

# **Minnesota Tax Court**

## **Financial Related Audit**

**Three Fiscal Years Ended June 30, 1997**

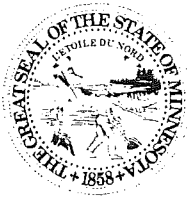
**March 1998**

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

**98-22**





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Kathleen Doar, Chief Judge  
Minnesota Tax Court

We have audited the Minnesota Tax Court for the period July 1, 1994, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: payroll, rent, and administrative expenditures. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Minnesota Tax Court complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Minnesota Tax Court is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 March 27, 1998.

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 13, 1998

Report Signed On: March 23, 1998



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
1st Floor Centennial Building  
658 Cedar Street • St. Paul, MN 55155  
612/296-4708 • FAX 612/296/4712  
TDD Relay: 1-800-627-3529  
email: [auditor@state.mn.us](mailto:auditor@state.mn.us)  
URL: <http://www.auditor.leg.state.mn.us>

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## Minnesota Tax Court

### Financial Related Audit Three Fiscal Years Ended June 30, 1997

Public Release Date: March 27, 1998

No. 98-22

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#### Agency Background

The Minnesota Tax Court was established as a full-time court of record in 1977. The Tax Court is a specialized trial court in the executive branch with state-wide jurisdiction to hear and determine all matters arising out of Minnesota's tax laws. The Governor appoints and the Senate approves each Tax Court judge. Judges serve six year terms and can be reappointed any number of times until retirement. There are currently three judges serving in the Tax Court. The three judges are responsible for designating a chief judge. Kathleen Doar became chief judge in February 1995.

The Tax Court's mission is to provide a timely and equitable disposition of appeals of orders issued by the commissioner of Revenue and local property tax determinations including valuations, classifications, equalizations, or exemptions. It docket, tracks, schedules, and disposes of all cases filed. The Tax Court hears commissioner of Revenue appeals in Ramsey County or will travel to the county in which the taxpayer resides. Members also travel to hear property tax cases in the county where the property is located. Most appeals are scheduled and disposed of within one year of filing.

#### Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of the Tax Court's financial activities and to determine if the Court complied with material finance-related legal provisions. The areas covered by our audit were payroll, rent, and other material administrative expenditures for the period July 1, 1994, through June 30, 1997.

We concluded that the Tax Court designed and implemented internal controls to provide reasonable assurance that transactions were properly authorized and accurately reported in the state's accounting system. We also found that the Tax Court generally complied with applicable statutory provisions and related bargaining units. However, the Tax Court was not adequately following the state's travel policies and procedures.

The Minnesota Tax Court agreed with the finding and developed an internal mileage policy and expense form to facilitate the state policy.



# Minnesota Tax Court

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### Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Susan Kachelmeyer, CPA	Auditor-in-Charge

### Exit Conference

We discussed the results of the audit at an exit conference with the following Minnesota Tax Court staff on March 19, 1998:

Kathleen Doar	Chief Judge
Diane Kroupa	Judge
Sue Wozniak	Court Administrator





# Minnesota Tax Court

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## Chapter 1. Introduction

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The Minnesota Tax Court was established as a full-time court of record in 1977. The Tax Court is a specialized trial court in the executive branch with state-wide jurisdiction to hear and determine all matters arising out of Minnesota's tax laws. The Governor appoints and the Senate approves each Tax Court judge. Judges serve six year terms and can be reappointed any number of times until retirement. There are currently three judges serving on the Tax Court. The three judges are responsible for designating a chief judge. Kathleen Doar became chief judge in February 1995.

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General Fund appropriations finance the Tax Court's operations. Table 1-1 shows the Tax Court's expenditures for the audit period.

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**Table 1-1**  
**Tax Court Expenditures**  
**For the Three Fiscal Years Ended**  
**June 30, 1997**

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>Total</u>
Payroll	\$400,892	\$427,138	\$426,068	\$1,254,098
Rent	50,189	134,632	137,082	321,903
Professional Development	5,422	4,683	12,049	22,154
Travel	3,505	5,727	4,721	13,953
Communication	6,133	4,172	3,408	13,713
Other	<u>40,665</u>	<u>22,039</u>	<u>30,544</u>	<u>93,248</u>
Total Expenditures	<u>\$506,806</u>	<u>\$598,391</u>	<u>\$613,872</u>	<u>\$1,719,069</u>

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Source: Statewide Accounting System (SWA) and the Minnesota Accounting and Procurement System (MAPS) reports.

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As a result of the Tax Court's move to the Judicial Center in October 1994 and its inability to pay the increased rent, the Department of Administration paid an additional \$40,944 on behalf of the Tax Court.

## **Minnesota Tax Court**

The Tax Court generates revenue through the collection of various filing fees. The Tax Court charges a \$122 fee for claims filed under its regular division as specified in Minn. Stat. Section 357.021, subd. 2, (1). However, for small claim cases that generally involve personal property or other small dollar amounts, the Tax Court charges a fee of \$25 . Receipts from filing fees for appeals of Commissioner of Revenue decisions were approximately \$6,000, \$11,000, and \$12,000 for fiscal years 1995, 1996, and 1997, respectively. These fees are deposited to the General Fund as nondedicated revenue.

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## Chapter 2. Payroll

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### *Chapter Conclusions*

*The Tax Court designed and implemented internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records. For the items tested, the Tax Court's payroll expenditures complied with applicable statutory provisions and related bargaining units.*

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Payroll expenditures account for approximately 73 percent of the Tax Court's expenditures. The Tax Court expended approximately \$1.25 million in payroll related costs during the audit period. Three unions and bargaining agreements represented Tax Court employees. These include

- The Managerial Plan for all three judges
- The Middle Management Association (MMA) for the court administrator
- The American Federation of State, County, and Municipal Employee (AFSCME) for the clerical staff

The Tax Court began using the state's new SEMA4 payroll system in December 1995. Prior to that time, the Tax Court used the state's old Personnel/Payroll Systems (PPS). During fiscal years 1995 and 1996, the Department of Finance entered all of the Tax Court's payroll transactions onto PPS. The Tax Court entered its own payroll transactions in SEMA4 during fiscal years 1996 and 1997.

### **Audit Objectives and Methodology**

Our review of the Tax Court's payroll focused on the following questions:

- Did the Tax Court design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records?
- Did the Tax Court's payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To answer these questions, we interviewed the Tax Court's administrator and other personnel to gain an understanding of the controls over payroll expenditures. We reviewed all of the Tax Court's payroll disbursements for the audit period. We tested a sample of payroll transactions for compliance with statutory and bargaining agreement provisions. We also tested significant or infrequent payroll transactions including retirement and severance payments.

## **Minnesota Tax Court**

### **Conclusions**

The Tax Court designed and implemented internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records. For the items tested, the Tax Court's payroll expenditures complied with applicable statutory provisions and related bargaining units.

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## Chapter 3. Other Administrative Expenditures

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### *Chapter Conclusions*

*The Tax Court designed and implemented internal controls to provide reasonable assurance that administrative expenditures were properly authorized and accurately reported in the state's accounting system. For the items tested, the Tax Court's administrative expenditures generally complied with applicable statutory provisions and related bargaining unit agreements. However, the Tax Court is not following certain provisions of the state's travel policy.*

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For the period July 1, 1994, through June 30, 1997, expenditures for leased office space and other rentals, such as parking and office equipment, averaged 19 percent of total expenditures. The Tax Court leases office space on the second floor of the Judicial Building in the Capital Complex. The Tax Court moved to its current quarters in October of 1994. As a result, its expenditures for leased office and courtroom space increased from approximately \$46,000 in fiscal year 1995 to approximately \$136,000 in fiscal year 1997.

The Tax Court's expenditures for professional development, travel, and communications, accounted for approximately three percent of total expenditures.

### **Audit Objectives and Methodology**

Our review of the Tax Court's administrative expenditures focused on the following questions:

- Did the Tax Court design and implement internal controls to provide reasonable assurance that administrative expenditures were properly authorized and accurately recorded in the state's accounting system?
- Did the Tax Court's administrative expenditures comply with applicable statutory provisions and related bargaining unit agreements?

To answer these questions, we interviewed the Tax Court's administrator and other personnel to gain an understanding of the controls over administrative expenditures. We reviewed and tested administrative expenditures including rent, professional development, communication services, and employee travel expense reimbursement transactions.

### **Conclusions**

The Tax Court designed and implemented adequate internal controls to provide reasonable assurance that administrative expenditures were properly authorized and accurately recorded in the state's accounting system. In addition, for the items tested, the Tax Court's administrative expenditures complied with applicable statutory provisions and related bargaining unit agreements, except for the following issue.

## Minnesota Tax Court

### 1. The Tax Court was not following certain provisions of the state's travel policy.

The Tax Court does not require its employees to report trip miles and local miles separately on their expense reimbursement claims. In addition, 12 of 23 claims for mileage reimbursements for trips over 75 miles lacked a vehicle control number. Also, the Tax Court did not review reimbursement claims to determine if employees claimed the lesser of the mileage from the employees residence to the first stop or from the office to the first stop.

The Tax Court processed a total of 43 claims for mileage reimbursement in fiscal year 1997. All claims contained details about the trip's purpose, the date, and the destination. However, the majority of claims lacked documentation for trip miles versus for local miles.

A vehicle control number is provided by the Department of Administration's Travel Management Division when a state vehicle is not available. The vehicle control number authorizes the higher reimbursement rate (27 cents per mile versus 21 cents per mile) for the use of a personal vehicle for trips greater than 75 miles. During fiscal year 1997, we noted 12 of 23 claims that lacked a vehicle control number on trips over 75 miles that potentially were subject to a lower reimbursement rate.

The state has detailed policies and procedures concerning employee travel expense reimbursements. They are contained within an operating policy and procedure issued by the Departments of Finance, Employee Relations, and Administration titled "Employee Travel Expenses" (SEMA4 Number PAY0021). The state's various bargaining units also discuss certain employee reimbursements while in travel status.

The state employee expense policy makes a distinction between trip and local miles. In documenting miles driven, state policy requires employees to report trip and local miles separately. In addition, to ensure that state employees use the most cost-effective method when traveling by vehicle, the Department of Administration's Travel Management Division administers a control number procedure. State policy encourages employees to use a state vehicle. Employees may choose to use their personal vehicles for trips less than 75 miles and be reimbursed at the higher rate. For trips that exceed 75 miles, a vehicle control number must be obtained in order for the higher rate to be reimbursed.

State policy also requires employees to claim the lesser of the mileage from the employees home to the first stop or from the office to the first stop. For example, if an employee whose work location is St. Paul, travels to Duluth on state business leaving from home, the state travel policy provides for mileage reimbursement for the miles from home to Duluth or from St. Paul to Duluth, whichever is less.

#### *Recommendation*

- *The Tax Court should follow state policy and procedures to ensure that employees are appropriately using a control number when a motor pool vehicle is unavailable and adequately documenting trip and local mileage on reimbursement claims.*

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## Status of Prior Audit Issues

### As of February 13, 1998

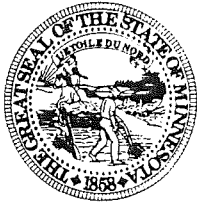
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#### Most Recent Audit

**Legislative Audit Report 93-42**, issued in August 1993, covered the three fiscal years ended June 30, 1992. The audit scope included payroll, travel, fixed asset, and systems development disbursements, plus filing fee receipts. This report contained three audit findings. All three findings have been resolved.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



STATE OF MINNESOTA  
**TAX COURT**  
25 CONSTITUTION AVENUE  
JUDICIAL CENTER  
**ST. PAUL 55155**  
TELEPHONE (612) 296-2806

Kathleen Doar, Judge

March 19, 1998

INTER-OFFICE MAIL

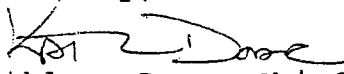
Mr. James Nobles  
Legislative Auditor  
Centennial Building

Dear Mr. Nobles:

We have received and reviewed your draft audit report for the three years ended June 30, 1997.

We accept the findings and have taken action to implement your recommendations. The Tax Court has written a new mileage policy and created a new form to accurately detail mileage information. All Tax Court employees have received a copy of the state's travel expense operating policy and procedures, the court's new mileage policy and the new mileage form.

Sincerely,

  
Kathleen Doar, Chief Judge  
Minnesota Tax Court

cc: Sue Wozniak  
Judge Diane Kroupa  
Judge George Perez