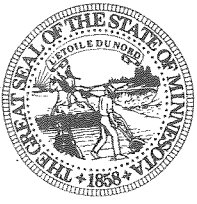


**DEPARTMENT OF REVENUE
MANAGEMENT LETTER
FISCAL YEAR 1987**

FEBRUARY 1988

**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. John James, Commissioner
Department of Revenue
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Commissioner James:

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 1987 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
- the status of prior audit findings.

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 a finding developed during the prior audit which has not yet been resolved. No new findings were developed during this audit. The prior audit finding repeated in this text is denoted under the caption "PRIOR FINDING NOT RESOLVED." Attached to your management letter is a summary of the progress of all audit findings developed during our financial audit of Minnesota's fiscal year 1986 financial statements. The recommendations included in this letter are presented to assist you in resolving the audit findings and improving accounting procedures and controls. Progress on resolving these findings will be reviewed during our audit next year.

1. PRIOR FINDING NOT RESOLVED: Department of Revenue controls authorizing access to its computer systems need to be improved.

Access to the department's computer systems is controlled through the department's security officers who create and assign logonIDs to authorized users. The logonIDs which allow the user access to the system, are protected by the use of a secret password established by the individual for which the logonID was created. For specific programs and files, the department's security officers write appropriate access rules which may allow the user to read, write, or change the programs and files within the system's being accessed. The access rules are written utilizing the Access Control Facility (ACF2), a computer software package maintained and administered by the Department of Administration's Information Management Bureau (IMB).

The issue of responsibility for authorizing systems access has not been fully addressed. This duty requires a knowledge of what information is contained in the files, who should have access to it, and for what purpose. Currently, the security officers in most cases have been authorizing systems access. The security officer should be in a position to question whether access is valid. However, they should not be in a position to grant authorization.

Revenue should designate personnel responsible for authorizing access to each system. This would strengthen controls over access to computer programs and files. These individuals should have a working knowledge of what information is contained in the files, who should have access to it and for what purpose so that access authorization is limited accordingly. A listing of such individuals should be provided to the security officers so that access authorizations could be challenged when errors or other security violations occur.

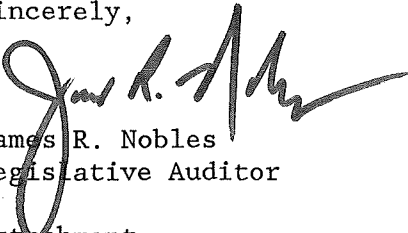
Problems can occur if Revenue security officers are not notified of employees who have either left state service or changed departments. If such an employee's logonID is not cancelled or suspended promptly, the employee may continue to have access to the system. Currently, the security officers receive some of this information from Human Resources Management, but the information is incomplete and not always received in a timely manner.

RECOMMENDATIONS

- Revenue should assign the responsibility of authorizing access to its computer systems to knowledgeable individuals. This assignment should be documented to the extent that all individuals are identified and known to the security officers.
- Revenue should develop procedures for identifying employees with active logonIDs that have left or changed employment so that those logonIDs can be suspended or deleted in a timely manner.

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 16, 1988

DEPARTMENT OF REVENUE

STATUS OF PRIOR AUDIT FINDINGS
AND
PROGRESS TOWARD RESOLUTION

Department of Revenue controls authorizing access to its computer systems need to be improved.

1. Revenue should assign the responsibility of authorizing access to its computer systems to knowledgeable individuals. This assignment should be documented to the extent that all individuals are identified and known to the security officers.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

2. Revenue should suspend any logonIDs which remain unused after a reasonable length of time and require new logonIDs to be used when created.

RECOMMENDATION IMPLEMENTED. The Revenue security officers receive a monthly report from IMB listing all revenue logonIDs. This report is reviewed and any logonIDs that have been unused for over 90 days are suspended. The security officers require new logonIDs to be used within one week or they assign a password to the logonID and expire it. Therefore the logonID does not remain vulnerable.

3. Revenue should develop procedures for identifying employees with active logonIDs that have left or changed employment so that those logonIDs can be suspended or deleted.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

4. The Revenue Security Officers should obtain written documentation to support all assigned logonIDs, including those granted through verbal authorizations.

RECOMMENDATION IMPLEMENTED. The Revenue Security officers have developed a request for logonID form that must be approved by the employees supervisor before a logonID will be assigned. They also keep a log of all modifications, including additions, deletions, and changes, made to logonIDs.

Computer tapes for major systems are not backed up offsite.

5. The department should obtain adequate offsite backup for all of its major systems.

RECOMMENDATION IN THE PROCESS OF BEING IMPLEMENTED. Revenue has been working with a contact from IMB on a project to review the adequacy of the tapes being stored in the offsite vault. As of August 1987, general offsite data set storage guidelines have been developed along with identification of specific Sales Tax and Master Business files to

be stored offsite. This project will eventually identify which data sets are to be stored offsite for all Revenue systems.

Accounting controls over the Enterprise Zone Program (EZIP) need to be strengthened.

6. The department should establish clear lines of responsibility concerning its joint ownership of the Enterprise Zone Program.

RECOMMENDATION IMPLEMENTED. During the 1987 Legislative Session, the Department of Revenue's role in the Enterprise Zone Program was limited to the handling of the actual credit/refund distribution. On October 16, 1987, Revenue staff met with the Department of Trade and Economic Development staff to determine what information TED staff needs to perform the reconciliation between credits approved and claimed.

7. The department should accumulate and account for EZIP credits taken by tax type, and to reconcile credits allowed and taken within the parameters specified under statute.

RECOMMENDATION WITHDRAWN. Laws of 1987, Chapter 268, Article 10 transferred the responsibility for the EZIP to the Department of Trade and Economic Development.

8. The department should develop an adequate document retrieval system so that the documentation to support enterprise zone credits taken are properly accounted for. No credits should be allowed without the appropriate documentation.

RECOMMENDATION IMPLEMENTED. Effective May 1, 1987, staff in the document review section pull all corporate returns that claim an enterprise zone credit. They are reviewed by a corporate auditor. The auditor ensures that Schedule EPC is attached to support the credit claimed. If the schedule is not attached, the auditor will check the Taxpayer Service Program's file of approved credits. If a copy of the schedule is not in that file, the credit will be disallowed.

9. Credits taken should be reported as grant payments on the state's financial statements. All credits payable should be accrued at June 30 according to the department's accrual procedures.

RECOMMENDATION IMPLEMENTED. For the fiscal year 1987, a balance sheet account entitled "Grant Payments - Enterprise Zone Program" was included as a balance sheet account replacing the revenue and expense statement account entitled "Enterprise Zone Credit." All credits payable at June 30, 1987 were accrued according to the department's accrual procedures.

Not all claims for refunds of taxes received prior to the fiscal year-end are being properly accrued.

10. The department should accrue all claims for refunds received prior to the fiscal year-end cutoff.

RECOMMENDATION IMPLEMENTED. During fiscal year 1987, procedures for the fiscal year-end cutoff were improved. All material amounts tested were accrued to the appropriate fiscal year.

The Petroleum Division does not maintain an adequate audit trail to identify taxpayers and amounts included in the year-end accrual of accounts receivable.

11. The Petroleum Division should develop proper documentation and audit trails to support the accrual of the fiscal year-end receivables.

RECOMMENDATION WITHDRAWN. The department is currently in the process of developing new computer systems that in the future will address this issue. However, at the present time it is not cost beneficial to implement this recommendation. Therefore, the recommendation is withdrawn.

The Petroleum Division's refund system lacks sufficient accounting controls to assure that duplicate refund warrants are not issued.

12. The Petroleum Division should develop accounting procedures to ensure that duplicate payments are not made.

RECOMMENDATION IMPLEMENTED. Currently, the Special Tax Office, Department of Revenue is programming a computer to prevent the occurrence of a duplicate refund payment. Until this is complete, the Special Tax Office manually reviews the refund payment documents after processing for duplicate payments in the files.

RECOMMENDATION NOT IMPLEMENTED: Inadequate controls exist over the accounting and processing of unclaimed refund warrants.

13. 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 IMPLEMENTED. During fiscal year 1987, adequate separation of duties over unclaimed refund warrants were established. The department assigned responsibility for unclaimed warrants to certain employees.

14. All returned refund warrants should be entered on the unclaimed warrant system as received.

RECOMMENDATION IMPLEMENTED. During fiscal year 1987, procedures for controls over unclaimed warrants were improved. Returned warrants are listed when received and entered onto a computer file.



STATE OF MINNESOTA

DEPARTMENT OF REVENUE

February 16, 1988

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota - 55155

Dear Mr. Nobles:

The following are our responses to the findings and recommendations contained in the draft of your FY 87 statewide audit report.

PRIOR FINDINGS NOT RESOLVED: Department of Revenue controls authorizing access to its computer systems need to be improved.

RECOMMENDATION #1: Revenue should assign the responsibility of authorizing access to its computer systems to knowledgeable individuals. This assignment should be documented to the extent that all individuals are identified and known to the security officers.

RESPONSE: We concur with this recommendation. Steps will be initiated to establish responsibility for data files by program and division. We currently have a request for logonids signed off by the employees supervisor. The Data Access form will be modified to allow approval by the person or persons responsible for the data file. This has been initiated. We are investigating the feasibility of instituting training courses and refresher seminars or instructions for persons who require logonids. John Asmus, Director of the Revenue Information Systems Division, is responsible for the implementation of this recommendation.

RECOMMENDATION #2: Revenue should develop procedures for identifying employees with active logonids that have left or changed employment so that those logonids can be suspended or deleted in a timely manner.

Mr. James Nobles
February 16, 1988
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RESPONSE: Revenue's Human Resource Management Office will provide the Information Systems Division with data on employee terminations and transfers as soon as it becomes available. The Information Systems Division will then take whatever action is necessary to cancel those logonids. Since successful implementation of this recommendation is dependent on proper communications between the Information Systems Division and Human Resource Management, John Asmus (RISD Director) and Ron Olson (HRM Director) are responsible for the implementation of this recommendation.

We anticipate that these recommendations will be fully implemented by May 1, 1988.

Sincerely,



Babak Armajani
Deputy Commissioner

cc: John James, Commissioner
John Asmus, RISD Director
Ron Olson, HRM Director