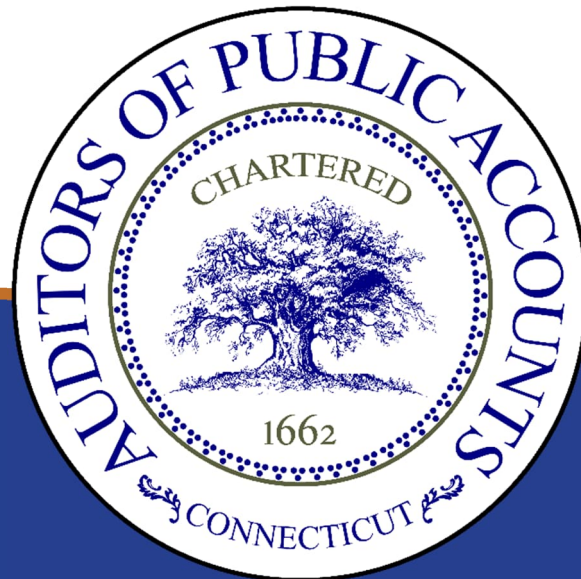


AUDITORS' REPORT

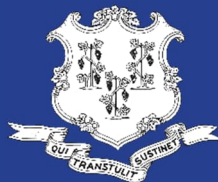
Department of Revenue Services

FISCAL YEARS ENDED JUNE 30, 2022 AND 2023



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



CRAIG A. MINER
State Auditor

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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September 30, 2026

INTRODUCTION

We are pleased to submit this audit of the Department of Revenue Services (DRS) for the fiscal years ended June 30, 2022 and 2023 in accordance with the provisions of Section 2-90 of the Connecticut General Statutes. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, or policies; and a need for improvement in practices and procedures that warrant management's attention.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Revenue Services during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Frederick Armour
Melissa Forauer
Michael Koonz
Jaimey Makie

A handwritten signature in black ink, appearing to read "F. Armour".

Frederick Armour
Associate Auditor

Approved:

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian
State Auditor

A handwritten signature in black ink, appearing to read "Craig A. Miner".

Craig A. Miner
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Revenue Services disclosed the following six recommendations, of which four were repeated from the previous audit.

Finding 1

Lack of Compliance with Mandatory Reporting Requirements

Criteria

Public Act 22-81, Section 22, required the DRS commissioner to conduct a study to identify options for establishing a personal income tax credit for taxpayers with dependent children enrolled in childcare. The commissioner was required to report on the study's findings and any recommendations to the General Assembly by January 1, 2023.

Public Act 22-117, Section 36, required the DRS commissioner to study (1) alternative approaches for imposing income tax with respect to taxpayer residency and (2) each tax and fee that the Department of Revenue Services is statutorily responsible for administering, in order to determine the overall effectiveness of each such tax and fee. Not later than January 1, 2023, the commissioner was required to submit a report for each study to the General Assembly.

Section 4-60 of the General Statutes requires each budgeted agency to submit an annual administrative report to the Governor on or before September 1st.

Public Act 19-117, Section 331, required the Department of Revenue Services to consult with the Streamlined Sales Tax Governing Board to develop a list of certified service providers (CSP) that can facilitate sales tax collection and remittance. The act required the department to develop a plan to implement the use of certified service providers for the collection, reporting, and remittance of sales and use taxes. The plan could require that retailers use CSP and identify the costs that they may incur for such services. The department was required to submit the plan and draft implementation legislation to the General Assembly by February 5, 2020.

Condition	Our review of reports required to be filed during fiscal years 2022 and 2023 disclosed that at the time of our review: • DRS did not complete the Child Care Tax Credit Study by January 1, 2023. • DRS did not complete the studies of the Personal Income Tax and DRS-Administered Taxes and Fees by January 1, 2023. • DRS did not submit the annual Report of Activities for fiscal year 2023 to the Governor by September 1, 2023. Our previous audit reported that the department did not consult with the Sales Tax Governing Board or develop the required plan to use certified service providers. Furthermore, the department did not provide the draft legislation by February 5, 2020.
Context	We reviewed 15 statutory reports for fiscal years 2022 and 2023.
Effect	Report recipients may not have information necessary to implement legislative requirements.
Cause	It appears the Department of Revenue Services did not provide the resources necessary to implement legislative requirements.
Prior Audit Finding	This finding has previously been reported in the last two audit reports covering the fiscal years 2017 through 2021.
Recommendation	The Department of Revenue Services should comply with applicable statutory reporting requirements.
Agency Response	"The Department has not been contacted by the General Assembly regarding the reports referenced above. As such, it does not appear that said reports are relevant "to implement[ing] legislative requirements" as posited by the APA. That said, the Department will inquire of the General Assembly as to its need for these reports."
Auditors' Concluding Comments	The statutory requirements remain. If DRS believes this mandatory reporting is no longer necessary, it should request their repeal by the General Assembly.

Finding 2

Penalty Waiver Committee – Noncompliance with Section 1-225 of the General Statutes

Criteria	Section 1-225 of the General Statutes requires public agencies to: (1) post meeting minutes to the public agency's website no later than seven days after such meeting; (2) file a schedule of regular meetings for the ensuing year with the Secretary of the State no later than January 31st of each year, and to post such schedule on the agency's website; (3) file the agenda of such meeting with the Secretary of the State no less than 24 hours before a meeting, and post such agenda on the agency's website. Section 12-3a of the General Statutes requires the Penalty Review Committee to meet monthly or as often as necessary to approve penalty waivers over five thousand dollars.
Condition	The Department of Revenue Services did not submit the Penalty Review Committee's meeting schedules or agendas to the Secretary of the State during fiscal years 2022 or 2023. The department also did not post the schedules, agendas, or meeting minutes on its website.
Context	The department had one active committee during the audited period.
Effect	Noncompliance with freedom of information requirements may affect public engagement and the committee's transparency.
Cause	A lack of management oversight contributed to this condition.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Department of Revenue Services should work with the Penalty Review Committee to ensure compliance with Section 1-225 of the General Statutes.
Agency Response	"The issue is one of statutory interpretation. Given that there can be no discussion of any taxpayer information with or in front of the general public, posting of meetings the public portions of which would consist solely of motions to go into and out of executive session seems meaningless and an unnecessary use of limited state resources. That said, if the APA believes that this issue is worthy of a finding in an agency that employs over 500 people and collects

more than \$26 billion dollars annually, the Department will seek an opinion from the Office of the Attorney General as to the applicability of Conn. Gen. Stat. § 1-225 to the Penalty Waiver Review Committee.”

**Auditors’ Concluding
Comments**

The committee’s meeting minutes also included public information including member attendance and discussion about its revised procedures. Committees that discuss and review confidential information routinely post their minutes and agendas without revealing that information.

Finding 3

Management Performance Evaluations Not Completed

Criteria

The Performance Assessment and Recognition Systems (PARS) is a program developed by the Department of Administrative Services (DAS) to support additional incentive compensation for managerial and confidential employees who work in agencies that use a prescribed PARS plan. Basic features of the program include developing results-oriented, measurable performance objectives and goals for each manager and confidential employee, regular communication between such employees and their supervisors on meeting goals, performance assessments, and providing a basis for differentiating among performance levels and annual salary increases.

Condition

The Department of Revenue Services participates in PARS but was unable to provide us with documentation that it completed PARS reviews for all ten managers and confidential employees reviewed whose performance evaluations were required to support their annual salary increases during the audited period.

Context

The department had 34 managers as of February 15, 2024. We used the haphazard method to select ten employees after excluding employees previously selected in the prior audited period.

Effect

When performance evaluations are not prepared, there is less formal feedback for management to measure performance goals, the attainment of such goals, and productivity expectations.

Cause

The department had inadequate administrative controls to ensure the completion of PARS managerial performance evaluations.

Prior Audit Finding	This finding has been previously reported in the last three audit reports covering the fiscal years 2015 through 2021.
Recommendation	The Department of Revenue Services should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System.
Agency Response	"The Department's senior management has significant interaction with its managers through which it relays and discusses the Department's overall goals and objectives and monitors that said managers are operating in a manner that is consistent with said goals and objectives. Moreover, the Department's Bureau Chiefs and Directors meet regularly with their managers and are in the process of developing key performance indicators specific to each unit and manager with the goal of using this information to monitor and evaluate the progress and work of each manager and unit. That said, the Department will make a more concerted effort to utilize the PARS form."

Finding 4

Outdated Agency Regulations

Criteria	Section 4-168 of the General Statutes provides that, no regulation may be adopted, amended, or repealed by any agency until approved by the Attorney General and standing legislative regulation review committee, and posted online by the Office of the Secretary of the State. Sound business practices dictate that agencies should periodically review their regulations to identify those in need of revision.
Condition	The DRS regulations are outdated and do not reflect the department's current practices or organizational structure. - Section 12-2-1a(b) of the State Regulations prescribes six divisions within DRS with specific responsibilities and supervision to ensure proper segregation of duties, while the department's current organizational structure includes only four. - Section 12-2-1a(b)(4) of the State Regulations identifies a chief inheritance attorney who is in charge of the legal section of the succession and estate taxes and reports to the first assistant commissioner. The department's current organizational chart no longer identifies a chief inheritance attorney position. The tax litigation director oversees the

litigation and appellate subdivisions and reports to the first assistant commissioner.

- DRS reorganized its legal division in 2021, and it no longer aligns with its description in Section 12-2-1a(b)(5) of the State Regulations.

Context	State regulations provide guidance on the implementation and adherence to applicable statutes. There are 393 DRS agency regulations. We only reviewed regulations governing the department's organizational structure to verify proper autonomy within the current divisions.
Effect	Outdated agency regulations may lead to inconsistencies in program management and reduce organizational transparency. Lack of accurate information in the department's regulations can lead to inefficiencies and practices that may conflict with the General Statutes.
Cause	DRS did not believe that it was necessary to update its agency regulations to reflect its reorganization.
Prior Audit Finding	This finding has not been previously reported.
Recommendation	The Department of Revenue Services should update its regulations to reflect its current organizational structure.
Agency Response	"It is noteworthy that the APA in its analysis fails to recognize Conn. Gen. Stat. § 4-8, which provides the Commissioner with the authority to structure his agency in the manner he deems most efficient and effective. To that end, Conn. Gen. Stat. § 4-8, in pertinent part, provides as follows: "He shall organize the department and any agency therein into such divisions, bureaus or other units as he deems necessary for the efficient conduct of the business of the department and may from time to time abolish, transfer or consolidate within the department or any agency therein any division, bureau or other unit as may be necessary for the efficient conduct of the business of the department, provided such organization shall include any division, bureau or other unit which is specifically required by the general statutes." Based on the above, the current Commissioner is not bound by prior organizational decisions. To the contrary, and as noted above, Conn. Gen. Stat. § 4-8 expressly allows him the authority to structure and operate his agency in the manner he sees fit. As such, there can be no dispute that Conn. Gen. Stat. § 4-8 and Conn. Agencies Regs. § 12-1-2a are in conflict. Given, however, that Conn. Gen. Stat. § 4-8 is a statute, it controls and cannot be overridden by a regulation. It is also notable that the APA fails to recognize that the Department makes public its organizational chart and updates said chart on a regular basis. As

such, there is current public guidance as to the structure of the Department. The publishing of this organizational chart is done pursuant to the Commissioner's authority under Conn. Gen. Stat. § 4-8 and is reflective of how he chooses to structure his agency. That said, and so as to address this finding and to make sure the Department comports with Conn. Gen. Stat. § 4-8, the Commissioner will seek approval through the regulation review process to repeal Conn. Gen. Stat. § 12-1-2a, as it is clearly in conflict with Conn. Gen. Stat. § 4-8."

Auditors' Concluding Comment

Our audit recommendation did not challenge the commissioner's authority to reorganize the department. The finding revealed that the DRS regulations did not align with the department's current practices and organizational structure.

Finding 5

Insufficient Property Inventory Management

Criteria

Section 4-36 of the General Statutes requires state agencies to establish and maintain an inventory system as prescribed by the State Property Control Manual. The manual requires state agencies to take a complete physical inventory of all property by the end of each fiscal year. The manual also requires the agencies to maintain complete and accurate property records to ensure the adequate tracking of assets.

Condition

The department did not perform an annual physical inventory for fiscal year 2022. Our review of the department's asset management system as of June 2024 revealed the following:

- Two assets, totaling \$231,571, did not have tags.
- Four assets, totaling \$813,018, were in a different location than their listing in Core-CT.
- The department misclassified two capital assets, totaling \$17,100, as non-capital and incorrectly listed their cost as \$0 in Core-CT.

Context

DRS reported \$11,971,770 and \$11,331,750 in total assets on its CO-59 form as of June 30, 2022 and 2023 respectively. The department had 1,094 capital equipment and controllable assets totaling \$7,326,683 as of June 2024. We judgmentally selected 30 items totaling \$4,204,575 based on cost for physical inspection and

judgmentally selected an additional 12 items totaling \$90,217 from the premises based on their cost, location and asset class.

Effect	DRS did not maintain accurate property inventory records. The department has decreased assurance that it properly maintained and safeguarded its capital assets.
Cause	It appears that a lack of strict adherence to the State Property Control Manual and lack of administrative oversight contributed to these conditions.
Prior Audit Finding	This finding has been previously reported in the last audit report covering the fiscal years 2020 through 2021.
Recommendation	The Department of Revenue Services should improve internal controls over its property inventory to comply with the State Property Control Manual.
Agency Response	"We agree with this finding. The Department has made improvements to internal controls over property inventory reporting to comply with the State Property Control Manual."

Finding 6

Disposition of Funds Awaiting Distribution

Background	Any receipt of funds that cannot be posted to the correct funding source must be coded to Funds Awaiting Distribution. This fund was established by the Office of the State Comptroller (OSC) to enable agencies to comply with statutory depositing requirements. It is incumbent on the agency to determine the correct coding for these funds and disburse them to clear this fund.
Criteria	The DRS Funds Awaiting Distribution Fund accounts should be supported by detailed accounting records. Proper internal control calls for the reconciliation of control totals to subsidiary records. Section 3-112 of the General Statutes requires the Office of the State Comptroller to prescribe the mode of keeping and rendering all public accounts of the state. The State Accounting Manual (SAM) year-end closing process requires each state agency with a balance in the Funds Awaiting Distribution Fund on June 30th, to submit by July 31st of each year, a report to OSC that the agency has reconciled its Funds Awaiting Distribution Fund activity. The report

requires the agency to inform OSC of any errors and request required corrections.

Condition

We identified an account within the Funds Awaiting Distribution with an ending balance that DRS did not reconcile and could not explain. There were unresolved items in the reconciliation as far back as 2008 that the department continuously carried forward into the current period.

In addition, DRS did not submit a reconciling report at year end to the Comptroller in accordance with the State Accounting Manual.

Context

The fund's balance totaled \$21,346,879 and \$22,011,226 as of June 30, 2022 and 2023, respectively.

Effect

The failure to promptly identify and reconcile the Funds Awaiting Distribution Fund activity could result in the improper use and recording of cash receipts.

Cause

The department did not ensure that it promptly identified the activity after posting it to the temporary account. It appears that some of the activity may be from the department's transition to its Integrated Tax Administration System.

Prior Audit Finding

This finding has previously been reported in the last three audit reports covering the fiscal years 2015 through 2021.

Recommendation

The Department of Revenue Services should continue to consult with the Office of the State Comptroller to investigate, identify, promptly reconcile, and report the balance in its Funds Awaiting Distribution Fund account.

Agency Response

"The Department is aware of this issue and is working with the Office of the State Comptroller toward resolving it. The APA should note that the journal entry to distribute these funds is out of a different account (SID 42350), leaving a net balance of all Funds Awaiting Distribution accounts at \$2.8 million as of FYE 2025. Of the \$2.8 million, the Department has identified \$1.8 million that will be moved into an appropriate account once it has been established. The Department continues to work with the Comptroller concerning the use of the appropriate SIDs."

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior audit report](#) on the Department of Revenue Services contained 10 recommendations. Six have been implemented or otherwise resolved and four have been repeated or restated with modifications during the current audit.

Prior Recommendation	Current Status
The Department of Revenue Services should comply with its statutory reporting requirements in accordance with Public Act 19-117 and Section 12-7b(d) of the General Statutes.	REPEATED Modified Form Recommendation 1
The Department of Revenue Services should update its comprehensive disaster recovery plan to ensure it includes important elements necessary for its optimum effectiveness to appropriately respond to disasters and ensure ongoing operational stability.	RESOLVED
The Department of Revenue Services should complete and submit a procurement plan to the Office of Policy and Management for approval in accordance with Section 4-67i of the General Statutes.	RESOLVED
The Department of Revenue Services should ensure that all managers are evaluated on an annual basis using the Performance Assessment and Recognition System.	REPEATED Recommendation 3
The Department of Revenue Services should continue to consult with the Office of the State Comptroller to investigate, identify, promptly reconcile, and report the balance in its Funds Awaiting Distribution Fund account.	REPEATED Recommendation 6
The Department of Revenue Services should improve its monitoring of extended medical leaves to ensure that employees provide required medical certificates.	RESOLVED
The Department of Revenue Services should strengthen internal controls over seized property, including maintaining evidence that inventory on hand is accurately recorded and ensuring that it promptly adopts current policies and procedures.	RESOLVED

Prior Recommendation	Current Status
The Department of Revenue Services should strengthen its internal controls over reporting to ensure management is provided with relevant and accurate information to support the effective and efficient resolution of suspended transactions.	RESOLVED
The Department of Revenue Services should improve internal controls over its property inventory reporting to comply with the State Property Control Manual.	REPEATED Modified Form Recommendation 5
The Department of Revenue Services should improve internal controls over its property inventory reporting to ensure accuracy in accordance with the State Property Control Manual.	RESOLVED

OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the Department of Revenue Services in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2022 and 2023. The objectives of our audit were to evaluate the:

1. Department's internal controls over significant management and financial functions;
2. Department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

In planning and conducting our audit, we focused on areas of operations based on assessments of risk and significance. We considered the significant internal controls, compliance requirements, or management practices that in our professional judgment would be important to report users. The areas addressed by the audit included payroll and personnel, revenue and cash receipts, seized property, accounts receivable, purchasing and expenditures, asset management, reporting systems, and information technology. We also determined the status of the findings and recommendations in our prior audit report.

The Department of Administrative Services administers human resource and information technology functions for the Department of Revenue Services. Our audit reviewed these functions, based on assessments of risk and significance, as they relate to the Department of Revenue Services. Our review did not include reviewing other aspects of the Department of Administrative Services' operations. Records pertaining to sales taxes collected by the Department of Motor Vehicles but credited to the Department of Revenue Services are examined as part of our audit of the Department of Motor Vehicles.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the department and certain external parties. We also tested selected transactions. This testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

The accompanying financial information is presented for informational purposes. We obtained this information from various available sources including the department's management and state information systems. It was not subject to our audit procedures. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with laws, regulations, contracts and grant agreements, policies, or procedures; and
3. A need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Department of Revenue Services.

ABOUT THE AGENCY

Overview

[The Department of Revenue Services \(DRS\)](#) operates primarily under the provisions of Title 12, Chapters 201, 202, and 207 through 229 of the General Statutes. The department is responsible for administering and ensuring compliance with applicable provisions of this title and certain other statutes related to the assessment and collection of taxes. Major functions of the department include collecting and processing tax revenues, developing tax regulations, and providing information and services to taxpayers.

Organizational Structure

Section 12-1a of the General Statutes provides that the department is under the direction of a commissioner. Mark Boughton was appointed commissioner in December 2020 and continues to serve in that capacity.

The organizational structure of the department includes the Commissioner's Office, Audit and Compliance Division, Fiscal Administrative Services Division, Legal Services Bureau and Operations Bureau. The department operates regional offices in Hartford, Norwich and Waterbury.

Significant Legislative Changes

Notable legislative changes that took effect during the audited period are presented below:

- **Public Act 22-81 (Section 22)**, effective May 24, 2022, required the Department of Revenue Services commissioner to conduct a study to identify options for establishing a personal income tax credit for taxpayers with dependent children enrolled in childcare. The act required the commissioner to report on the study's findings and any recommendations to the Joint Standing Committee of the General Assembly having cognizance of matters relating to children by January 1, 2023.
- **Public Act 22-117 (Sections 4 and 31)**, effective May 27, 2022, capped at \$5 million the amount of interest (1) that can be added to any tax refund issued by the Department of Revenue Services commissioner for a tax period and (2) that a court may award in any tax appeal in connection with a tax refund claim for a tax period. The act prohibited the DRS commissioner from collecting a tax after ten years (1) from the date the tax was reported on a return filed with DRS or (2) in the case of an assessment, from the date the assessment became final. Any remaining unpaid taxes after the ten-year period are deemed abated as of the first day of the 11th year after the return was filed or the assessment became final, as applicable.
- **Public Act 23-204 (Section 378)**, effective June 12, 2023, starting with the 2023 tax year, increased the state earned income tax credit for Connecticut residents from 30.5% to 40% of the federal credit.

Financial Information

General Fund Receipts

A summary of General Fund receipts during the audited period as compared to the preceding fiscal year follows:

Fiscal Year Ended June 30,			
	2021	2022	2023
Personal Income Tax	\$ 11,438,499,941	\$ 12,115,660,219	\$ 11,219,762,952
Sales & Use Tax	4,747,302,154	4,884,773,852	4,996,337,249
Corporation Tax	3,022,082,156	3,724,646,590	3,560,308,882
Public Service Corporation	257,016,867	300,494,000	316,871,895
Inheritance Tax	303,339,242	220,223,061	218,246,074
Insurance tax	200,303,198	202,281,377	251,536,990
Alcoholic Beverage & Tobacco Tax	427,671,111	402,681,374	374,954,506
Real Estate Conveyance	357,390,200	383,967,213	302,703,483
Admissions & Dues	36,112,236	115,168,937	(25,304,686)
Nursing Home Provider	99,330,742	98,984,528	100,873,592
Hospital Net Revenue	999,814,979	861,156,017	795,196,184
All other taxes.	91,306,848	108,986,132	92,374,457
Total Revenues	\$ 21,980,169,672	\$ 23,419,023,300	\$ 22,203,861,580
Refunds	\$ 1,864,636,205	\$ 1,816,959,668	\$ 1,996,185,778
Total	\$ 20,115,533,467	\$ 21,602,063,633	\$ 20,207,675,802

Revenue growth in fiscal year 2022 was primarily due to the increases in personal income tax and corporation tax collections from business improvements after the Covid-19 pandemic. The Admission and Dues category increased significantly in fiscal year 2022 and decreased in fiscal year 2023 because of the timing for miscellaneous electronic fund transfers pending tax distributions. Revenues from sales and use tax, and personal income tax receipts accounted for approximately 73% of total tax revenues during the audited period.

General Fund Expenditures

A summary of General Fund expenditures during the audited period as compared to the preceding fiscal year follows:

Fiscal Year Ended June 30,			
	2021	2022	2023
Personal Services	\$ 52,978,667	\$ 52,165,513	\$ 48,431,719
Other Expenses	5,937,276	8,833,415	5,361,284
Total Budgeted Accounts	\$ 58,915,943	\$ 60,998,927	\$ 53,793,003

Personal services expenditures decreased because of retirements in fiscal year 2022 and a reduction in full-time employees during fiscal year 2023. Spending for employee training, marketing and information technology contributed to the increase in other expenses in fiscal year 2022.

Special Transportation Fund

A summary of Special Transportation Fund receipts, net of refunds, during the audited period as compared to the preceding fiscal year follows:

Fiscal Year Ended June 30,			
	2021	2022	2023
Sales and Use Tax	\$ 447,160,537	\$ 684,550,487	\$ 812,806,080
Petroleum Gross Earning Tax	183,777,951	350,064,347	401,836,891
Motor Fuel Tax	335,869,346	298,272,143	88,709,262
Special Motor Fuel Tax	124,454,889	114,380,147	133,576,234
Highway Use Tax	0	0	23,527,671
Motor Carrier Taxes	11,607,849	9,051,687	8,848,166
Total Revenues	1,102,870,572	1,456,318,811	1,469,304,304
Other Tax Refunds	11,796,084	16,176,813	8,910,607
Net Revenues	\$ 1,091,074,488	\$ 1,440,141,998	\$ 1,460,393,697

There was an increase in Sales and Use Tax revenue during the audited period due to the phase-in schedule for the transfer of motor vehicle sales and use tax from vehicle registrations at the Department of Motor Vehicles of 25% in fiscal year 2021, 75% in fiscal year 2022 and 100% in fiscal year 2023 and other expansions to the sales and use tax. There was also an increase in the Petroleum Gross Earning Tax during the audited period due to the resumption of taxes after the pandemic. Statutory changes suspended the Motor Fuel Tax from April to November 2022 causing reductions. The state implemented a new Highway Use Tax as of Jan 1, 2023.

Audit and Compliance Division - Assessments

The Audit and Compliance Division is comprised of revenue agents who pursue collections through direct contact with taxpayers, field agents who issue tax warrants to delinquent taxpayers, hearing officers who conduct initial hearings for delinquent taxpayers, and enforcement agents who investigate tax evasion cases.

Examiners in the Audit and Compliance Division conduct audits to ensure taxpayer compliance regarding the filing of returns and the remitting of tax payments. The field and office audits generate assessments. A summary of assessments and audits conducted for the audited period, as published in the department's annual report, is presented below:

Fiscal Year Ended June 30,			
	2021	2022	2023
Assessments	\$ 267,666,895	\$ 278,526,371	\$ 213,785,408
Audits Conducted	16,673	16,764	11,783

There was a reduction in the number of audits conducted during fiscal year 2023 from the prior year. The agency attributed the decline to a decrease in the number of DRS auditors over the past several years. Additionally, the phased rollout of the new tax administration system from 2020 to 2024 delayed the start of certain audit programs.

Appellate Division

The department's Appellate Division administers appeals from taxpayers who dispute audit assessments and holds a hearing when a taxpayer files a written protest. The division decides the validity of assessments based upon information presented. The taxpayer may then appeal in court.

Appellate Division activity reports, reflecting resolution activity for the audited period as compared to the preceding fiscal year are presented below. The Appellate Division revised the reports as a result of the division and court decisions.

Fiscal Year Ended June 30,			
	2021	2022	2023
Cases Resolved	1,828	1,324	477
Original Assessment	\$ 1,786,308,059	\$ 114,689,381	\$ 32,380,272
Revised Assessment	1,687,706,375	104,781,409	13,943,876
Assessment Reduction	\$ 98,601,684	\$ 9,907,972	\$ 18,436,396
Percentage Reduction	6%	10%	57%

There was a notable decrease in the original assessment during fiscal years 2022 and 2023. In September and October 2022, supervisors were required to verify the accuracy of the new Connecticut Tax Administration System (CTax) conversion and complete a large reconciliation to ensure that all of the cases that were in the old Integrated Tax Administration System (ITAS) were properly converted in CTax and correspondingly closed. Due to a significant number of issues with the data, it took DRS several months to reconcile all cases. To facilitate the reconciliation process, DRS delayed case closures for two months.

Accounts Receivable

The department's accounts receivable are derived from various sources, including audit and delinquency assessments, penalty and interest charges, and returns filed without remittances or filed with an underpayment of tax liability. A summary of accounts receivable as of June 30, 2022 and 2023 is presented below:

Fiscal Year Ended June 30,			
	2021	2022	2023
Taxes Receivable:			
Personal Income Tax	\$ 730,863,547	\$ 868,580,017	\$ 1,455,483,128
Sales and Use Tax	528,667,757	819,947,353	568,350,131
Corporation Tax	82,357,789	128,683,629	85,041,112
Other Taxes	191,069,969	209,351,421	205,415,868
Total Taxes Receivable	\$ 1,532,959,062	\$ 2,026,562,420	\$ 2,314,290,239
Reductions:			
Estimated Uncollectable	(339,010,628)	(269,044,401)	(256,931,161)
Net Taxes Receivable	\$ 1,193,948,434	\$ 1,757,518,019	\$ 2,057,359,078

The Personal Income Tax increased in fiscal year 2023 due to policy change suspending abatement and aged accounts being written off after ten years in accordance with Public Act 22-117, effective May 2022. There was a large increase in receivables for Sales and Use and Corporation Tax during fiscal year 2022 primarily due to additional tax receipts.

Penalty Waivers

Section 12-3a of the General Statutes authorizes the Department of Revenue Services to waive penalties in cases in which the taxpayer failed to pay the tax due to reasonable cause. Section 12-3a requires the Penalty Review Committee to approve all penalty waivers over \$5,000. The committee is comprised of

the commissioner, the Secretary of the Office of Policy and Management, and the State Comptroller or their designees.

A summary of the penalty waiver activity for the audited period and preceding fiscal year, follows:

Fiscal Year	Requests		Denied		Approved Waivers	
	Cases	Penalties	Cases	Penalties	Cases	Penalties
2021	4,367	\$9,673,623	1,113	\$2,159,020	3,254	\$7,514,603
2022	6764	\$5,969,809	3,112	\$2,727,223	3,652	\$3,242,585
2023	7689	\$3,406,666	2,206	\$1,208,613	5,483	\$2,198,052