

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement Audit Finding:

**Finding No. 2018-001: Inadequate Controls over Business Tax Revenue Reconciliations**

**Type of Finding: Material Weakness**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels." and principle 12 states, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "[m]anagement should remediate identified internal control deficiencies on a timely basis".

**Condition:**

The Department of Revenue (DOR) utilizes the CEDAR computer system to record business tax revenue received from individual taxpayers and the distributions of the revenue. The State's accounting system is used to record the gross revenue deposited from business taxes along with the taxes that were distributed to State funds or other governments. An important internal control is the reconciliation of the subsidiary record, the CEDAR system, to the State's accounting system.

As noted in prior audit finding No. 2017-001, the DOR had not completed reconciliations after April 2016. After discussion with our office the DOR completed a comparison between the two systems and identified reconciling items. However, the procedures performed by the DOR did not include identifying the adjustments needed to CEDAR or the State's accounting system for the reconciling items. For FY2018 we found that similar comparisons between the two systems were performed. We noted that the October 2017 reconciliation identified 48 documents dating back to 7/1/2015 as reconciling items. The absolute value of these documents was \$1,794,987.59. Reconciling items that are identified should be investigated and appropriately resolved on a timely basis.

**Cause:**

Internal controls over the business tax revenue reconciliation were not adequate to ensure the reconciliations are appropriately completed and business tax revenue is accurately reported.

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(Continued)

Effect:

As a result of inadequate internal controls over business tax reconciliations, there is an increased risk the DOR is not able to prevent, detect and correct errors on a timely basis, increasing the likelihood of improper revenue recognition and reporting.

Repeat Finding from Prior Year:

Yes – Finding No. 2017-001

Recommendations:

1. We recommend that controls be implemented to ensure effective reconciliations of Business tax revenue and timely resolution of any issues.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of business tax revenue.
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department concurs with the finding and offers the following corrective action plans.

As discussed last year, the department had experienced turnover in a critical position for an extended period of time. Following filling that critical position, DOR had also conducted Lean events and identified gaps in our staffing efforts. During the 2018 Legislative Session, we requested and were approved to hire an additional accountant for the Finance team. We have filled that position and have been working diligently to train, document and re-distribute the work load to strengthen the internal controls of the reconciliations. The Legislative Audit team has provided helpful feedback as we are developing policies and procedures.

The DOR Finance team has identified a primary accountant and a back-up for the completion of each reconciliation to ensure proper coverage in the event of absence or vacancy. All variances will be investigated with assistance from accounting staff within the respective division. Completed reconciliations will be approved by the Director of Finance each month, including documentation on reconciling items carrying over. Additionally, an internal audit by independent staff will occur to assure policies and procedures are appropriately followed.

DEPARTMENT OF REVENUE

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

**Finding No. 2018-002: Inadequate Controls Over Motor Fuel Tax Revenue Reconciliations**

**Type of Finding: Material Weakness**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels" and principle 12 states, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "[m]anagement should remediate identified internal control deficiencies on a timely basis".

**Condition:**

The Department of Revenue (DOR) utilizes the CEDAR computer system to record motor fuel tax revenue received from individual taxpayers and the distributions of the revenue. The State's accounting system (SDAS) is used to record the gross revenue deposited from motor fuel taxes along with the taxes that were distributed to State funds or other governments. An important internal control is the reconciliation of the subsidiary record, the CEDAR system, to the State's accounting system. Procedures performed by the DOR did not include identifying the adjustments needed to CEDAR or the State's accounting system for the reconciling items. Reconciling items that are identified should be investigated and appropriately resolved on a timely basis.

The following items were identified during testing of a sample of monthly reconciliations.

- a. The reconciliation for July 2017 included a reconciling item for a refund which was recorded on the taxpayer's account on CEDAR, but the refund was never made by the DOR and as such was not on SDAS. The CEDAR refund was initiated in July 2016.
- b. Multiple reconciling items were noted on the reconciliations dating back to FY2017. The DOR did not appear to be investigating and resolving these items.
- c. The January reconciliation contained a \$1.2 million amount that was used to balance the reconciliation. The \$1.2 million error occurred in a prior month and was not corrected for an additional three months after the reconciliation.

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(Continued)

Cause:

The internal controls over motor fuel tax revenue reconciliations are not adequate to ensure the motor fuel tax revenue is accurately reported.

Effect:

As a result of inadequate internal controls over motor fuel tax reconciliations, there is a high risk the DOR is not able to prevent, detect and correct errors on a timely basis, increasing the likelihood of improper revenue recognition and reporting.

Repeat Finding from Prior Year:

No.

Recommendations:

1. We recommend that controls be implemented to ensure effective reconciliations of motor fuel tax revenue and timely resolution of any issues.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of motor fuel tax revenue.
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department concurs with the finding and offers the following corrective action plans.

As discussed last year, the department had experienced turnover in a critical position for an extended period of time. Following filling that critical position, DOR had also conducted Lean events and identified gaps in our staffing efforts. During the 2018 Legislative Session, we requested and were approved to hire an additional accountant for the Finance team. We have filled that position and have been working diligently to train, document and re-distribute the work load to strengthen the internal controls of the reconciliations. The Legislative Audit team has provided helpful feedback as we are developing policies and procedures.

The DOR Finance team has identified a primary accountant and a back-up for the completion of each reconciliation to ensure proper coverage in the event of absence or vacancy. All variances will be investigated with assistance from accounting staff within the respective division. Completed reconciliations will be approved by the Director of Finance each month, including documentation on reconciling items carrying over. Additionally, an internal audit by independent staff will occur to assure policies and procedures are appropriately followed.

The refund and payment policy has been updated to include a notification to the originator when a refund or requested payment has been processed. This will help to avoid the oversight that occurred with respect to the refund.

DEPARTMENT OF REVENUE

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Financial Statement Audit Finding:

**Finding No. 2018-003: Inadequate Controls over Motor Vehicle Titles & Registrations (T&R) Revenue Reconciliations**

**Type of Finding: Significant Deficiency**

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control – Integrated Framework (2013 Framework) defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels." Principle of internal control 12 states, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "[m]anagement should remediate identified internal control deficiencies on a timely basis".

**Condition:**

The Department of Revenue (DOR) utilized the SDCARS system to record and track T&R revenue from individual taxpayers and distributions of the revenue. The State's accounting system (SDAS) is used to record the gross revenue deposited from business taxes along with the taxes that were distributed to State funds or other governments. An important control is the reconciliation of the subsidiary record, the SDCARS system, to SDAS. The DOR had not performed adequate reconciliations of the T&R tax revenue and distributions from the SDCARS system to SDAS since 2016.

While a year-to-date (YTD) and monthly reconciliations were performed, reconciling items were not resolved. The YTD reconciliations listed several reconciling items dating back to July 2016 that remained on the FY2018 reconciliations and contained line items such as "out of balance" that could not be duplicated by the auditors.

The monthly reconciliations did not adequately compare SDAS to SDCARS and did not consider variances in county remittances. For the month of February, one county missed a payment of \$142,583.29 and another county overpaid by \$241,866.86. These payment variances were listed on a separate tracking worksheet, but not addressed as reconciling items on the face of the reconciliation. Two months had discrepancies that were caused by typos within the data used to build the reconciliation, causing reconciling items that didn't exist.

DEPARTMENT OF REVENUE  
(Continued)

Cause:

Controls and formal policies and procedures are not adequate to ensure the T&R revenue is accurately reported.

Effect:

As a result of the inadequate internal controls over T&R reconciliations, there is a higher risk that DOR would not be able to prevent, detect, and correct errors on a timely basis increasing the likelihood of improper revenue recognition, inaccurate reporting and noncompliance with State laws.

Repeat Finding from Prior Year:

Yes – Finding No. 2017-005

Recommendations:

1. We recommend that controls be implemented to ensure effective reconciliations over the recording of T&R revenue and the timely resolution of any issues.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of T&R revenue
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department concurs with the finding and offers the following corrective action plans.

As discussed last year, the department had experienced turnover in a critical position for an extended period of time. Following filling that critical position, DOR had also conducted Lean events and identified gaps in our staffing efforts. During the 2018 Legislative Session, we requested and were approved to hire an additional accountant for the Finance team. We have filled that position and have been working diligently to train, document and re-distribute the work load to strengthen the internal controls of the reconciliations. The Legislative Audit team has provided helpful feedback as we are developing policies and procedures.

The DOR Finance team has identified a primary accountant and a back-up for the completion of each reconciliation to ensure proper coverage in the event of absence or vacancy. All variances will be investigated with assistance from accounting staff within the respective division. Completed reconciliations will be approved by the Director of Finance each month, including documentation on reconciling items carrying over. Additionally, an internal audit by independent staff will occur to assure policies and procedures are appropriately followed.

While the variances were not listed on the cover sheet of the reconciliation, they were documented and were actively investigated and resolved. We have also spent a significant amount of time working with Bureau of Information and Telecommunications (BIT) programmers to re-design monthly reports to improve the reconciliation efforts between SDCars and the state accounting system.