

**DEPARTMENT OF REVENUE
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

FEBRUARY 1992

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

DEPARTMENT OF REVENUE
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: February 6, 1992

No. 92-8

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Tax assessments, collections, or refunds for individual and corporate income taxes, withholding taxes, gasoline and special fuel taxes, and alcoholic beverage taxes. Grant payments or credits for local government aids, disparity reduction and equalization aids, homestead and agricultural credits, renters property tax credits and police and fire aids.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found the internal control structure to be effective.

We found no material departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dorothy McClung, Commissioner
Department of Revenue

Audit Scope

We have conducted a financial related audit of the Department of Revenue for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Revenue. Specifically, we reviewed tax assessments and collections, and cash receipts and disbursements. We have also made a study and evaluation of the internal control structure of the Department of Revenue in effect as of June 30, 1991.

The Department of Revenue is responsible for providing administrative and enforcement services in the areas of tax collection and assessment. The primary clients of the department are individuals and organizations who are required to pay taxes to the state and local governments. The department operates under the direction of a commissioner who is appointed by the Governor. Dorothy McClung is the current Commissioner of the Department of Revenue. According to the Minnesota Comprehensive Annual Financial Report, the department collected over \$5.39 billion in net tax revenues from individual and corporate income taxes and sales taxes during fiscal year 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Revenue are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Revenue's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Revenue is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- tax assessments and collections for individual and corporate income taxes, sales and use taxes, withholding taxes, gasoline and special fuel taxes, and alcoholic beverage taxes;
- refunds for individual and corporate income taxes and sales and use taxes; and
- grant payments or credits for local government aids, disparity reduction and equalization aids, homestead and agricultural credits, police and fire aids, and renters property tax credits.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

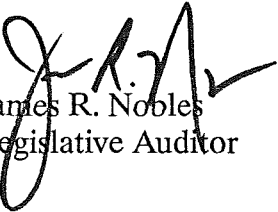
In our opinion, the internal control structure of the Department of Revenue in effect at June 30, 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors and irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Department of Revenue.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Department of Revenue in a meeting held on January 9, 1992.

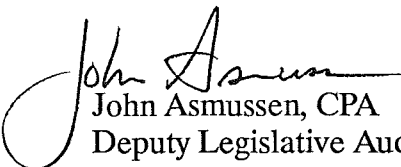
The results of our tests indicate that with respect to the items tested, the Department of Revenue complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Revenue had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and 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 February 6, 1992.

We would like to thank the Department of Revenue staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 24, 1991

Report Signed On: January 31, 1992