American Samoa Government

Tax Office Division of the Department of Treasury

Audit of Tax Receivables

Performance Audit
Fiscal Years 2018 to 2021

TERRITORIAL AUDIT OFFICE

Tofa Sualauvi H. Su'a, Acting Territorial Auditor

Report Number: 22-02

October 21, 2022

AMERICAN SAMOA GOVERNMENT
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Talofa Honorable Governor Lemanu,

Executive Summary

Enclosed herein is our Performance Audit Report of the Tax Office Division of the Department of Treasury. The examination was categorized and focused on businesses that owed taxes (Tax Receivables) to the American Samoa Government. The period under examination covers fiscal years 2018 through to 2021.

The purpose of the examination was to assess the effectiveness of internal controls and procedures in place for the recognition and collection of tax receivables and that businesses operating in American Samoa must have proper business licenses and are paying correct taxes owed to the American Samoa Government.

In our view, the Tax Office was not effective in enforcing collection efforts and its records indicated a significant number of businesses have outstanding unpaid taxes and balances were delinquent. In addition, the Tax Office did not maintain effective control over collections. Specifically, collections were not adequately reconciled. This is an audit concern as it indicated a lack of enforcement efforts by staff and, subsequent huge revenue losses to ASG. Some weaknesses occurred at the port of entry level. The most significant to note were deficiencies and inaccuracies in the completeness and timeliness of tax receivables information. These deficiencies resulted in workload for collection staff in following up and correcting them and resulted in delays in collecting monies owed to ASG.

While these problems existed in pre-1995 with millions of dollars invested by both ASG and OIA for improvement in financial systems, staffing and equipment, it appears that very little progress have been made. In the last five to eight years, external auditors have expressed serious concerns over problems at the Tax Office which also resulted in their qualified opinions in some of the ASG audited financial reports.

As a result, the audit disclosed that a considerable effort is needed by the Department of Treasury and the Tax Office to manage receivables in the areas of collection, aging receivables, providing allowance when collection efforts fail and for a swifter write-off. We found that improvements are to be implemented to ensure more effective and efficient tax collection procedures are in place. More specifically are the following:

- The absence of timely reconciliations; General Ledger versus Subsidiary Ledger
- Maintaining of accurate tax receivable records
- Significant negative (credit) balances in tax receivables aging reports (Table 5, Page 33)
- Tax Compliance; voluntary compliance and non-compliance interventions
- Segregation of Duties (SOD)
- Outdated tax information software and systems failure
- Management of Bad Debts and Allowance Reserve - key policy actions

Many of the findings in this report are the results of an outdated and, an overwhelmed system. While we took into consideration the extraordinary circumstances of a global pandemic, the Tax Office should have a reliable tax information system to provide for the needs of the American Samoa Government and its people.

Additionally, we found that the existing Standard Operating Procedures and Policy Manual (SOPs) which has been instituted to guide the staff have not been updated.

Whilst the Tax Office and its staff efforts are commended on the daily operations, we are of the view that there is a need for a highly qualified person to monitor the quality control of the Tax Office, preferably a competent Financial Controller or a Quality Control Officer (CPA/CIA). This person shall possess good knowledge in *tax accounting and tax laws* and is to report directly to the ASG Treasurer. At present, there is no one outside the Tax Office to efficiently review and ensure that proper controls are in place and functioning, and that taxpayers are being provided with proper assistance.

Furthermore, the untimely preparation and maintenance of reconciliations between the General ledger (*Control account*) and Income Tax Receivable balances (*detailed Account Receivables Aging Report*) require the need to establish an "*accountant*" position for an *experienced* Financial Accountant. When the accountant position is filled, the competent should be responsible to reconcile, analyze and interpret results generated by the accounting system.

During the course of the examination, the audit team encountered a number of system limitations where the information that was requested was not readily available in a timely manner. It was our understanding that access to information begins once the Tax Office was notified of the commencement of the performance audit. Nevertheless, Treasury and the Tax Office should entreat the information to make available as they would for any other important business of the Office. It took the Territorial Audit Office almost a year to complete the audit examination.

We observe that the Office has an unsatisfactory accounting and record keeping system (filing). This is essential to avoid misfiling and improper recording. A good filing system saves time and reduces inconvenience.

We came across write offs passed by management for balances exceeding the statute of limitations (SOL) period namely abatements, interest and penalties amounting to $606,194.55 and $71,900.11 for refunds. Tables 1 and 2 provide bad debts write-off activity for fiscal years 2018 through 2021.

Table 1

Fiscal Year	No. of accounts	Abatements $	Penalties $	Interest $	Totals $
2018	46	54,746.69	5,688.66	12,307.26	72,742.61
2019	27	119,034.02	6,620.31	5,823.02	131,477.35
2020	157	195,147.20	67,729.44	52,884.99	315,761.63
2021	55	76,085.73	5,058.26	5,068.97	86,212.96

Table 2

Fiscal Year	No of accounts	Total refunds $
2018	1	412.00
2019	12	17,741.86
2020	23	23,513.98
2021	34	30,232.27

****Refunds are categorized as omissions and errors created by the system****

When the Office write-off a receivable as "uncollectable", it does so on the recommendation of the Collection division. The audit is unable to confirm if the required level of authorization was obtained for all write offs processed.

The most important outcome of any audit is the correction of deficiencies and implementation of improvements in the operation. We believe the implementation of recommendations is a step in that direction. The Territorial Audit Office maintains a "Follow Up" and in order for the report to be satisfactorily closed, we would expect the recommendations "to be actioned and implemented by the Department of Treasury".

During our examination, the Deputy Tax Manager Operations was the relieving Tax Manager as the Tax Manager was off-island on personal matters. As at June 17, 2022, the Tax Office has five sections; Administration, Audit, Collection and Compliance, Customer Service and Processing with a total staff of thirty-three (33) employees.

The contents of the report were discussed in an exit meeting on June 28, 2022 attended by the Treasurer and officials of both Treasury and the Tax Office and was submitted with a request for comments. We appreciate the Tax Office responses and the full texts are included as addenda to this report under **Exhibit C**.

There is still one final important issue that the Tax Manager did not address; the tax abatements approved in 2018 for certain taxpayers. Because of the significant amount involved, we will take this up separately as a special investigation audit in next year's audit plan.

The Tax Office and the Department of Treasury generally concur with the recommendations and is taking corrective actions. Nothing in the Tax Office responses changed our report.

We wish to express our sincere appreciation for the cooperation and assistance extended to us by the Treasurer, HTC Malemo Tausaga and his Treasury team and the Tax Office Manager Tanoai Vaaimamao Poufa and the Tax Office officials and all others who were involved and supported us in this audit.

Ma le fa'aaloalo lava.

Fa'afetai,

Tofa Sualauvi H. Su'a
Acting Territorial Auditor

October 21, 2022

Distribution list:
Talauega V. Ale - Hon. Lt. Governor
Tuaolo M Fruen - Senate President
Savali T. Ale - Speaker, House of Representatives
Malemo Tausaga - Treasurer
Vaaimamao E. Poufa - Tax Manager Division

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INTRODUCTION

We have completed our review of the Tax Office Division at the Department of the Treasury of the American Samoa Government. We have also identified weaknesses and deficiencies which are discussed in details under Findings and Recommendations and related observations headings. The period of the examination was from 2018 through to 2021. Detail balances of tax receivables for these periods are shown under the analytics and overview heading (Exhibit A, Page 31 to Page 36).

The examination was conducted pursuant to the authority vested with the Territorial Auditor and the Territorial Audit Office under requirements of the American Samoa Annotated Code (A.S.A.C), Section 4.0101 "as an **independent agency** under the direction of the Territorial Auditor. The TAO includes the Territorial Audit Office and staff. Additionally, our examination was also conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Auditing Standard Board (United States).

Background

The Income Tax Division commonly referred to as the Tax Office, is the American Samoa Government principal collection and tax enforcement division. The Tax Office's role is to implement provisions under the American Samoa Annotated Code found in Title 11, Chapters 1 to 30, and amendments thereof which require all businesses operating in American Samoa to pay correct amount of taxes owed to the American Samoa Government.

Title 11 of the American Samoa Code Annotated (A.S.C.A) contains the laws related to the administration of income taxes;

- 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".
- 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 Tax Office has five (5) sections; Administration, Internal Audit, Customer Service, Compliance and Collection and Processing. The Audit Unit which routinely performs audit of businesses to determine whether taxes payable to the American Samoa Government are reported; paid and collected on a timely fashion. The objectives of these audits are to:

- Determine the voluntary compliance of taxpayers
- Ascertains the accuracy of tax returns filed
- Established the amount of tax liability (if any) and are in accordance with tax laws

The Audit, Compliance and Collection sections work closely and collaboratively to determine and identify taxpayers or businesses for audit. The selection of taxpayers for audit is determined through a number of factors such as review of past records, knowledge of business, revenues reported and tax amount declared and paid, low gross receipts, non-business expenses and other special matters.

In carrying out the tax auditing work (in-house), certain operating procedures (SOP) have been instituted to guide the Tax Office staffing and revenue officers. The SOP includes a compliance model to assist businesses with responsibilities and shows a penalty regime where compliance does not occur.

The American Samoa Comprehensive Annual Financial Report for fiscal year 2021 (*the most recent audited report issued*) reported total income of $109 million inclusive tax revenues and approximately $15.20 million in income tax receivables (net) remain to be collected (Page 12).

OBJECTIVE, SCOPE and METHODOLOGY

Objective

The purpose of the examination was to assess the effectiveness of the Tax Office policies and internal control procedures in: (1) assessing and collecting of delinquent tax receivables; (2) businesses operating in American Samoa have proper licenses and (3) are paying correct amount of taxes owed to the American Samoa Government.

VERY SIGNIFICANT

Unauditable Records - could not locate tax returns
One of the audit objectives of the examination was to confirm that businesses operating in American Samoa which were issued business licenses also filed tax returns and paid correct taxes as required by applicable tax laws. The Tax Office was unable to provide all tax returns that we requested for audit. Out of two hundred and sixty four (264) we select, only seventy five (75) were located or 28.4% of the sample. Unauditable refers to missing, unavailable or incomplete documents necessary to conduct a routine performance audit.

The selected sample reveals the following outcome:

Fiscal Periods	Number of Business Licenses selected for review	Tax Returns located and review	Tax Returns not made available
2018	56	12	44
2019	97	36	61
2020	111	27	84

For instance; for FY20; according to information and explanations given, there were twenty-seven (27) businesses that have available records, eighty-three (83) were not made available, assuming no records or did not file tax returns and one (1) had name changed.

The cause can contribute to the following: (a) important documents are not securely maintained in the storage room and indicate that no complete log is kept to record movements of all tax returns; and (b) no systematic method to track businesses operating and not filing taxes.

The effect of the above could lead to systematic issues such as (1) excessive time is wasted, files are misplaced, buried and lost; (2) financial information is inaccurate resulted in poor budget planning and cashflow management, preventing the cause for inaccuracy and so on.

Tables A, B and C show the effect in percentages of non-filers on the overall ASG collection process.

Table A - Treasury Revenue Business Licenses issued for 2018

Filing Types	BL issued	No. of Bus.	VS	Filers	Non-filers	MVMT in %
Foreign & LLC	54	27		4	23	85%
Local Corp	1,501	451		337	114	25%
Partnership	328	199		66	133	67%
Sole Proprietorship	967	672		342	330	49%
Totals	**2,850**	**1,349**		**749**	**600**	**44%**

Table B - Treasury Revenue Business Licenses issued for 2019

Filing Types	BL issued	No. of Bus.	VS	Filers	Non-filers	MVMT in %
Foreign & LLC	43	28		6	22	79%
Local Corp	1,510	548		374	174	32%
Partnership	342	194		59	135	70%
Sole Proprietorship	942	618		338	280	45%
Totals	**2,837**	**1,388**		**777**	**611**	**44%**

Table C - Treasury Revenue Business Licenses issued for 2020

Filing Types	BL issued	No. of Bus.	VS	Filers	Non-filers	MVMT in %
Foreign & LLC	95	54		8	46	85%
Local Corp	1,756	518		342	176	34%
Partnership	343	203		54	149	73%
Sole Proprietorship	1,047	705		327	378	54%
Totals	**3,241**	**1,480**		**731**	**749**	**51%**

Source: ASG Treasury Revenue Section and Department of Commerce business listings.

In the absence of an updated automate method to generate the tax information, we strongly encourage the Office to look at ways to track down on all businesses operating in American Samoa that are required under the Tax Code to file, prepare and submit their annual tax returns on time. These are lost revenues and those businesses not in compliance must pay their dues to the American Samoa Government.

Furthermore, tax returns required by law should be securely kept and a log shall be in place to record all movements from time to time. The log shall be reviewed for accuracy by the Customer Service Section supervisor or her equivalent and initial as evident that the log is complete.

Scope and Methodology

Our review covers tax activities during the fiscal years from 2018 through to 2021, a four (4) year period.

In conducting the audit, we judgmentally selected and reviewed taxpayer files if they have proper business licenses and that their taxes are reported, promptly paid and conducting interviews with the Tax Office officials. We also review internal controls and procedures related to the assessment and collection of income tax receivables to the extent that we considered necessary to accomplish the audit objectives. In addition, we perform other testing and walked through procedures that were necessary under the circumstances.

Our audit was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), except for the external peer review requirement. We are scheduling a review for 2023. 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 audit findings and conclusions based on the audit objectives.

Prior Audit Coverage

This is the first performance audit conducted by the Territorial Audit Office on income tax receivables.

Associated Risks

Significant weaknesses and breakdowns were identified in income tax receivable balances and collection procedures and controls could impede upon the production of accurate financial reports and lead to unreliable management information and loss of financial control.

Responsibility of the Territorial Audit Office (TAO)

We endeavor to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected we shall carry out additional work directed towards identification of irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud or irregularities will be detected.

Accordingly, our examination should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist unless a special investigation is warranted for such activities.

CONCLUSION

It was evident from the audit that the expected realization of recorded tax receivables as shown in the aging reports may not be fully recoverable (to be read in conjunction with comments on Tax Receivables Aging Reports Overview and Analytics, refer Page 31 to 36).

The review also reveals that not all businesses filed taxes as required by law (to be read in conjunction with comments on Page 8).

In respect of processes, more concerted efforts need to be taken to streamline processes enabling quicker and efficient completion of work; managing receivables in the areas of collection, receivable aging, devoted additional resources to negative (credit) balances review and providing support for a reserve for allowance establishment, detailed reconciliations are needed to take place on a more frequent basis so that intended benefits are realized as soon as possible. Greater use of information technology systems will eliminate manual implementation which is susceptible to errors, omissions and fraud.

Unless appropriate action is taken to address the root causes discussed in the report, repeated audit issues will continue to be the highlight of audit reports both by external and internal auditors.

FOREWORD

Financial Performance

The 2021 available report of the American Samoa Government as a whole (wide financial statements) concludes with an Unmodified Audit Opinion. However, the Audit Report highlights significant deficiency in internal controls and placed emphasis on the ASG Tax Office in maintaining proper accounting and record keeping of tax receivables. This is a recurring issue from prior years and the risk is HIGH.

i. Income Tax Receivables - Balance Sheet

Fiscal Period	Description	in millions	Value and % movements, increase/(decrease)
2018	Income tax receivables, net	$14,514	($1,610); (9.99%)
2019	Income tax receivables, net	$11,430	($3,084); (21.25%)
2020	Income tax receivables, net	$13,752	$2,322; 20.31%
2021	Income tax receivables, net	$15,200	$1,448; 10.53%

Source: ASG Published Audited Financial Reports

ii. Income Tax Revenues - Statement of Revenues & Expenditures

Fiscal Period	Description	in millions	Value and % movements, increase/(decrease)
2018	Income tax revenues	$33.8	($2.1); (5.85%)
2019	Income tax revenues	$35.7	$1.9; 5.62%
2020	Income tax revenues	$40.5	$4.8; 13.45%
2021	Income tax revenues	$49.3	$8.8; 21.73%

Source: ASG Published Audited Financial Reports

The Tax Office does not have an adequate control system in place to ensure that the receivable ledger is reconciled and accurately reflects tax receivable balances on a monthly, quarterly or annual basis (this is a repeated issue from prior years).

The above should be read in conjunction with contents of the audit report and the conclusion as therein.

Root Cause Analysis

Root cause analysis is defined as the identification of why an issue (error, problem, missed opportunity or instance of non-compliance) occurred which is reported as audit finding in audit reports.

Analyses of audit findings indicate the following as key causes to the issues highlighted:

People

- Inability to prepare accurate reconciliations, investigate and rectify variances
- Processes not followed
- Procedures and Policies not followed
- Important documents and records were not properly updated and maintained

Processes

- Procedures in tax receivables recovery not effective
- Effective Policies need to formulate in some areas (including key ones)

Automated Systems

- Tax Information System need to be upgraded and/or replaced
- Efficient use of the ONESolution accounting software to produce reliable financial results

DETAIL FINDINGS and RECOMMENDATIONS

Based on the audit examination and enquiries with Tax Office Division and Treasury officials, we have noted the following findings and recommendations that warrant management's consideration and response:

VERY SIGNIFICANT

General Ledger Structure - Limitations and Responsibilities
We took a review of the General Ledger, subject to the following:

Internal Control
Internal controls no matter how well is designed and operated can only provide **reasonable** and not absolute assurance regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the poor judgement in decision making, human error and control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

It is also important to note that in future, the design of controls may become inadequate because of changes in the operating environment, laws and regulations or other and compliance with policies and procedures may deteriorate.

Background
The Tax Office operates its General Ledger using the ONESolution Financial Management System. The system is operated and monitored by Treasury General Accounting Team which is responsible for statutory duties such as preparation, monitoring and reporting of revenue and capital budgets; the closedown of the accounts each financial year and the publication of the financial reports and the completion of statutory requirements.

Treasury officials provided a copy of the FY2021 Corporate AR reconciliation which highlights deficiencies. *For example*: receipt payments of $410,000 were incorrectly applied and AR job assessments of $5.43 million was booked into the general ledger (*monitored by Treasury*) but not in the subsidiary ledger (*held at the Tax Office*). The reconciliation included an unexplained difference of $10,913,127.18 book to agree the general ledger with the detail ledger (*the General Ledger was more than the Subsidiary Ledger*). The amount is very material and highlights the importance of having the two ledgers reconciled at all times. These cut-off adjustments were made several months after the end of the fiscal year.

Management Responsibility
It is management responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management responsibilities for the design and operation of such systems.

General Ledger Financial Issues

Control Design

Specific Risks	Control weakness found	Recommendation
Financial periods may not be closed on a monthly basis. Late closure of accounts at year end increases the risk of cut-off issues in financial reporting.	There is no timetable in place to outline the deadline for closing down the general ledger at month-end. Best practice would indicate that this should be performed no later than ten (10) days following the month-end.	A timetable should be put in place to outline key dates for the close down of period ends. The general ledger should be closed down in-line with this timetable and should only be reopened in exceptional circumstances and to ensure accuracy of management reporting.
Close down issues will not be identified before fiscal year-end leading to an increased risk of audit issues.	A trial close down shall be performed before fiscal year-end.	A trial close down shall be performed ahead of the new fiscal year. Review of information for inclusion in the financial accounts should be considered.

FINDING No.1: ACCOUNTS RECEIVABLE MANAGEMENT SYSTEM

Issue 1: AR Aging Reports - inadequate and ineffective efforts

Tax receivables (AR) represent amounts due from operations and therefore are Government assets to be controlled, safeguarded and most importantly, **collected**.

One method of determining and controlling delinquent receivables is through accounts receivable aging report. These schedules categorized accounts receivable chronologically by due dates and are useful for identifying problem accounts requiring management attention. Despite the widely recognized value of aging reports prepared by the Tax Office, we noted that Treasury did not pre-audit nor scrutinized them.

Moreover, Treasury appeared to be giving little direction to the overall accounts receivable operation. Perhaps even more importantly the collection of amounts due to the Government was placed in jeopardy.

As a result, substantial amounts owed are shown in the aging report as more than 120 days were not being collected (Exhibit A, Pages 31 to 36).

Cause

Little efforts were made to address and correct deficiencies.

Effect
Without an accounts receivable aging report, it is difficult to maintain a healthy cash flow and identify potentially bad accounts in an organization.

Challenges to overcome
In order to determine an accurate accounts receivable aging report, the Tax Office management is required to perform an extensive analysis of each account which could result in inefficiencies and is subject to error. This also results in the inability to produce current, reliable information due to time requirements necessary to undertake this effort. In addition, adjustments are made to accounts receivable without documentation of an independent review. This situation could result in inappropriate adjustments, inaccuracies and abuse.

Recommendation
Establishing an effective accounts receivable (AR) management strategy is a crucial part of running an operation. Improving and Optimizing account receivable process brings many benefits. A streamlined and efficient AR process positively impacts customer service and overall operations.

We have also observed that the system does not have the in-house capabilities the current accounts receivable required to make accurate judgements concerning the collectability of receivables; thus, creating the potential for a material misstatement of accounts receivable in the financial reports.

Issue 2: Realization of Income Tax Receivables - FY20 $14.67 million
The Tax Office is facing improvement efforts including the lack of accurate and reliable information on either the made up of its tax receivables or the effectiveness of collection tools and program it uses as well as an aged inventory of receivables, outdated collection processes and antiquated technology (the Moana system).

For instance; the tax receivables aging report as at the end of FY20 shows gross debit balances owed to the American Samoa Government of $14.67 million:

- Current, 0 to 30 days; $207,242 representing 1.41% to total portfolio
- Between 31 to 60 days; $79,956 representing 0.55% to total portfolio
- Between 61 to 90 days; $34,967 representing 0.24% to total portfolio
- Between 91 to 120 days; $5,451,889 representing 37.16% to total portfolio
- Over 120 days; $8,895,715 representing 60.64% to total portfolio

Specifically, the review reveals that carrying value of tax receivables in financial records does not reflect net realizable values because of impairment and other uncertainties in their recoverability. Relevant factors were considered such as:

- history of receivables; some documents were missing and could not be made available
- percentage of overdue balances
- inefficiency of collection procedures

It is our view, a considerable amount cannot be recovered and thus tax receivable may be overstated, not valid or owed by deceased and unlocated taxpayers or out of commission businesses.

Cause
The main factors are the absence of timely and accurate reports and the lack of follow up.

Effect
The conservative recording of receivables is important as not to overstate the value for financial reporting and presentation.

Recommendation
The term **net realizable value** is use to define the amount of tax receivables that is actually expected to collect over time. Since no one is able to predict the exact amount of cash to be received from taxes due to ASG, it is management role to apply estimates and fair judgements applicable in determining the reported amount of receivables at fiscal year-end and reported tax revenues during the fiscal year.

In order to address these issues, changes need to be made in the way it does business and Treasury has to be on top because the Tax Office Division cannot do it alone. In view of the above and other related issues derived out of untimely maintenance and reconciliation of tax receivables, we strongly recommend for an experience *Financial Accountant* (CPA/CIA) to analyze, interpret and maintain accurate receivable balances.

Issue 3: Complete examination of tax returns prior to the expiration of statute of limitation (SOL) period
A significant number of accounts and value were "charged off" on the basis that these barred receivables have exceeded the statute of limitations period; *for instance;* FY20 total write-off indicated between $200k to $258k relates to accounts exceeding the statute of limitation period.

We are of the view that additional time is necessary to complete years of tax returns investigation in one audit and thus increases the risk that some taxpayers will not be examined before the statute of limitation expires. Specifically, aged receivables that should be collected were considered and approved for write off. It is an issue that needs to be emphasized from an economic perspective; those receivables should be pursued for collection before becoming a permanent loss that can never be recovered.

Cause
Lack of an efficient system to give more time to review prior years' tax returns.

Effect
Charged off or write offs of tax receivables constitute loss of public funds.

Recommendation
We recommend that the Office should incorporate best practices and implement a Tax Revenue Management System which can detail taxpayers and balances that are nearing the end of the statute of limitation period. In these days and age, there is an abundance of tools that provides and allows addressing the backlog of accounts to examine and collect.

FINDING No.2: INADEQUATE TAX RECEIVABLES PROCEDURES AND POLICIES

Issue 1: Management Review
A formal management policy requires timely review by management of schedules that support the balances recorded in the general ledger. However, we observed that there is not a process in place to ensure that these procedures are performed on a timely and consistent basis. As a result, the latest reconciliation prepared by the Treasury Accounting team of Corporation tax receivables reveals an unexplained difference of $10m book to agree the general ledger with the detail receivable balances.

Cause
Lack of management oversight in performing of a timely review and should be on a consistent basis.

Effect
Financial statement balances may not be accurate. Furthermore, if one person is creating a schedule and there is no one reviewing, there is a lack of segregation of duties.

Recommendation:
When a process is performed within a department, there is also another level of review and approval performed by a knowledgeable person independent of the process. The approval should be documented to verify that a review was/has been done. Review and approval help to reduce uncorrected errors, irregularities and inaccurate or incomplete information in accounts and reports.

Issue 2: Staff Roles and Responsibilities are not clearly defined
The organizational chart state official titles and where they fit in the organization structure. The written SOP should guide staff to perform their day-to-day work. And adjust them accordingly - as more roles and responsibilities are added.

Cause
Lack of procedures and policies requiring written roles and responsibilities for staff.

Effect
It will create an ineffective working environment and can also result in necessary work being left undone.

Recommendation
It is recommended that the Department of Treasury shall work closely with the Tax Office to develop and establish clear lines of work, responsibility and expectations. These set-ups shall link to the overall efficiency of the Tax Office. It is also recommended to include job orientations to ensure staff is well informed of their roles and other essential details of each job.

FINDING No.3: SEGREGATION OF DUTIES

Issue 1: Reporting of Uncollectible Tax Receivables
The Tax Office has laid down procedures to follow in determining an uncollectable account which includes and requires revoking from its active inventory and the approval of Chief of Collection. There is an issue of "segregation of duties" in that the Chief of Collection is involve with account receivable inputting (*custody and record keeping of asset must be separated*).

While it sounds easy in theory, high level management may not know all the details, which is where the importance of segregation of duties lies.

The basic questions should be asking while evaluating the processes;

a. Who receives and maintains possession of the asset?
b. Who has authorization to approve transactions?
c. Who records the transaction into the subsidiary ledger?

Cause
Management shall review its procedures and policies to ensure no collusion exists in the performance of important functions.

Effect
Without adequate segregation of duties, there is increased risk of error. Nobody is perfect and errors will be missed if no review is performed.

Recommendation
Segregation of duties (SOD) is an essential part of the effectiveness of internal controls of any business and most critical in accounting. It requires a thorough analysis of all accounting roles with the segregation of duties deemed incompatible. The key areas are custody, authorization and recordkeeping.

Issue 2: Delegated limits on receivable write-offs
At present, write-offs are documented by the Collection Section and routed to the upper Tax Office management for approval. However, there is no documentation in the determination of delegated limits (threshold amount) in the approval process. The result of this audit confirms that the required level of authorizations was not obtained for all write-offs before they were entered into the financial system. The Tax Office is at the risk of not serving receivables equitably by not establishing the approval limits.

Cause
Lack of management efforts to ensure best practices are documented and put in place.

Effect
Without established delegated limits, chaos will happen and could lead to unapproved and unethical situations. Additionally, the absence of such written documentation could result in overriding of control and potential fraud.

Recommendation:
During the year or once it is established that tax receivables are unlikely to be irrecoverable or uneconomic to pursue further (after all economically viable avenues for debt recovery failed), a submission shall be prepared and presented for write-off from the accounting records. It is very important that write-offs are approved within delegated level of authority. A financial ***delegated authorization table*** should be in place, delegating the authority limits for all bad debts write-offs.

FINDING No.4: NEED FOR MORE COMPREHENSIVE RECEIVABLE REPORTS

Issue
The receivable collection efforts would benefit from a more comprehensive aging of receivables report in the hands of staff assigned to manage tax receivables. However, the aging report is not particularly useful for analyzing and monitoring balances for delinquency as the report cannot show aging beyond 120 days such as one year, two years and three years and so on.

Cause
The lack of a readily available report is further evidenced by the absence of timely reconciliations and reviews.

Effect
The older the receivables are, indicate that collection practices are weak.

Recommendation
The Tax Office has no procedure for preparation and maintaining of timely reconciliations. In order to ensure that the tax receivables aging report is accurate and meaningful, detailed reconciliations must be prepared, reconciled and reviewed regularly. Processes shall be developed to save historical information for tax receivables and upon completion will improve procedures for reviewing in order to enhance collections.

This is an important area and with the ONESolution software, the Tax Office needs to utilize applicable features provided under the Account Receivables module and take necessary steps to address financial reporting needs. Sometimes, these issues require modifications of existing programs and procedures.

FINDING No.5: MIS-POSTINGS OF TAXPAYERS PAYMENTS

Issue
The Tax Receivables Aging Report for FY2021 shows a credit of $1,235,004.11 under *ID Cash* and description of *Cash Sales*. This indicates that posting of payments from taxpayers were not promptly reviewed and allocated to correct taxpayers accounts. These payments should have been reconciled and rectified. Therefore, the Aging Receivable Reports generated by ONESolution does not reflect a complete and accurate receivable balance.

Cause
Inputting of receipts was not done correctly and no proper review was performed for accuracy and completeness.

Effect
Incorrect postings can distort (unexplained) financial results and resulted in loss of revenues.

Recommendation
We strongly recommend for account receivables transactions to post and allocated correctly. The postings should be reviewed by a senior officer independent of account receivables functions for accuracy and completeness. Incorrect postings can result in inaccurate financial information and perpetuate confusion and may result in loss of revenues.

FINDING No.6: FILING SYSTEM and RECORDS MAINTENANCE

Issue 1: No lists to substantiate "various" taxpayers
According to the information given, the list of write-offs for FY2018 and FY2021 included various taxpayers totaling to $12,713.30 and $1,477.15. There were no breakdowns attached to verify the total amounts given to us for review.

Cause
Supporting documentation is very important and shall be securely filed at all times. The Tax Office does not maintain a satisfactory filing system of important documents and records and is not in compliance with records maintenance.

Effect
Having amounts processed without supporting listing is not recommended in accounting. There is a risk relating to the management of bad debts write offs (as amounts written off that could still be collected are actually charged off).

Recommendation
It is very important for important records and documents to be securely filed and maintained. Department heads should encourage employees to be responsible in making sure ALL records and other vital documents are secured at all times. The Tax Office should ensure postings are thoroughly and efficiently to ensure amounts are substantiated.

Issue 2: Security of Documents and Physical Files
Of the twenty-four (24) Closed Case Audits made available for review, almost all were confirmed to have documents loosely kept inside manila folders and two (2) Case Audit Files could not be located. The explanation given was that the whereabouts of the files were unknown as the Revenue Agent working on those assignments already left the Tax Office.

In addition, the conditions of some files are in poor shape and records/documents should be transferred to new files and neatly arrange for well maintenance.

Cause
Lack of policies and procedures requiring a comprehensive security of important information.

Effect
Misfiled of documents and files take a significant time to find and retrieve. It may also result in unavailability and/or permanent loss of information to collect revenues to the American Samoa Government.

Recommendation
It is recommended that documents should be securely filed inside manila folders and Files must be stored in a secured place. Document security is a significant issue and therefore vital to take security measures seriously for safekeeping of essential financial records.

Files and records that are archived at an off-site facility shall be routinely checked that they are secured; climate controlled and can be delivered whenever these are needed.

Issue 3: Records and Retention (*define and implement*)
The Office has a storage room for safekeeping of tax documents namely Tax Returns and W2s. Other relevant documentation is not kept in the storage room but filed inside manila folders at each section work areas and stored inside filing cabinets. The later information is categorized as "records".

Cause
Lack of establish policies by management to secure records and other important records.

Effect
Lack of retention policies can result in lost or stolen information, excess backlog of paper files and loss of time and space.

Recommendation
The Tax Office needs to establish written retention policies to control the growth of records, ensures these records are incompliance with business and industry regulations and can be found quickly in cases of litigation and legal hold. One important aspect of a retention policy framework is getting the policies identified and defined. More important there shall ways to manage and this is where a policy management solution is critical.

FINDING No.7: WEAKNESSES IN THE MOANA SYSTEM

Issue 1: System is outdated
The tax filing software system currently in use was designed a number of years ago and is non-integrated into the Accounting System General Ledger, the present ONESolution Financial Management System used by the American Samoa Government. The Moana system is being planned for replacement to eliminate existing deficiencies in tax information processing and accounting for revenues and receivables, and improve internal controls. However, these actions will not be completed until several years.

Cause
Several factors may contribute and Treasury Department was slower in finding an upgraded system or a replacement. Not having the right trained personnel to guide its usage and maintenance.

Effect
It slows down the productivity considerably. Technology used by old system is usually not compatible with newer software and modern standards. It is not providing timely management reports.

Recommendation
Taxation is a complicated area. While certain software platforms are recommended and are top of the line for many years, it is suggested that consideration for a new system shall consider features that are very important to the Tax Office environment. One crucial area is the system integration which enables it to download data and shall be compatible with the current ASG ONESolution Financial Management System.

Alternatives in the software selection process might include determination of what tax systems presently used by other neighboring United States territories and more importantly that there shall be an individual(s) specifically trained and assigned to the proposed software.

The Office should increase transparency allowing them to track taxpayers' information visible to the Department for improve customer service and to avoid system failures because of outdated programs. At the same time, the Office should utilize all available platforms and integrate with other agencies so that the information is well share and to avoid duplication of efforts.

Issue 2: The Moana System is not able to provide list of non-filers
The Moana System currently used for tax information filings is not able to capture who the non-filers are on an instant basis. This work is done manually by comparing the list of Business Licenses issued with compliant tax filers. We attempted to determine the total number and dollar value; however, deficiencies in procedures and controls and the unavailability of complete documentation to support receivable balances, we were unable to quantify potential losses to the American Samoa Government. Such a determination will require an intensive examination and may take a considerable number of resources and time.

Tax compliance is a decisive, statutory and mandatory activity which involves strong domain resources to ensure compliance with legislative procedures.

Cause
Lacks of timely review to ensure a good system is in place to produce reliable information and be able to capture non-filers for management to action.

Effect
The Tax Office was unable to provide a reasonable estimate value of unaccounted revenue. Having updated technology is particularly important given that ASG has revenue and budget challenges. The use of technology will enable the Tax Office to pinpoint businesses and residents who are likely owed taxes to the American Samoa Government.

Recommendation
We recommend for a reliable automated system to be in place and implement that will capture businesses and residents who do not filed tax returns voluntarily and for who is available to substantiate significant income taxes owed to the American Samoa Government. The Department shall also look at other options to ensure regular filings and acting tough against such taxpayers.

FINDING No.8: RESERVE ALLOWANCE IS NOT REFLECTIVE OF ACTUAL PROCESS

Issue
The Tax Office does not establish a narrative step by step procedure(s) in computing an allowance reserve; cater for accounts that are considered doubtful in recovery. This allowance reserve is required under applicable accounting standards for financial statement presentation. Regardless of the Tax Office policies and procedures for collections, the risk of failure to pay is always present in receivables. Thus, it is required to realize this risk through the establishment of a reserve for doubtful balances.

The current process of bad debt write-off initiates from the Collection Section. However, the actual process does not account for multiple factors that shall give a better reflection of past, current and future events that impact the establishment of a more meaningful reserve allowance calculation. As the allowance calculation process is sometimes complex as it involves management judgement and estimates, without established written guidance, there is a risk of increasing errors.

Cause
Lack of written procedures and management follow up for prompt implementation.

Effect
Without proper written guidelines, management is unable to assess reasonable estimates of account receivables that will not be collected.

Recommendation
The Tax Office should develop written procedures for calculating and documenting the allowance for doubtful debts and bad debts write-off. It is a recommended and good accounting practice to set up an allowance reserve for financial reporting purposes.

FINDING No.9: FORM 381 SUPPLEMENTAL ASSESSMENT/REFUND SHOWS DISCREPANCIES - contained no signature of preparer and approver

Issue
The review of receivables write-off reveals two (2) taxpayers passed on Form 381 contained no signatures that these were approved in accordance with procedures and policies of the Tax Office. *For instance:* SSN xxx-xx-8327 of $561.96 and xxx-xx-1800 of $3,199.00

Cause
Forms should have been signed off as evident that these were properly prepared and approved.

Effect
The processing shall be documented before effecting entries into the accounting system as this is a loss of revenue to ASG.

Recommendation
We strongly recommend that all documented Forms 381 should be signed off by the Tax Manager or his designee and/or the Treasurer as evidence that write-off or other supplemental assessment work performed were approved in accordance with the Office policies and procedures.

FINDING No.10: WRITE OFFS - INCORRECT GENERAL LEDGER CODING

Issue
The Tax Office uses Form 381 as the base document to book a write-off into the ONESolution system. The information includes the taxpayer(s) names, write-off amount; class of taxes (*penalty, interest and abatement*), general ledger account, signature of preparer and approver. According to the information and documentation, some write-offs passed for processing have incorrect general ledger coding. Instead of applying the credits to receivables, these were coded to revenue accounts; #4111, #4112, #4114, #4115, #4118 and #4140.

Cause
Lack of effective review by the reviewer and approver.

Effect
Incorrect coding can result in inconsistency and inaccurate reporting of financial results.

Recommendation
The execution of general ledger coding review is very important in that it is an element in reporting of accurate financials, achieving consistency reporting and reflecting the true net realizable value of the Tax Office tax receivables from time to time.

FINDING No.11: TAX AUDITS and CLOSED CASES

Issue 1: Improvement needed in the internal tax audit procedures
We saw the need for tax audit documentation to include a declaration by officer(s) or auditors assigned to perform tax audit work, to disclose personal impairment or relationship with business owners or management with which audits are performed. Specifically, the examination of files and audit work papers of twenty-four (24) closed case audits did not document personal impairments to indicate that they had no conflicts of interest.

Cause
Tax audit procedures do not address tax auditors' independence and is not performing in accordance with best auditing practices.

Effect
Non-disclosure of interest increases risks and can result in impairment of audit credibility and reliability.

Recommendation
We strongly recommend the current audit procedures shall be expanded to include procedures to address auditors' independence declaration. Specifically consider, developing an Independence Statement that each auditor or officer assign to perform audit of business must fill out to indicate or not that there are impairment issues. The Independence Statement should also contain a review section to be completed by the Chief of Audit section and Tax Manager.

We suggest that the Tax Office shall familiarizes itself with requirements contained in the *generally accepted government auditing standards* (GAGAS) to determine the appropriateness of using these standards as the basis to perform and report tax audit works.

Issue 2: Risk in selection of businesses for audit
As indicated in the standard operating procedures (SOP) manual, there are applied criteria for audit selection such as low gross receipts, non-business expenses and selected business expenses. For Corporation returns, there are selected issues but are not specifically defined in the procedural manual. The Tax Office Audit Section has four (4) staff including the Chief of Audit.

Cause
There should be specific documented conditions governing the review and calculation of taxes and independent review of these works.

Effect
Businesses that have the greater potential of additional tax revenues for ASG are not scrutinize and examined. This resulted in loss revenue for ASG.

Recommendation
To improve the current practice of selecting businesses for examination, the Tax Office should carefully review its current methods and considered adopting a formal risk analysis scheme to determine the priority or order of businesses for scrutiny. It is also recommended to adopt best practices in risk assessment of audit documentation and communication and implement audit practices generally accepted by the auditing profession which could improve the quality and timeliness of the Tax Office audit work.

Issue 3: Closed Case Audits - documented procedures
A selected sample of twenty-four (24) closed case files was made. The documented procedures for examination of tax audit cases are contained in the procedural manual and each Case File shall have the following documentation:

- ✓ Copy of Tax Return
- ✓ Inventory Assignment Sheet (pink copy)
- ✓ Audit Plan and Interview Information
- ✓ Copy if IDR (Information Documentation Requests) and the taxpayers' responses
- ✓ Copy of Appointment Letter, 30 day and 90 days letter
- ✓ Audit Report
- ✓ Auditor's Work-papers

According to the documentation in file, the information is partially completed and there are no documented reasons given on why the missing documentation is not in file.

Cause
Lack of supervisory review and follow up that information contained in file is adequate and completed.

Effect
Incomplete assignments as a result of inadequate and unavailable documentation can result in missing opportunities for ASG to collect additional revenues.

Recommendation
We strongly recommend that information as required for tax audits must be filed and reason(s) for missing information shall be noted and follow up. A checklist shall be enforced and place in front of file showing the log of require details and when these were cleared to the satisfaction of the Audit Section Head and/or Tax Manager.

FINDING No.12: ORGANIZATIONAL RESOURCES

Issue: Adequate resources are needed to ensure tasks are completed
The Tax Office provided extracts which shows the Audit Section planned status report of businesses audited during these years. For comparative purposes, we looked at the 2018 to 2020 periods as shown by Table 3. The current number of staff in the Audit Section is four (4) including the Chief of Audit.

Table 3

Fiscal Year	No of Business in audit plan	No of Business audited within FY	No of audited within FY
2018	0	30	0
2019	26	21	5
2020	16	10	15

The above information may not reflect an accurate account whether manual or automated regarding the numbers of tax return audits that were completed or in process during the periods under examination. The statistics also indicate that there may be additional tax revenues that are not being identified and collected in a timely manner because of staffing to perform audits.

Cause
Proper planning and adequate staffing are required to perform audits. A schedule and performance review shall be in place to ensure Tax Office auditors are completing the necessary tasks in a timely manner.

Effect
A lot of issues do happen; deadlines will be missed; impact costs and lower levels of productivity and performance. The bottom line resulted in businesses not being scrutinized and a possible loss of revenue for ASG.

Recommendation
The Tax Office should recruit additional personnel and acquiring other resources required for the effective functioning of its functions. Specifically, consider providing and exploring capacity building trainings for employees to broaden their skills and techniques.

In addition, proper audit plans should develop and implement focusing audit efforts on issues with the greatest potential for increased tax assessments. The training should extend and be able to identify ways and methods to complete tax returns audit prior to the expiration of the statute of limitation period.

FINDING No.13: CALCULATING INTEREST and FEES

Issue
It was noted although interest is being charged that there were inconsistencies related to the application of policy and procedures in charging interest and fees. It appears from the process that the delegation is at the revenue officers' level and somehow gives rise to control issues.

Also, the Tax Office ceased applying penalty charges and interest when a taxpayer has filled out an installment payment (Form 433-D) and when approved. We view these inconsistencies give rise to the risk of lost revenue.

Cause
The inconsistency and non-compliance are the result of a lack of communication and of common procedures

Effect
Although not quantified, the inconsistencies indicate that the Tax Office could calculate interest and fees incorrectly thus charging taxpayers too little or too much.

Recommendation
The Office has to develop procedures and methods to ensure the process of calculating interest is clear and precise. The policy relating to charging interest is vague and there is a risk that officers will not have the information needed to understand the requirements and responsibilities relating to collecting interest and fees will remain unclear.

FINDING No.14: PAYROLL WITHOLDINGS

Issue: Included in Receivables Aging Report
The review of the Tax Receivables Aging Reports reveals the following:

- FY19 shows a debit of $51.27million dollars which reflect payroll withholding deductions from fortnightly ASG employee pays
- FY20 includes a credit balance under the ASG Retirement Plan of $1,010,809.80

The inclusion of above balances in the receivable aging report is considered incorrect. These are payroll transactions and should have assigned separate expense/liability accounts in the General Ledger.

Cause
Lack of adequate review by a senior independent officer to ensure the aging report is complete and accurate at all times. Items of non-receivables should not be on the aging report.

Effect
The Aging Report balances are distorted because of incorrect classification.

Recommendation
The Aging Receivable Report should be cleaned up and recommend for separation of these balances in the General Ledger for a fair presentation and true disclosure of financial information.

TAX GAP

The Gross Tax Gap is the difference between the legally tax liabilities for a given year and the amount of taxes voluntarily paid. The Tax Gap falls into three components; the non-filing gap (*taxpayers who are require to file do not file on time or do not so*), under-reporting gap (*tax-payers either understate their income or overstate their deductions, exempts or credits*) and the under-payment or remittance gap (*taxpayers filed their returns but fail to make payment on due dates*). Tax Gap is a measure of businesses and tax-payers compliance and represents tax money that is never paid. Closing this gap is important not only from a revenue producing perspective but as a means of promoting fairness within the tax system.

This full compliance may never be achieved because of the inability to pay taxes due, intentional fraud or willfully non-compliance. Based on inquiries, we were unable to determine if the Tax Office had maintained relevant estimates of the tax gap analysis. Such information assists the Office in revising tax laws, assessing shifts in tax-payers behavior and the reporting compliance.

It is vital for the Tax Office to establish some common principles which can improve the success in collection, maintain good management information which require more complete documentation, increase "tax audit" efforts and focusing on the most important compliance problems.

PRINCIPLE	POTENTIAL IMPROVEMENTS
Good information is critical in identifying compliance problems. A taxing organization must systemically estimate the extent of non-compliance and establish a reliable and relevant system of management information.	Monitor and track collection and compliance performance, update administration and collection policies and procedures.
Focus on compliance efforts where they will do the best. Efforts should be directed toward the largest compliance problems.	Increase and prioritize efforts to identify non-compliant and non-filers
Deal with compliance problems quickly. The longer it takes to reach a taxpayer, the less success in correcting the compliance problem.	Prioritize delinquent accounts for collections; improve management reports; increase presence and visibility of staff in the field.
More visible tax information promotes higher compliance. Documentation of items such as gross receipts makes error less likely. Good records and documentation increases compliance and leads to better results.	Require more information for some business accounts; implement an audit program to identify patterns of non-compliance and support enforcement of the tax code.
The simpler the rules, the better. The simpler the tax code, the more certain the results in applying.	Periodically review the Tax Code and administrative rules for simplification.

Exhibit A

Tax Receivables Aging Report - Overview and Analytics

What does an aging report entail?

A comprehensive aging report uncovers all the open receivables for a business at either at high level (by clients) or detail level (by charges) and the duration for which balances have been outstanding. It allows businesses to identify charges that have not been paid and gives transparency into which clients might be slow paying.

What insights can you glean from an aging report?

There are many different uses of the aging report. Specifically, the Collection Section, typically use it to determine which balances need to be focused on for collection in order to secure payment. It can also help shape collection policies and tighten restrictions. Similarly, it can be used to identify taxpayers who are late payers and need more aggressive collection efforts. The aging report gives insight into the future cashflow, balances that are "current" are deemed collectible and therefore a reliable forecast of future revenues, whereas older balances become more concerning. The aging report also determines how much of the balance can be considered at risk. This can due to the age of the charge, the client behavior and others such as economic issues.

Staffing of the Collection Section

The Collection mission is to collect unpaid receivables and to ensure delinquent returns, determine why receivables become delinquent, develop programs to prevent receivables from becoming delinquent, prevent non-filing, determine reasons for non-filing and measure the degree of non-filing. The objective is to keep the number and dollar value of the oldest receivables at the lowest possible level - **the work should be kept current**.

At the time of examination, the ONESolution system was reporting more than two thousand accounts including some inactive and delinquent accounts.

The Tax Code delegated powers to the revenue officer level for tax collection at all times. The Collection Section includes the in-charge in addition to a staff of eleven (11) Revenue Officers.

Timeline to collect delinquent accounts is lengthy

The delinquent collectability rate is low and can reflect on various factors such as economic conditions, the level of tax-payers compliance, staffing efforts and the effectiveness of collection tools and methods.

Exhibit A

Table 4 - All, at net balances

Fiscal Year	Description	DAYS Current $	DAYS 31 to 60 $	DAYS 61 to 90 $	DAYS 91 to 120 $	DAYS > 120 $	Total Portfolio $
2018	**All types**	(3,739,542)	(1,865,227)	(2,288,854)	(2,546,337)	(21,122,360)	(31,562,321)
	% to portfolio	11.85	5.91	7.25	8.07	66.92	100%
2019	**All types**	(8,510,538)	(508,969)	(1,128,812)	(1,698,974)	(3,400,368)	(15,247,663)
	% to portfolio	55.82	3.34	7.40	11.14	22.30	100%
2020	**All types**	(1,518,796)	(313,446)	(1,451,167)	4,872,079	4,833,447	6,422,117
	% to portfolio	(23.64)	(4.88)	(22.60)	75.86	75.26	100%
2021	**All types**	(3,417,228)	(1,858,443)	(2,165,274)	(2,767,208)	(10,113,413)	(20,321,566)
	% to portfolio	16.82	9.15	10.65	13.62	49.76	100%

Source: ONESolution Accounting and Financial Management System

Note:
Overdue balances result from events and conditions that occur over multiple reporting periods. Depending on structured repayment term(s); *for example*: the dates receivables are due may fall in the same fiscal year that are recorded or it may due in a future period. Therefore, caution is advice when comparing year over year in changes of account receivables. Dollar figures and percentages were calculated based on the Tax Office Aging Reports and listings. The FY2021 balances are based on the pre-adjusted aging report and **we have requested for a revised copy but as of fieldwork closing, none was provided**.

Table 4 shows all receivable types of activities; Corporation, Individuals, Proprietorship and Partnership as at the end of each fiscal year. Amounts shown in parenthesis indicate negative balances. The totals included estimated tax payments (*credit balances*).

The higher percentage falls in the 90 days and over, which indicate that payments (credits) are for the older charges. The report is a great tool to identify working capital issues; avoid looking at the report in isolation, instead look at trends.

More importantly the report tells the cycle and repayment timeline of taxpayers. It also checks whether the policy for calculating the allowance for uncollectible accounts is in-line with collection policies.

An acceptable performance indicator would be to have no more than 15% to 20% total accounts receivable in the greater 90 days category.

Exhibit A

Table 5 - Gross Negative (Credit) Balances

Fiscal Year	Description	DAYS Current $	DAYS 31 to 60 $	DAYS 61 to 90 $	DAYS 91 to 120 $	DAYS > 120 $	Total Portfolio $
2018	**All types**	(3,752,962)	(1,892,770)	(2,493,818)	(2,604,389)	(22,132,115)	(32,876,054)
	% to portfolio	11.42	5.75	7.59	7.92	67.32	100%
2019	**All types**	(8,510,538)	(1,330,264)	(1,421,115)	(1,964,664)	(8,778,061)	(22,004,643)
	% to portfolio	38.68	6.05	6.46	8.93	39.89	100%
2020	All types	(1,726,038)	(393,402)	(1,486,134)	(579,809)	(4,062,268)	(8,247,652)
	% to portfolio	20.93	4.77	18.02	7.03	49.25	100%
2021	**All types**	(3,510,873)	(1,893,487)	(2,171,575)	(3,219,205)	(12,973,758)	(23,768,899)
	% to portfolio	14.77	7.97	9.14	13.54	54.58	100%

Source: ONESolution Accounting and Financial Management System

Note - a total of $1.24 million relates to unallocated payments sitting in Cash Sales account and ASG Retirement Plan, TX037253 of $1.06 million have been excluded. These negative balances should be separated for financial reporting purposes.

a. Negative (credit) balances - risk rating is HIGH

The Tax Office revenue cycle functions process transactions that create negative (credit) balances and audit was unable to establish the correctness of these balances which indicate lack of monitoring and supervision. Ideally, the Tax Office shall establish a policy to determine a percentage benchmark and put in place as the standard volume of negative (credit) balances in accounts receivable from time to time. The table 5 shows significant movements between fiscal years; however, the causes shall be addressed.

Furthermore, manual review and work queue management is required to identify and resolve all negative balances satisfactorily.

The Compliance, Collection and Audit Sections all have responsibilities in managing of negative balances. It is important for the Office to utilize the ONESolution accounting system to allow for available features in Accounts Receivable to track, monitor payments and charges and adjustments. Again, the establishment of a Financial Accountant position within the Office to reconcile and analyze the financial information is strongly recommended.

Exhibit A

For a good receivable management system, the information in the accounting system must be updated and that reported balances are correct at ALL times. Management must ensure that negative balances are investigated and reasons for such are obtained, reviewed and resolved without delays.

The identification of negative balances indicates that *tax assessment revenues* are not process and book on time. The ASG wide financial statements are prepared on the accrual basis of accounting and require revenue to be recorded when earned (*the timing of the underlying transaction*), regardless of the timing of the related cash flow. Therefore, a corresponding receivable would be recorded for any amounts not collected at fiscal year-end.

It is evident that taxes are recorded when cash is received, causing errors on the financial reporting and presentation. *Governmental Accounting Standards Board* (GASB) provides guidance on reporting of these revenue streams in the correct period.

Table 6 - Gross Debit Balances

Fiscal Year	Description	DAYS Current $	DAYS 31 to 60 $	DAYS 61 to 90 $	DAYS 91 to 120 $	DAYS >120 $	Total Portfolio $
2018	**All types**	13,420	27,543	204,964	58,052	1,009,754	1,313,733
	% to portfolio	1.02	2.10	15.60	4.42	76.86	100%
2019	**All types**	0	821,295	292,302	265,690	5,377,693	6,756,980
	% to portfolio	0	12.15	4.33	3.93	79.59	100%
2020	**All types**	207,242	79,956	34,967	5,451,889	8,895,715	14,669,769
	% to portfolio	1.41	0.55	0.24	37.16	60.64	100%
2021	**All types**	93,645	35,044	6,300	451,997	2,860,345	3,447,332
	% to portfolio	2.72	1.02	0.18	13.11	82.97	100%

Source: OneSolution Accounting and Financial Management System

Note: $51.27 million of employee withholdings account is not included above; the nature of this account has no direct relation to income tax receivables.

b. Debit Balances - risk rating is HIGH

Understanding periodic statistics is an important part of analysis activities. This enables the Office to review of specific taxpayer(s) activity which is very helpful in trending analysis and cash forecasting.

It is common and good business practice to analyze and take appropriate measures in quantifying the effectiveness of collection procedures. Using graph or ratio analysis and compare those to standards or benchmark help set relevant goals for good receivables and bad debt management.

Exhibit A

What is critical is that value of monies owed is lost over time. *For instance*; by the time balances are 180 days overdue or more, they could worth only 70% of the original value. One possible way to increase collections on delinquent accounts and enhance customer service and collects taxes owed from tax-filers is to prioritize collection efforts based on customer segments; size of business based on gross receipts, amount owed, payment history etc.

FY2021, Revised Corporation Tax Receivables Aging Report

The reconciliation prepared by Treasury General Accounting personnel shows that the General Ledger and Subsidiary Ledger have agreed. Nevertheless, we have requested for a breakdown of detailed balances and as at the time of report writing, we have not received a revised Aging Report from the Tax Office.

Table 7 - Subsequent Review of Aging Report as at April 30, 2022

All receivable types	Current $	DAYS 31 to 60 $	DAYS 61 to 90 $	DAYS 91 to 120 $	DAYS Over 120 $	Total $
Negative balances	(3,119,913)	(1,282,637)	(1,331,271)	(14,269,708)	(3,793,424)	(23,796,954)
Debit Balances	222	0	0	150	4,722,279	4,722,651
Net Balances	(3,119,691)	(1,282,637)	(1,331,271)	(14,269,558)	928,855	(19,074,303)
% to total portfolio	16	7	7	75	(5)	100%

AR Corporation Balances	Current $	DAYS 31 to 60 $	DAYS 61 to 90 $	DAYS 91 to 120 $	DAYS Over 120 $	Total $
Negative balances	(200,113)	(435,801)	(451,376)	(1,715,818)	(1,540,414)	(4,343,522)
Debit balances	0	0	0	0	6,373,366	6,373,366
Net Balances	(200,113)	(435,801)	(451,376)	(1,715,818)	4,832,951	2,029,844
% to total portfolio	(10)	(21)	(22)	(85)	238	100%

Exhibit A

Note: Negative balances are added back to each aging bucket to get a clear picture of accounts receivable report.

There is no significant improvement in the movement. The headers indicate many taxpayers do not pay within a reasonable time and older balances signifying a weak collection process and thus impact the cash flow. There are other important steps that have shown such as adjusting collection policies and identifying cash flow problem.

The task is easier when the automated software in place can customize settings such as automatic payment reminders for specific taxpayers specifying taxpayers' intervals to send reminders and the ability to include a personalized message.

Exhibit B

RELEVANT OBSERVATIONS and WAYS TO IMPROVE

1. Need for better management and administration of accounting functions

The Management officials at Treasury Department (Treasurer and his deputies) are responsible for seeing that the purposes and objectives of their respective divisions are achieved in the most economical way. Effective accounting system can greatly aid them in meeting this responsibility. The accounting system is an integral part of a management control system, since the accounting records and related procedures can contribute significantly to attaining the objectives of the control system. Achieving objectives at the Tax Office has been greatly hampered by basic weakness in the administration and management of the accounting operation. Such weaknesses, in our view are a major underlying cause of the internal control deficiencies discussed in the report.

2. Tax Receivables - Records and Documentation

The assessment and collection of tax receivables is a significant process of the American Samoa Government. We observed that the filing system is not adequately monitored and secured. The Collection Section in-charge explained that not all documentation could be located to substantiate or prove the claims. With the amount of physical paper files, there is the possibility of misfiled, misplaced and or lost. These records are important as the basis of determining the reasonableness of account receivable balances.

According to the Chief Collections and Compliance Officer, the available records were electronically transferred when she took over as from December 2020.

Furthermore, we were unable to justify the accuracy of taxes due and whether some taxpayers were needed to be referred to the Internal Audit Section for further scrutiny. The effect of the above is that businesses are not paying their taxes in accordance with tax laws resulting in potential losses to the ASG as not being recovered. Therefore, the recoverability of outstanding receivables as shown by the aging report may not be collected at all.

Recommended Practices and Ways to Improve

Transactions affecting tax receivables are to be supported by documents indicating all pertinent information relating to the transaction. Detailed postings of these documents are to be recorded and maintained in subsidiary ledgers for all outstanding tax receivables. Subsidiary ledger systems are to be balanced against the associated general ledger control account at least monthly.

Current subsidiary ledgers are to be periodically purged of account and items which are no longer outstanding. *For example*; accounts and items that have been paid should not appeared on the current subsidiary ledgers file but should be moved to a historical file for retention purposes. Detailed postings are to be summarized and entered in the general ledger control account. These documents are to be maintained by the Tax Office and include a means of sequentially accounting for billing documents.

Exhibit B

- **Adjustments to tax receivables**, any adjustments increasing or reducing the amount of receivables carried in the ONESolution system is to be supported by revise billing documents or credit memorandum or other appropriate documentation. Written procedures are to be developed and follow to ensure that only approved adjustments are passed and recorded.

- **Valuation of tax receivables**, valuation of tax receivables using the allowance method is to be made on a timely basis preferably quarterly and at fiscal year-end to reflect the measurable, available and collectible receivable balances. Entries passed to the reserve allowance account in the general ledger control account shall be reviewed and approved by the reviewer. Evident of such review must be documented in writing.

- **Collection efforts**, a written record is to be kept by taxpayers account, on internal collection efforts. In addition, general system documentation may support billing and past due notices and reminders produced by ONESolution. The Tax Office is to document all efforts made towards the collection of tax receivables.

- **Write-offs and uncollectible receivables**, for accounting and financial reporting purposes, write-offs of uncollectible receivables are to be made against the appropriate allowance reserve or a direct charge to bad debts expense. Transactions are to be documented by means of proper forms assigned and maintained by the Tax Office for recommended write-offs. As a matter of policy, all write-offs shall be approved by delegated level of authority before removing from the accounting records.

- **Records retention**, the records regarding tax receivables are subject to retention, archival and disposal according to applicable statutes of the ASG retention policies. In addition, the Treasurer in writing shall approved to remove and disposed records of how, when and where necessary.

3. Policies and Procedures - Standard Operating Procedures (SOP)

Written policies and procedures codify management's criteria for executing an organization's operations. Developing and documenting policies and procedures is the responsibility of management; documentation should exist for the Office processes, personnel responsibilities to promote uniformity in executing and recording transactions. In addition, thorough and concise policies and procedures serve as effective training tolls for employees.

If written policies and procedures do not exist, are inaccurate, incomplete or simply not current, the following could result:

- inaccurate and unreliable financial records due to inappropriate recording of transactions
- inconsistent practices amongst employees and/or sections
- processing errors due to the lack of knowledge
- inability to enforce employee accountability

Exhibit B

Recommended Practices and Ways to Improve

- Document all significant office practices, processes and policies
- Make the policies and procedures available to all personnel
- Ensure they are accurate, complete, current and function at all times
- Revise policies and procedures for changes in processes and/or systems. This is particularly important when new systems are proposed, developed and implemented or other organizational changes occur.
- Communicate significant changes to all affected personnel immediately to ensure they are aware of any revisions to their daily duties and responsibilities.

Timely revisions, update and continuous development is an integral part of a successful quality system. It is a very useful business tool as it communicates the information in performing tasks and used to demonstrate compliance with regulations or operational practices consistently to achieve pre-determined specification and a quality end-result. It shall also be properly designed to include step by step are follow in a specific order and shall include the:

- Objective
- Scope
- Responsibilities
- Accountability
- Task instructions (Procedures)
- Documentation

At the time of our audit, the majority of documented policies and procedures addressed the processes of tax filings and transactions. According to the Deputy Tax Manager Operations, policies and procedures are currently being updated and/or drafted.

We encourage the Office to complete the policies and procedures and review annually in order to keep current with changes in practices.

4. Tax Compliance

We noticed the urgency and importance of having a clear, fair and equitable set of guidelines to be followed by taxpayers in carrying out tax compliance interventions having regard to best practices and legislation. The current Moana system has limitations and does not allow for immediate availability of non-filers information. To determine it, manual work is required to provide listing which takes time to produce.

Exhibit B

Recommended Practices and Ways to Improve

- Promoting Voluntary Compliance

It is a fundamental principle of self-assessment tax systems that returns filed by a compliant taxpayer(s) are accepted as the basis for computing tax liabilities. The Tax Office shall promote compliance of the tax system by vigorous pursuit of those who do not file tax returns by investigating or making enquiries and by taking appropriate actions against tax evaders. The Tax Office shall challenge tax avoidance schemes which involve (*reducing of taxable income, increasing of deductions against income etc…*) or unintended use of legislation which threaten tax revenues and the perceived fairness of the tax system.

Furthermore, we are of the view that simplifying communication by the Tax Office consistently improves tax compliance and make both late filers and taxpayers comply more swiftly. Making compliance as easy as possible deserves an even greater attention as communication is an inherent element of any tax administration.

- Tackling Non-Compliance

The American Samoa Government recognizes its duty to that compliant majority build a fair tax system and through that system to make sure that those who try to cheat through whatever means are caught and have to pay what they owed. As modernized technology changes business models and working practices, it is important that the tax system adapts. The Tax Office is committed to ensuring that businesses and individuals pay the taxes they owed and that the Tax Office has the proper tools needed to collect the revenues that fund the government public services.

In this regard, the Tax Office shall carry out compliance intervention programs aiming at minimizing the burden on the compliant taxpayer(s) and tackle in a thorough and effective way the non-compliant taxpayer(s). The approach shall take into account all risks that apply to a taxpayer(s) across all taxes. The Tax Office's priority is to recover any unpaid taxes due to ASG along with interest and penalties as efficiently as possible.

5. Technology Enhancements

Normally, the fundamental purpose of Accounts Receivable sub-systems is to track charges and monitor payments from customers. Each charge and payment are maintained in the system as a separate transaction and retained for a user-specified period of time.

The ONESolution accounting and financial management system appears to have some reporting limitations. Information such as income tax receivable balances and aging is not a standard capability. While the Tax Office is researching for a replacement tax information system, some specific information is not generated nor readily made available. *For instances*; aging reports for each type of receivable (*partnerships and proprietorships*); specific aging grouping such as 180 days, 210 days, 240days and so on.

Exhibit B

We strongly encourage the Tax Office with Treasury's coordination in liaising with the system provider or its system consultants on important areas that require enhancing for a better customer service and improve efficiencies in the Tax Office.

6. Efficiency and Effectiveness

Operations are considered effective when they are functioning as intended. The Tax Office deploys site visits, telephone calls, payment plans, reviews of delinquent collection efforts in addition to standard procedures and delinquency follow up notices.

Ineffectiveness and inefficiency may result in a lack of resource availability and may cause a business function to unable to meet its objectives. Frequently, this results in added operational costs. These costs could be measured in unmet targets, lost productivity or the inability to accept additionally responsibility. Accordingly, inefficiencies result in the inability to be effective in attaining objectives.

Recommended Practices and Ways to Improve

In an effort to promote operational efficiency and effectiveness, the Tax Office should consider the following:

- Analyze the Tax Office processes and identify and eliminate any duplicated efforts
- Streamline processes by reducing any non-valued added procedures
- Identify any processes that have been done merely because that's "the way we've always done it". Determine if those processes are still needed. If they are, identify methods that would allow steps to be completed either timelier or effectively.
- Strive to process documents and/or transactions in a minimum required time to increase the efficiency and effectiveness.
- Employ a cost-effective methodology when analyzing and developing new processes.
- Look for more innovative ways to accomplish goals and objectives.
- Automate where possible

7. Staffing and Internal Shortcoming

For an office that its role is very important, there is surprisingly a shortage of staffing in performing of core functions.

Best Practices and Ways to Improve

The Tax Office should have created a strategic staff plan which would include specificity in relation to how additional resources would be obtained and deployed. The data collected by the office regarding how individual time is spent should be maintained and monitored in real-time so that the office strategic staffing plan can be updated as appropriate. When used properly, this data can help deploy existing personnel effectively throughout the year based on seasonal changes or economic cycles.

Exhibit B

8. Management of Bad Debts and Allowance Reserve - key policy actions

As part of managing its financial resources, the Tax Office needs to ensure that the most effective cash collection practices are in place and that income generated is reported at correct levels. To support this, a detailed "Payment and Debt Procedures" policy for collections shall be in place, review and updated regularly. The responsibility and leadership of this policy lies with the management team and to be assisted by Treasury where applicable. The policies shall contain current accounting practices and consistent with tax laws and is a reflective of financial risks faced by the Office.

The establishment of a Financial Accountant position within the Office and/or Controller (CPA/CIA) at the Department of Treasury will assist in managing and administration of these policies and all enquiries relating to the policies should be directed to them in the first instance.

A bad debt provision shall be assessed and calculated using a formula and or reasonable estimates based on accounts receivable cycle or events occurred during the year. *For example*:

- Outstanding between 120 and 180 days - 50%
- Outstanding between 181 and 240 days - 60%
- Outstanding between 241 and 300 days - 70%
- Outstanding between 301 and 360 days - 80%
- Outstanding between one and two years - 90%
- Over two years - 100%

The time bucket amounts in the Tax Receivables Aging Report should be reviewed regularly to reflect the natural cycle of debt management processes and are relevant to the Tax Office collection model.

Generally accepted accounting principles require that a determination be made between receivables deemed to be collectable and those considered not economically collectable including those not collected at all.

The Tax Office written criteria for the determination of non-collectable receivables should be review and those determined to be uncollectable are to be written off promptly against the appropriate allowance reserve account. Once accounts are written off, these are no longer reflected in Aging Reports and are no longer used in calculating of Allowance for Uncollectible Accounts. Estimates of total uncollectible receivables are to be made at least quarterly and adjusting entries are to be recorded in the accounting records.

Prior to write-offs of uncollectable receivables occurs, the write-off is subject to senior management review using procedures developed by the Tax Office in cooperation with Treasury. These procedures may call for the Treasurer's review of certain types of receivables to ensure that receivables are equally assessed.

Exhibit B

9. Treasury Fiscal Outlook - FY2021 and FY2022

The collection projections and revenue predictions published in Treasury's report may not reflect a reasonable estimate given deficiencies in control procedures and policies specifically the general ledger is not reconciled to subsidiary ledgers or source documents are not closed or summarized in a manner that portray the activities of the Tax Office on a timely basis and give a true account of receivable balances.

The extracted chart gives FY2021 Treasury's revenue estimates, alongside the FY2022.

Taxes	FY2021 - Estimate $	FY2022 - Forecast $
Corporate Taxes	$16,000,000	$16,000,000
Individual Income Taxes	$27,000,000	$27,000,000

The current accounting system recognized *partnership* and *proprietorship* filers as individuals. The Tax Office relies on manual identification of information to produce the needed reports instead this should be automated.

We encourage the Tax Office and Treasury to seek technical assistance from the ONESolution system provider on existing features within the software that generate and produced meaningful information for management.

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August 23, 2022

To: Tofa Sualauvi H. Su'a
Acting Territorial Auditor

From: Vaaimamao Poufa
Tax Manager

Subject: 2022 Audit of Tax Office

Faafetai tele lava for the opportunity to provide feedback on the findings and recommendations presented in your 2022 audit of the Tax Office.

Firstly, my apologies for not being present during the audit as I was on leave for personal matters.

As the manager of the Tax Office, we take the findings and recommendations outlined in your report very seriously and a wakeup call to create streamlined processes and procedures to ensure efficient and effective services for our taxpayers, and in the same manner warrant the collections of tax revenue for the American Samoa Government.

The following measures and changes will be implemented to comply with the findings and recommendations of the audit:

- **New Tax System**: A feasibility study is currently underway for a new tax system for the American Samoa Government. This has been a consistent finding in previous audits that the Moana application is outdated and unsupported. We have high expectations that the new tax system will fulfill and be the answer to the systematic shortcomings outlined in the findings.
- **Relocation & Filling of Staff Vacancies of Enforcement Unit (Audit, Collections & Compliance**): Plans are in the pipeline to relocate the enforcement arm of the Tax Office. Every year, during the filing season (January 1st to April 15th) all collection, compliance and audit actions are put on hold as all staff are assigned to serve taxpayers when the office offers its free filing

assistance program. In the past two tax years, this has been extremely difficult due to Covid 19 and all the stimulant packages provided by the federal government whereby this was all the staff did yearlong, serve the taxpaying public and provide answers to their inquiries, while trying to fit in their collections, compliance and audit duties. Relocating of the enforcement unit will ensure that their functions and duties be performed uninterrupted year-round. Also, the missing functions & duties identified in the audit will assuredly be implemented and administered.

- **Expansion of Taxpayer Services & Processing Units**: We had tried unsuccessfully with previous administrations to discontinue our free filing assistance program, because it was affecting our daily operations and interrupting our compliance, collections and audit functions. It even reached the previous Governor and his question to us was "*O fea o le a o le atunuu e faila ai latou lafoga?"* I was speechless and caught off guard as I felt that we were trying accomplish one thing while neglecting another important function of this office, serving our people. This part of the plan ties in with the relocation of the enforcement unit, leaving space on the first floor for the expansion of Taxpayer Services, hiring more Taxpayer Services Agents to assist the public yearlong. Further, the expansion of the Processing Unit and hiring of more Processing Technicians for the data input of taxpayer information into the tax system would support this important function as well.

We have taken into consideration the findings and offer the above solutions as possible remedies to rectify our shortcomings.

Faafetai tele lava for opportunity and we look forward to a mutual and prosperous working relationship.

Soifua ma ia Manuia.