

MINNESOTA TAX COURT

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1992

AUGUST 1993

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

93-42

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

MINNESOTA TAX COURT

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1992

Public Release Date: August 20, 1993

No. 93-42

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll, travel, fixed assets, system development disbursements and filing fee receipts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the Tax Court's internal control structure needed improvement:

- Tax Court employees need to complete and sign their own timesheets.

We found two areas where the Tax Court had not complied with finance-related legal provisions:

- The Tax Court needs to follow Department of Finance policy 07:04:09 on positive time reporting.
- The Tax Court needs to deposit receipts in accordance with Minn. Stat. Section 16A.275.

Contact the Financial Audit Division for additional information.

296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Earl B. Gustafson, Chief Judge
Minnesota Tax Court

Audit Scope

We have conducted a financial related audit of the Minnesota Tax Court as of and for the three years ended June 30, 1992. We have also made a study and evaluation of the internal control structure of the Minnesota Tax Court in effect at May, 1993.

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 Minnesota Tax Court are free of material misstatements.

We performed tests of the Minnesota Tax Court's transactions to obtain reasonable assurance that the Court had, in all material respects, administered its operations in compliance with applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Tax Court is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. 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.

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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:

- payroll,
- travel,
- fixed assets,
- system development disbursements, and
- filing fee receipts.

For 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

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Minnesota Tax Court. We consider this condition to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described above is not a material weakness.

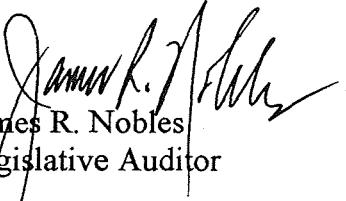
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Tax Court in a meeting held on July 14, 1993.

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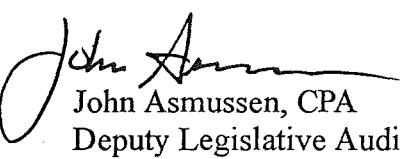
The results of our tests indicate that, except for the items discussed in findings 1 and 2, the Minnesota Tax Court complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Tax Court 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 Minnesota Tax Court. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 20, 1993.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 30, 1993

Report Signed On: August 16, 1993

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, CPA	Audit Manager
Amy Jorgenson	Auditor-in-Charge

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Tax Court at the exit conference held on July 14, 1993:

Earl Gustafson	Chief Judge
Dorothy McClung	Judge
Susan Thompson	Court Administrator
Beverly McGuinness	Legal Secretary

Minnesota Tax Court

Introduction

The Minnesota Tax Court is a specialized trial court with statewide jurisdiction and is directed by law to hear and determine matters arising out of the tax laws of the state. The Court consists of three judges appointed by the Governor and confirmed by the Senate. Judges serve six year terms. The Tax Court judges designate a chief judge to serve a two year term. Judge Earl B. Gustafson is the current chief judge.

The operations of the Minnesota Tax Court are financed out of the General Fund. The following schedule shows the revenues and expenditures of the Court for fiscal years 1990, 1991, and 1992.

	<u>Year Ended June 30</u>		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
Expenditures:			
Payroll	\$396,015	\$372,668	\$349,982
Computer System Development	61,780	0	0
Leases	46,163	40,596	34,410
Fixed Assets	22,093	3,288	0
Travel	7,941	6,431	12,151
Other	<u>55,797</u>	<u>39,196</u>	<u>53,960</u>
Total Expenditures	<u>\$589,789</u>	<u>\$462,179</u>	<u>\$450,503</u>
Revenues:			
Filing Fees	\$ 6,265	\$ 5,324	\$ 5,257
Other Receipts	<u>0</u>	<u>1,752</u>	<u>0</u>
Total Revenues	<u>\$ 6,265</u>	<u>\$ 7,076</u>	<u>\$ 5,257</u>

Source: Estimated/Actual Receipts Reports and Managers Financial Reports for fiscal years 1990, 1991, and 1992.

Current Findings and Recommendations

1. Internal controls over employee payroll need improvement.

The Minnesota Tax Court does not use a positive time reporting system for employee payroll as required by Department of Finance policy 07:04:09. Employees tell a legal secretary when they expect to use vacation or sick leave. She reports the payroll hours to the Department of Finance based on that information. The Department of Finance uses the information to process payroll. Later, the secretary completes the timesheets and distributes them to the employees for approval. Tax Court employees do not discover errors or omissions on their timesheets until they review the timesheets.

The delay in reviewing timesheet data has resulted in the need for numerous corrections to payroll hours. Although the Tax Court employees initiate these corrections, a stronger system of internal control would have prevented the errors altogether. Some errors went uncorrected for a month, causing prolonged misstatement of employee sick and vacation leave balances. The Tax Court must strengthen the controls over employee payroll to ensure that employees report their time correctly.

Recommendations

- *Tax Court employees should complete and sign their own timesheets at the end of each pay period.*
- *The Tax Court should prepare the payroll based on the timesheets.*

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

The Minnesota Tax Court did not promptly deposit receipts totaling \$250 or more as required by Minn. Stat. Section 16A.275. The Tax Court usually makes a biweekly deposit, regardless of the dollar amount accumulated. During fiscal year 1992, the Tax Court made 10 of 22 deposits late. Often, the Tax Court held receipts for a week or more after collections reached \$250 before making a deposit. The late deposits averaged \$425.

The Tax Court collects filing fees for appealed cases. Effective July 1, 1991, the filing fees increased from \$25 to \$50 for regular appeal cases and from \$2 to \$5 for small claims appeals. The Tax Court reaches the \$250 limit faster because of the increase, and needs to make deposits more frequently.

Recommendation

- *The Minnesota Tax Court should deposit receipts promptly as required by Minn. Stat. Section 16A.275.*



STATE OF MINNESOTA
TAX COURT
520 LAFAYETTE ROAD—SECOND FLOOR
ST. PAUL 55155
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Earl B. Gustafson, Chief Judge
Kathleen Doar, Judge
Dorothy A. McClung, Judge
Susan Thompson, Court Administrator

July 27, 1993

INTER-OFFICE MAIL

Mr. James Nobles
Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

We have received and reviewed your draft audit report for the three years ended June 30, 1992.

We accept the findings and are taking immediate action to implement your recommendations.

This review was helpful. Your staff was professional but very cooperative and pleasant to work with.

Sincerely yours,

A handwritten signature in black ink that reads "Earl B. Gustafson". The signature is fluid and cursive, with "Earl B." on top and "Gustafson" on the line below.

Earl B. Gustafson, Chief Judge
Minnesota Tax Court

EBG/baa

cc: Susan Thompson
Judge Kathleen Doar
Judge Dorothy A. McClung