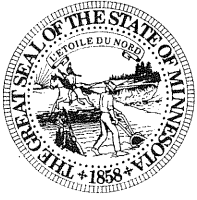

**MINNESOTA TAX COURT
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

AUGUST 1987

**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

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Earl B. Gustafson, Chief Judge
Minnesota Tax Court

Audit Scope

We have completed a financial and compliance audit of the Minnesota Tax Court for the three years ended June 30, 1986. Section I provides a brief description of Minnesota Tax Court activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on June 11, 1987.

The audit objectives were to:

- determine that effective internal control is being maintained over revenues, expenditures, assets, and liabilities of the Tax Court;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 271, and other finance-related laws and regulations;
- verify that financial transactions were properly recorded on the statewide accounting (SWA) system; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of the Minnesota Tax Court is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to

the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Minnesota Tax Court is also responsible for the Court's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the activities administered by the Tax Court. The purpose of our testing of transactions was to obtain reasonable assurance that the Tax Court had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions

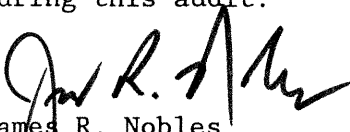
In our opinion, except for those issues raised in Section II, recommendation 1, the Minnesota Tax Court's system of internal accounting control in effect as of January 5, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, for the three years ended June 30, 1986, the Minnesota Tax Court administered its programs in compliance, in all material respects, with applicable laws, regulations, and policies.

In our opinion, for the three years ended June 30, 1986, the Minnesota Tax Court properly recorded, in all material respects, its financial transactions on the statewide accounting system.

The recommendation included in this audit report is presented to assist the Minnesota Tax Court in improving accounting procedures and controls. We will be monitoring and reviewing the Minnesota Tax Court's progress on implementing this recommendation. A summary of the progress made on the audit recommendation discussed in our last audit report covering fiscal year 1983, dated August 23, 1984, is shown in Section III entitled, "Status of Prior Audit Recommendation and Progress Toward Implementation."

We would like to thank the Minnesota Tax Court staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen
Deputy Legislative Auditor

August 21, 1987

MINNESOTA TAX COURT

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue	Audit Manager
Jean Mellett	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Tax Court at an exit conference held on July 2, 1987:

Arthur C. Roemer	Tax Court Judge
Brent Peterson	Clerk of Court
Beverly McGuinness	Deputy Clerk

MINNESOTA TAX COURT

I. INTRODUCTION

The Minnesota Tax Court is an independent agency of the executive branch of state government. The Tax Court consists of three judges appointed by the Governor, with the advice and consent of the Senate, for terms of six years. The judges are selected on the basis of their experience with and knowledge of taxation and tax laws. The Chief Judge of the Minnesota Tax Court is the Honorable Earl B. Gustafson.

The Tax Court has statewide jurisdiction, including authority for hearing and determination of all questions of law and fact arising under the tax laws of the state except for criminal, probate, or real property title cases. There is a regular and a small claims division within the Tax Court. In the small claims division, the amount in controversy cannot exceed \$2,500, including penalty and interest. Judgment in the small claims division is conclusive and may not be appealed.

At the time of filing the notice of appeal, the appellant is required to pay to the clerk of the Tax Court a fee of \$25. No appeal fee is required of the Commissioner of Revenue, the Attorney General, the State, or any of its political subdivisions. In any small claims case, the fee is \$2. The Tax Court also collects a \$10 fee for cases which are appealed from its regular division to the Supreme Court.

General Fund appropriations finance the activities of the Tax Court. During fiscal years 1985 and 1986, Tax Court expenditures amounted to \$359,452 and \$383,956, respectively.

MINNESOTA TAX COURT

II. CURRENT FINDING AND RECOMMENDATION

The Minnesota Tax Court is not depositing its receipts on a timely basis.

The Minnesota Tax Court collects \$25 and \$2 filing fees for cases which are appealed to the regular and small claims divisions of the Court. In addition, the Court collects a \$10 filing fee for cases which are appealed to the Supreme Court. Filing fee receipts total approximately \$4,000 to \$5,000 per fiscal year. Minn. Stat. Section 16A.275 requires agencies to deposit receipts with the State Treasurer on a daily basis or whenever they aggregate to \$250 or more. The Tax Court has not deposited receipts totaling \$250 or more in a timely manner. Deposits which average about \$390, are made approximately once a month by the Clerk of Court.

Filing fees collected by the Court are properly recorded in a receipts book. However, the receipts are stored in an unlocked drawer until they are deposited. Until recently, receipts were not stamped immediately with a restrictive endorsement. Receipts often remain in the drawer for several weeks before they are deposited. The Court should comply with Minn. Stat. Section 16A.275 and deposit receipts whenever they total \$250.

RECOMMENDATION:

1. The Tax Court should deposit its receipts when they aggregate a total of \$250.

MINNESOTA TAX COURT

III. STATUS OF PRIOR AUDIT RECOMMENDATION
AND
PROGRESS TOWARD IMPLEMENTATION

Minn. Stat. Section 271.20 is not being complied with.

1. Either certificates should be filed to indicate compliance with Minn. Stat. Section 271.20 or necessary action should be taken to amend the statute.

RECOMMENDATION IMPLEMENTED. The Minnesota Tax Court judges now certify on their biweekly time reports that they are in compliance with Minn. Stat. Section 271.20.



STATE OF MINNESOTA
TAX COURT

520 LAFAYETTE ROAD
SECOND FLOOR

ST. PAUL 55155

TELEPHONE (612) 296-2806

Earl B. Gustafson, Chief Judge
Jean Stepan, Administrator, Judge
Arthur C. Roemer, Judge

Brent Peterson, Clerk

August 21, 1987

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

Dear Mr. Nobles:

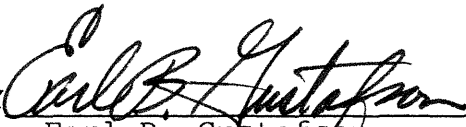
This will acknowledge receipt of your draft audit report for the three years ended June 30, 1986.

We concur with your recommendation that the Tax Court should deposit its receipts when they aggregate a total of \$250. Ms. Beverly McGuinness of our staff has been directed to implement this recommendation.

We all appreciate the thoroughness and professionalism with which this audit was conducted.

Very truly yours,

MINNESOTA TAX COURT

BY 

Earl B. Gustafson
Chief Judge

EBG:dmu