, including functioning as an office secretary, and did not have a sufficient "arms length" separation from the daily work to independently perform or oversee the tasks needed to maintain accounting control over the tax receivables.

The need to improve controls over tax receivables was illustrated when we compared 116 assessment cases with outstanding taxes, interest, and penalties totaling $432,538 with the amounts contained in the automated income tax system tax receivable report dated January 31, 2000. Of the 116 assessments reviewed, 81 had different balances totaling $46,328. The differences ranged from $1 to $15,231, with an average difference of $572 per assessment.

We also identified 8 cases with 11 separate assessments totaling $490,087 where the taxpayers had appealed their assessments to the High Court. We were able to trace only 3 assessments totaling $13,411 to the fiscal year 1997 tax receivable balance and the January 31, 2000 tax receivable report. In addition, of the eight appeal cases, five cases with assessments totaling $425,280 had been dismissed by the High Court as of January 21, 2000, but collection action had not been started as of the time of our review because the files were still at the Attorney General's office.

In our opinion, the most significant impact of the lack of control over tax receivables was the unreconciled difference of $3,131,375 between the $6,538,797 documented receivable balance for fiscal year 1997 and the $3,407,422 tax receivable balance reported in the January 31, 2000 automated tax receivable report. This difference leaves open the possibility that valid tax receivables may have been incorrectly dropped from the accounting records. Accordingly, we believe that the Tax Office needs to hire a full-time accountant who can establish and maintain accounting control over the tax receivables.

IDENTIFICATION OF NONFILERS

The Tax Office did not effectively identify and collect income taxes from persons and businesses that did not file tax returns. This occurred because the Tax Office had not established a formal nonfiler identification program and had not assigned a sufficient number of personnel to conduct nonfiler identification projects. Based on our limited review of available sources of information in American Samoa, we identified 56 persons and 19 businesses that appeared not to have filed income tax returns for tax years 1997 and 1998.

16 Businesses Did Not File Tax Returns

We obtained a list from the Treasury Department's Revenue Office of 1,575 business licenses issued in 1998. From this list, we judgmentally selected 59 businesses to determine if they had filed tax returns for tax year 1998. Of the 59 businesses selected for review, we found that there was no record that 12 had filed tax returns for tax year 1998. This included four businesses that had been granted extensions to file but, as of May 5, 2000, had not filed income tax returns. In addition, we found that four business license holders had filed tax returns for personal earned income but had not filed Schedule C forms, "Profit or Loss from Business," for their businesses.

Records Indicate 45 Government Employees Did Not File Returns

We obtained lists from the Department of Human Resources and the Tax Office containing the names of 122 high level American Samoa Government officials and Tax Office employees to determine if the officials and employees had filed income tax returns for tax years 1997 and 1998. For tax year 1997, we compared the names on the lists with a computer report provided by the Processing Section that showed the tax returns that the Tax Office had processed for tax year 1997. For tax year 1998, we compared the names with an electronic spreadsheet of tax returns processed for tax year 1998 that the Information Systems personnel had prepared at our request. Based on our comparisons, we found that there was no record that 9 officials/employees had filed income tax returns for tax year 1997, that 11 officials/employees had filed income tax returns for

tax year 1998, and that 25 officials/employees had filed income tax returns for both tax years 1997 and 1998.

At Least 11 Private Employees and 3 Employers Did Not File Returns

We randomly selected 37 American Samoa Wage and Tax Statements (Form W-2AS) submitted by 5 businesses for tax year 1998 to determine if the employees shown on the Wage and Tax Statements had filed income tax returns for tax year 1998. Of the 37 Wage and Tax Statements, we found that as of May 10, 2000, 11 employees had apparently not filed income tax returns for tax year 1998. The Wage and Tax Statements for the 11 employees showed total wages of $131,713 and income taxes withheld of $5,780. In addition, we found that three of the five employers had apparently not filed income tax returns for tax year 1998.

We interviewed the supervisor of the Compliance Section to determine the status of any nonfiler identification projects that were conducted by the Tax Office. The supervisor said that his section was responsible for assessing and collecting withholding taxes on gambling winnings and identifying nonfilers of withholding taxes. However, the supervisor stated that during the period of 1997 to 1999, only limited work was done on nonfiler identification projects because his staff was reassigned to the Collection Section, the Audit Section, and child tax credit projects to assist with the work loads in those areas.

In our opinion, the Tax Office needs to establish a formal nonfiler identification program to ensure that all individuals and businesses file income tax returns and pay appropriate taxes. In addition, we believe that the Tax Office should consider hiring a tax investigator to investigate nonfilers of income taxes, including those potential nonfilers identified during our audit. Therefore, the Tax Office should appoint a nonfiler program coordinator, prepare a written nonfiler program plan with specific goals and objectives, and provide a sufficient number of staff (including a tax investigator) to conduct the program. We believe that an aggressive nonfiler program would assist the Tax Office in promoting voluntary compliance with the American Samoa tax laws.

AUTOMATED INCOME TAX SYSTEM

As a result of deficiencies in a new automated income tax system implemented by the Tax Office, data entry personnel were not able to enter all tax data into the system during its first year of operation, and the system experienced software problems at the start of Year 2000. Consequently, as of February 24, 2000, data entry personnel estimated that they had a data entry backlog of over 10,000 tax-related documents, including W-2AS forms and corporate income tax returns. In addition, amended tax returns and tax returns containing claims for child tax credits had to be processed manually because the computer programs in the new system could not process these returns. Further, the data in reports generated by the system could not be relied on by users because the data either were incomplete or were inaccurate.

The new system was funded with $700,000 provided by the Office of Insular Affairs, U.S. Department of the Interior (of which $596,000 was expended as of February 2000), and was based on the Guam Department of Revenue and Taxation's automated tax system. The Tax Office implemented the system without ensuring that the computer programs in the system functioned properly and included all of the necessary income tax data fields. In addition, the Tax Office (1) did not develop user manuals to provide the Tax Office staff with the information needed to help them use the new system and to ensure that all input documents were controlled and eventually entered into the system and (2) did not ensure that all users of the new system received adequate training prior to the implementation of the system. This occurred because the Tax Office did not adequately develop and follow a comprehensive implementation plan for the new system. As a result, the system was not fully functional during its first year of operation.

The Financial Management Improvement Plan, issued on March 23, 1998, recommended that the Tax Office develop an implementation plan for the new income tax system. The implementation plan would have provided detailed steps for the Tax Office to ensure that the new system was thoroughly tested to determine if the computer programs functioned properly, contained all of the necessary tax information, and was Year 2000 compliant. In addition, the implementation plan would have ensured that the Tax Office developed user manuals and thoroughly trained system users before the new system became operational.

We interviewed personnel assigned to the Treasury Department's Computer Systems Section to determine if an implementation plan was developed and followed. The Supervisor of the Computer Systems Section told us that an implementation plan was not prepared, but he provided us with a copy of an implementation schedule that was prepared. The schedule, which was a 3-page document, provided a list of tasks to be completed, the number of days to complete each task, and the start and completion dates for each task. Based on our review of the implementation schedule, we concluded that the schedule did not provide sufficient detail to ensure the successful implementation of the new system. In addition, we noted that the schedule did not include steps for developing user manuals and testing the software to determine if it was Year 2000 compliant.

Although the implementation schedule was inadequate to ensure that the new system was implemented successfully, we asked the Supervisor to provide us with documentation to support that the steps shown in the schedule were completed by the American Samoa Government. Based on our discussion with the Supervisor, we determined that 13 of the 15 steps in the schedule either were not completed or lacked documentation to support that they were completed. For example, one of the crucial steps shown in the implementation schedule was to "Test ASG's [American Samoa Government] Version of Tax Application." When we asked the Supervisor to provide us with documentation to support that the software testing was performed on the new tax system, he said that he "did not know how this was accomplished or where a file might be that showed how the testing was done and what test data was used." Other significant steps in the implementation schedule that either were not completed or could not be supported included developing tax application documentation, documenting requests for changes to the application software, and reconciling the tax master file and accounts receivable data.

We also interviewed the computer consultant who was hired to correct the deficiencies in the new system, including making system changes that were needed to make the system Year 2000 compliant. The consultant told us that the most recent work his firm had done on the system was in August 2000 and that he believed that the system "basically functions okay" but that "the software still has some bugs" and "needs to be fully tested" to identify software deficiencies. The consultant also said that, to correct the problems with the new system, the American Samoa Government needs to complete the following tasks:

- Develop and document system users manuals and operating procedures, with emphasis on work flow processes.

- Determine precisely what reports need to be generated by the tax system.

- Hire an experienced accountant to maintain accounts receivable balances.

- Provide "intense" training to systems personnel in system programming and running queries.

- Provide training to Tax Office employees in the use of the new tax system.

While we were unable to determine the specific reasons for not preparing a detailed implementation plan and not following the implementation schedule, American Samoa Government officials told us that the Governor decided that he wanted to expedite the implementation of the new automated income tax system so that the system would be operational for the 1998 income tax filing season.

RECOMMENDATIONS

TO THE GOVERNOR OF AMERICAN SAMOA

We recommend that the Governor of American Samoa require the Treasurer to:

1. Develop and implement annual tax audit plans to ensure that tax returns with the highest potential for identifying additional tax assessments are selected for examination.

2. Develop and implement written operating procedures to assist revenue agents and other Audit Section personnel in performing examinations of tax returns and controlling case files.

3. Establish formal training profiles for each position classification in the Tax Office, including supervisory positions. The Treasurer may want to request technical assistance from the Internal Revenue Service to establish the training profiles.

4. Develop and implement, based on the training profile for each position (Recommendation 3), a comprehensive training program for all Tax Office personnel.

5. Review all outstanding tax assessments, including the taxpayers identified in our prior audit report, and develop a written plan of action to collect the taxes due the American Samoa Government.

6. Develop and implement written policies and procedures for the collection of tax assessments. The written policies and procedures should include provisions for soliciting the assistance of the U.S. Internal Revenue Service in locating and collecting taxes from taxpayers residing in the United States.

7. Establish an accountant position for the Tax Office and hire a qualified individual for the position. When the accountant position is filled, the accountant should be responsible for reconciling tax receivable records and developing current and accurate receivable balances.

8. Develop and implement written procedures for maintaining an accurate inventory of tax receivable cases and tax receivable

balances, establishing an allowance for doubtful accounts, writing off bad debts, and reconciling case files to the data processing reports.

9. Investigate the potential nonfilers identified during our audit and take appropriate action to obtain tax returns from these persons and businesses. Any resultant taxes, penalties, and interest due the Government should be collected.

10. Develop and implement a formal nonfiler identification program to include a designated lead tax official; an overall plan of action; specific goals; a reporting system to track the results of the program; and a sufficient number of staff, including a tax investigator. The program should include the use of existing sources of automated and manual data to assist the Tax Office in identifying potential nonfilers of income tax returns.

11. Ensure that the new automated income tax system is fully tested to detect programming problems and make arrangements to have any programming problems corrected.

12. Develop and implement a written users manual for the new automated income tax system that provides Tax Office staff sufficient instructions on using the system and controlling input documents.

13. Provide formal user training to all users of the automated income tax system and provide formal systems programming and report query training to systems personnel.

TO THE DIRECTOR, OFFICE OF INSULAR AFFAIRS

We recommend that the Director, Office of Insular Affairs, U.S. Department of the Interior:

14. Provide the American Samoa Government with technical assistance to ensure that the deficiencies in the new automated income tax system are corrected promptly, adequate tax-related and automated system training is provided to Tax Office personnel, and a comprehensive policy and procedures manual is developed for the administration and collection of income taxes.

15. Monitor the progress of the American Samoa Government to correct the deficiencies cited in this report. If reasonable improvements are not made in the efficiency and effectiveness of the

tax administration and collection system, determine whether it would be appropriate to obtain assistance from outside experts to manage the administration and collection of taxes.

GOVERNOR OF AMERICAN SAMOA RESPONSE

The July 8, 2001 draft of this report requested that the Governor of American Samoa provide a response to the recommendations by August 24, 2001. However, as of October 9, 2001, the Governor had not provided a response to the draft report. Therefore, we consider Recommendations 1 through 13 unresolved (see Appendix 4).

OFFICE OF INSULAR AFFAIRS RESPONSE

The undated response (Appendix 3) to the draft report from the Acting Director of the Office of Insular Affairs indicated concurrence with Recommendations 14 and 15, and provided general information on actions taken by the Office of Insular Affairs to assist the American Samoa Government to improve its tax administration and collection operations. However, the response did not provide a specific plan of action, including target dates, for implementing the recommendations. Therefore, we request additional information for the two recommendations (see Appendix 4).

APPENDIX 1 - MONETARY IMPACT

FINDING AREAS	Lost Revenues*
Audits of Income Tax Returns	$677,231
Collection of Income Taxes	6,471,538
Totals	$7,148,769

* Amounts represent local funds.

APPENDIX 2 - PRIOR AUDIT REPORTS

OFFICE OF INSPECTOR GENERAL REPORTS

In May 1986, the Office of Inspector General issued the audit report "American Samoa Government's Territorial Income Tax System" (No. S-TG-AMS-16-85), which stated that the American Samoa Government did not take aggressive and timely action to collect income taxes and did not have adequate procedures to ensure that nonfilers of income taxes were identified and that taxes were promptly collected.

In August 1989, the Office of Inspector General issued the audit report "Assessment and Collection of Taxes, American Samoa Government" (No. 89-106), which stated that of 61 prior audit recommendations, only 22 recommendations had been implemented and that failure to implement the remaining 39 recommendations in a timely manner had resulted in lost revenues to American Samoa of about $4 million during the period of 1981 to 1984. The report also stated that American Samoa was losing tax revenues of more than $2 million annually.

In June 1994, the Office of Inspector General issued the audit report "Estimated Financial Condition, American Samoa Government" (No. 94-I-651) for the period of October 1, 1990 through March 31, 1993. The report stated that American Samoa "(1) did not ensure that individual and business taxpayers paid their assessed income taxes timely, (2) did not process tax collection cases timely, and (3) sometimes allowed political considerations to impede tax collection efforts." According to the Treasury Department's Tax Manager and its Tax Advisor, as of March 31, 1993, American Samoa had taxes receivable of $4.8 million, of which $3.7 million (77 percent) was 90 days or more past due. In addition, both the Tax Manager and the Tax Advisor stated that American Samoa had lost tax revenues of at least $734,000 during fiscal years 1992 and 1993.

U.S. GENERAL ACCOUNTING OFFICE REPORT

In April 1992, the U.S. General Accounting Office issued the report "Inadequate Management and Oversight Contribute to Financial Problems, American Samoa." (GAO/NSIAD-92-64) The report stated that (1) the American Samoa Government, to cover General Fund shortfalls, transferred increasing amounts of money from other funds and by fiscal year 1991 was having cash flow problems and was having difficulty in making payments; (2) American Samoa's financial situation worsened despite substantial growth in local revenues since 1980; (3) corporate tax revenues were difficult to predict; and (4) a considerable portion of income taxes from individuals and businesses had not been collected.

TERRITORIAL AUDIT OFFICE REPORT

In August 1997, the American Samoa Territorial Audit Office issued the report "Limited Scope Audit, Tax Office, Department of Treasury, American Samoa Government" (No. 97-117), which stated that (1) the posting of accounts receivable was "woefully delinquent," (2) there was little enforcement and no criminal prosecution of fraudulent filers, and (3) information necessary for good management was not readily obtainable. In addition, the report stated that the American Samoa Government "might do well to out-source the Tax Office in order to increase revenue to the American Samoa Government."

APPENDIX 3 - RESPONSE TO DRAFT REPORT

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

MEMORANDUM

To: Roger Larouche
Assistant Inspector General for Audits

From: Nikolao Pula
Acting Director, Office of Insular Affairs

Subject: Draft Audit Report "Assessment and Collection of Taxes, American *Samoa Government.*"

This responds to recommendations number 14 and 15 in the subject Report.

Recommendation 14. Provide the American Samoa Government (ASG) with technical assistance to ensure that the deficiencies in the new automated income tax system are corrected promptly, adequate tax-related and automated system training is provided to Tax Office personnel, and a comprehensive policy and procedures manual is developed for the administration and collection of income taxes.

Response. Prior to installation of the new tax system, the Office of Insular Affairs (OIA) mandated that ASG hire an experienced Tax Office Manager to administer over daily operations. OIA also provided support to help search for and evaluate qualified candidates. OIA assisted in the identification of an individual with an appropriate background who also possessed years of tax experience to help search for and evaluate qualified candidates. ASG selected a qualified candidate in light of its needs. Among the responsibilities for the prospective Tax Office Manager were to provide leadership for the Tax Office, to organize staff appropriately, to install a new computer system and to train all of the tax staff in their respective disciplines.

After the Tax Office Manager was on site, OIA provided a grant for ASG to procure a new computer system. The software for this system was obtained from the Government of Guam. After installation of the new system, the Tax Office began to make improvements. Shortly thereafter, the incumbent Tax Office Manager left the position, and other key tax personnel left the Tax Office. As of this writing, a new Tax Office Manager has not yet been designated, however the ASG named a Territorial Treasurer who now oversees the work of the Tax Office.

OIA continues to fund, manage and expand the U.S. Department of Agriculture Graduate School program known as the Financial Management Improvement Program (FMIP), a three year training regime designed by OIA in which all the insular areas participate. The FMIP provides tax-related and automated system training for all of the insular areas' Tax Office personnel, and the FMIP addresses many of the problems giving rise to the recommendations contained in the draft audit report.

Recommendation 15. Monitor the progress of the American Samoa Government to correct the deficiencies cited in this report. If reasonable improvements are not made in the efficiency and effectiveness of the tax administration and collection system, determine whether it would be appropriate to gain assistance from outside experts.

Response. OIA will continue to work with ASG to achieve an efficient tax operation. The Tax Office is involved with internal matters, including continued work with the Territorial Office of Financial Reform (TOFR), a new office designated by the Governor to improve financial operations. OIA is prepared to provide additional assistance when appropriate.

OIA sponsors semi-annual meetings with the Tax Office Managers from all the insular areas. At these meetings, OIA discusses the practices and procedures of the various insular area Tax Offices. Best practices are shared, and relevant issues are discussed. During these meetings, OIA covers the specific issues of concerns with each insular area, and in so doing OIA continues to monitor the progress of the ASG to correct the deficiencies cited in this report.

OIA does not have unconditional authority over local ASG operations. The ASG continues to follow a financial recovery plan developed in consultation with OIA which requires third party review to assist the ASG in the full implementation of the plan. This financial recovery plan mandated by the U.S. Congress is the basis for future action. The steps necessary to implement the plan, including target dates, have yet to be fully set out by the ASG. Once the ASG establishes targets dates, OIA will provide grant funds and will monitor the ASG to ensure adherence to the time schedule.

C:ASGTAXKP

APPENDIX 4 - STATUS OF RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1 through 13	Unresolved.	Provide a response to the recommendations indicating concurrence or nonconcurrence. If concurrence is indicated, provide a plan of action, including the target date and the title of the responsible official, for implementing each recommendation.
14 and 15	Management concurs; additional information requested.	Provide a plan of action, including the target date and the title of the responsible official, for implementing each recommendation.

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