



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Revenue
Year Ended June 30, 2007



March 20, 2008

08-09

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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State of Minnesota • James Nobles, Legislative Auditor

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FINANCIAL AUDIT DIVISION

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Department of Revenue

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
David Polisenio, CPA, CISA, CFE	Audit Manager
Scott Tjomsland, CPA	Auditor-in-Charge
Xin Wang	Lead Worker
Lat Anantaphong	Auditor
Jerry Foty	Auditor
Bridgette Leonard	Auditor
Jamie Majerus	Auditor
Chou Nguyen	Auditor

Report Summary

Conclusion:

The department had adequate internal controls over financial reporting and generally complied with certain provisions of laws, regulations, contracts, and grants. However, the department had the following issue of noncompliance with state statute:

Audit Finding:

- The Department of Revenue did not deposit tax receipts collected by the cashier in a timely manner. ([Finding 1, page 4](#))

Audit Scope:

Tax revenue and expenditure programs material to the basic financial statements of the State of Minnesota for fiscal year 2007.

Background:

The Department of Revenue administers Minnesota's revenue system, which manages 28 state taxes (including individual income, sales, corporate franchise, petroleum, environmental, gambling, cigarette/tobacco, alcohol, insurance, and health care provider taxes) and state assessed property taxes. The department collected about \$15.5 billion in state taxes for fiscal year 2007 and oversaw the uniform application of the property tax laws.



Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Ward Einess, Commissioner
Department of Revenue

We have performed certain audit procedures at the Department of Revenue as part of our audit of the basic financial statements of the State of Minnesota for the year ended June 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of Finance is primarily responsible for statewide financial reporting. The department prepares the *Comprehensive Annual Financial Report* that contains the state's basic financial statements and our opinion on those statements.

Table 1 identifies the financial activities that we audited at the Department of Revenue as part of our audit of the state's financial statements. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2007, were free of material misstatements. We emphasize that this has not been a comprehensive audit of the Department of Revenue.

Department of Revenue

Table 1
Department of Revenue
Tax Programs Material to the State's Financial Statements
Fiscal Year 2007 (in thousands)

<u>Revenue Areas</u> ¹	<u>Amount</u>
Individual Income Taxes	\$7,463,959
Sales Taxes	4,600,984
Corporate Income Taxes	1,160,380
Property Taxes ²	667,395
Fuel Taxes	647,168
Health Care Access Taxes	409,923
Mortgage and Deed Taxes	261,164
Tobacco Taxes	191,005
<u>Expenditure Areas</u>	
Aids to Local Governments	919,102
Property Tax Refunds to Homeowners and Renters	380,848
Police and Fire State Aid	80,621

¹Revenue amounts shown net of tax refunds.

²In 2001, the Legislature established this general state property tax against commercial, industrial, and seasonal recreational property.

Source: *State of Minnesota's Comprehensive Annual Financial Report* for fiscal year 2007.

Conclusions

We issued an unqualified audit opinion, dated December 7, 2007, on the State of Minnesota's basic financial statements for the year ended June 30, 2007. In accordance with *Government Auditing Standards*, we also issued our report, dated February 11, 2008, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with provisions of laws, regulations, contracts, and grants. That report included a finding identified through our audit work at the Department of Revenue. The audit revealed a weakness in the department's internal controls that may not prevent or detect a significant misstatement. Specifically, the Department of Revenue did not effectively monitor users' access to its business systems. We reported this weakness to the Department of Finance in the *Report on Internal Controls Over Statewide Financial Reporting* as Finding 10. You can obtain a copy of this report on our website at www.auditor.leg.state.mn.us. It is report number 08-02. In addition, the Department of Revenue had the following noncompliance with state statute:

Department of Revenue

Finding and Recommendation

1. The Department of Revenue did not deposit tax receipts collected by the cashier in a timely manner.

The department did not deposit all of its receipts in a timely manner. The department had a cashier in its main building to collect receipts from walk-in taxpayers. However, the department only deposited these tax receipts once per week. During fiscal year 2007, these weekly deposits ranged from \$3,000 to \$86,000 with an average of \$12,600. [Minnesota Statutes 2007](#), 16A.275, state that, "...an agency shall deposit receipts totaling \$250 or more in the state treasury daily." The delay in depositing these receipts increased the risk of loss or theft.

Recommendation

- *The department should deposit daily receipts exceeding \$250 in a timely manner.*

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Revenue. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 20, 2008.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Department of Revenue

Status of Prior Audit Issues As of December 7, 2007

August 30, 2007, Legislative Audit Report 07-22 covered selected Department of Revenue financial activities for the period July 1, 2003, through December 31, 2006. The audit scope included employee payroll and travel and selected administrative expenditures, including rent, repair and maintenance, professional and technical services, and fixed assets. We also audited the department's seized property and abatement activities. The report contained eight findings related to internal control and legal compliance. We did not follow up on any of these issues during this audit.

March 22, 2007, Legislative Audit Report 07-04 examined the activities and programs managed by several state agencies that are material to financial statements included in the *State of Minnesota's Comprehensive Annual Financial Report* and the Department of Finance's preparation of the financial statements for the year ended June 30, 2006. The report contained nine findings addressed to the Department of Finance and several other state agencies, including the Department of Revenue. We concluded all of the findings in this report relating to the Department of Revenue have been resolved.

MINNESOTA • REVENUE

March 11, 2008

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Your audit of the state's financial statements for the year ended June 30, 2007 contained one finding pertaining to the Department of Revenue. It stated:

Audit Finding: The Department of Revenue did not deposit tax receipts collected by the cashier in a timely manner (Finding 1, page 4).

You correctly noted that we employ a cashier in our building to collect receipts from walk-in taxpayers and only deposit those receipts once per week, instead of daily as prescribed by Minnesota Statutes 2007, 16A.275. That law requires receipts of \$250 or more to be deposited in the state treasury daily. However, subd. 2 empowers the Commissioner of Finance to authorize less frequent deposits if an agency can furnish documentation showing that the cost of making daily deposits exceeds the lost interest earnings and risk of loss or theft of the receipts.

Response:

The Department of Revenue acknowledges that during the period of the audit it did not request the subd. 2 exception to Minnesota Statute 2007, 16A.275. Going forward, unless our deposit costs fall substantially in the future, we will biennially document those costs and ask the Department of Finance for an exception to M.S. 16A.275. Our most recent request of the Department of Finance was dated August 14, 2007.

Currently, daily deposit costs \$118. This far exceeds interest accruals on daily deposits of \$250, and, in our opinion, the risk of theft.

Sincerely,



Ward Einess
Commissioner