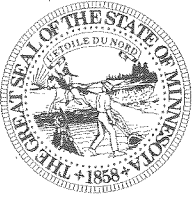


**STATEWIDE AUDIT
DEPARTMENT OF REVENUE
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

FEBRUARY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Thomas Triplett, Commissioner
Department of Revenue
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Commissioner Triplett:

We have reviewed certain accounting procedures and controls for your department as part of our financial audit of the State of Minnesota's fiscal year 1985 financial statements. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups; and
- status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department.

The main text of this management letter contains both our recommendations developed during this audit and prior recommendations which have not yet been implemented. Prior audit recommendations repeated in this text are denoted under the caption "PRIOR RECOMMENDATION MODIFIED."

Attached to your management letter is a summary of the progress of all audit recommendations developed during our financial audit of Minnesota's fiscal year 1984 financial statements.

The recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

PRIOR RECOMMENDATION MODIFIED: Certain tax receipts are not deposited in accordance with Minn. Stat. Section 16A.275.

The cashier section is frequently unable to process receipts attached to tax returns which lack a business identification number. Before these returns can be processed further and the receipts deposited, the master business files (MBF) section must assign a business identification number to the return. Currently, the cashier section forwards both receipts and the tax returns to MBF for identification number determination.

During our last and previous audits, we identified several weaknesses in the control exercised over the receipts transferred daily between the cashier and MBF sections. Our previous recommendation stated that "The cashier section should develop control procedures over those returns and checks where the business identification numbers are missing. The procedures should provide for an adequate record of returns not yet processed and to ensure the timely deposit of receipts." Our current test sample of 19 receipts located in the MBF section indicated that at least 12 of the checks or \$10,402 were on hand for three days or longer.

Minn. Stat. Section 16A.275 states that "Except as otherwise provided by law, an agency shall deposit receipts totaling \$250 or more in the state treasury daily." The department should consider depositing these receipts into their unidentified receipt system until MBF provides the business identification number needed for the cashier to process the returns and receipts on the computerized cash entry system.

RECOMMENDATION:

1. *The Department of Revenue should comply with Minn. Stat. Section 16A.275 and deposit receipts totaling \$250 or more in the state treasury daily.*

Inadequate controls exist over the accounting and processing of unclaimed refund warrants.

Unclaimed refund warrants consist of tax refunds returned to the department's refund unit by the U.S. Postal Service as undeliverable. The warrants are currently filed alphabetically in an unlocked file cabinet for easy accessibility to all refund unit staff. The refund unit does not maintain a record of the warrants on file until they are at least six months old. After six months, the revenue accounting section enters the yet unclaimed refunds on the unclaimed warrant system. Unclaimed warrants one year old or older are redeposited into SWA and taken off the system.

As of November 22, 1985, 1210 warrants totaling \$233,022 were on the unclaimed warrant system. Substantially more warrants less than six months old were on hand but not on the unclaimed warrant system. We did not try to assess the dollar amount for warrants less than six months old.

This environment surrounding the unclaimed refund warrants makes it highly susceptible to improprieties. While no improprieties were noted, the risk of loss due to either theft or conversion is high.

Duties within the refund unit should be realigned so that a separation of responsibilities exists to ensure that no one individual is involved in the entire process. For example, the person given responsibility for the physical custody of the warrants should not be given the authority to prepare the delete cards or maintain the accounting records for the warrants. Those individuals given the authority to prepare delete cards or maintain the accounting records should not have access to the warrants.

Mr. Thomas Triplett, Commissioner
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Control over returned warrants should be established as soon as they enter the refund unit. All such unclaimed refund warrants should be recorded on the unclaimed warrant system as soon as possible. No warrant should be re-mailed until it has been recorded in the unclaimed warrant system.

RECOMMENDATIONS:

2. *The department's refund unit should establish lines of authority and responsibility over unclaimed refund warrants to ensure an adequate separation of duties throughout the process.*
3. *All returned refund warrants should be entered on the unclaimed warrant system as received.*

Thank you for the cooperation extended to our staff during this audit.

Sincerely,



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

Attachment

February 12, 1986

DEPARTMENT OF REVENUE

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARDS IMPLEMENTATION

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Corporate income tax returns are not processed on a computerized system.

1. The Department of Revenue should continue their effort to computerize the corporate income tax processing system.

Recommendation Implemented.

Accounting controls for occupation tax determinations and audit reports posted to the occupation tax offset records need to be improved.

2. The Department of Revenue should ensure that all occupation tax determinations and audit reports are accurately posted to the occupation tax offset records.

Recommendation Implemented.

Control of receipts transferred between the cashier section and master business files section should be improved.

3. The cashier section should develop control procedures over those returns and checks where the business identification numbers are missing. The procedures should provide for an adequate record of returns not yet processed and to ensure the timely deposit of receipts.

RECOMMENDATION NOT IMPLEMENTED. Finding and recommendation modified. See current recommendation #1.



February 12, 1986

STATE OF MINNESOTA

DEPARTMENT OF REVENUE

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for your recent letter summarizing the review of the Department of Revenue's accounting procedures and controls which included recommendations for the improvement of procedures and strengthening internal controls.

The review and subsequent recommendations which are the result of your agency's financial audit of Minnesota's fiscal year 1985 financial statement, are very appropriate and will be helpful in strengthening our overall operations. It should also be brought to your attention that the entire audit team, headed by Tom Donahue, performed their respective responsibilities in a competent and professional manner.

Your major findings contained three recommendations for improvement and outlined below is our response:

RECOMMENDATION # 1 - "The Department of Revenue should comply with Minnesota Statutes, Section 16A.275 and deposit receipts totalling \$250 or more in the State Treasury daily."

Response:

The department agrees with the findings and will be taking the necessary steps to comply with both the current recommendation as stated above and with the prior audit recommendation regarding the improvement of control over receipts between the Cashier and Master Business Sections.

In addition, the department will seek legislation to exclude some receipts from the requirements of Minnesota Statutes, Section 16A.275.

RECOMMENDATION # 2 - "The department's Refund Unit should establish lines of authority and responsibility over unclaimed refund warrants to ensure an adequate separation of duties throughout the process."

RECOMMENDATION # 3 - "All returned warrants should be entered on the unclaimed warrant system as received."

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Response:

The department is in agreement with recommendations #2 and #3 and will be developing and implementing procedures to comply with your recommendations.

We will keep your office informed as progress is achieved in the implementation of the recommendations.

Sincerely,



Tom Triplett
Commissioner
(612) 296-3401

cc Ray Dore - Deputy Commissioner
CynDee Hawbaker - Assistant Commissioner
Arthur Roemer - Special Assistant
Jon Schaefer - Director, Administrative Services Division