
Secretary of State

State of Oregon

DEPARTMENT OF REVENUE

Special Review—Change of Director

March 31, 1997



Audits Division

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Auditing for a Better Oregon

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Salem, Oregon 97310

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Oregon Revised Statutes 297.210(2) requires the Secretary of State to audit or review any state agency when the executive head leaves his or her position. This report contains the results of our audit at the Department of Revenue upon the retirement of Richard Munn, effective March 31, 1997. The objective of this audit was to review the propriety of transactions and accounts directly subject to control by the former director. We reviewed payroll transactions for the period July 1, 1996, through December 31, 1996, and travel claims for the period July 1 1995, through January 31, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit.

Our review found no material weaknesses in the department's internal control structure and did not identify any material instances of noncompliance with laws and regulations. Our review was limited to the specific matters described above and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Sam Cochran
Acting State Auditor

Fieldwork Completion Date:
February 26, 1997

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SUMMARY

The Oregon Department of Revenue (department) is responsible for administering and enforcing Oregon's tax laws. The department is the chief revenue collecting agent for the state's General Fund. The department administers over 30 other tax programs, including corporate income taxes, inheritance and gift taxes, amusement device taxes, and tobacco taxes. Additionally, though the department collects no property taxes, it is responsible for overseeing the application of the property tax laws throughout the state and also for collecting timber severance taxes for distribution to local districts.

This audit was conducted for the purpose of complying with *Oregon Revised Statutes* 297.210(2) requiring a review of any state agency when the executive head leaves his or her position. In this regard, we tested payroll, expense, and asset transactions directly subject to the control of the director. We found no material weaknesses in the department's internal control structure, and we did not identify any material instances of noncompliance with laws and regulations.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon Department of Revenue (department) is responsible for administering and enforcing Oregon's tax laws. The department is the chief revenue collecting agent for the state's General Fund. The department administers over 30 other tax programs, including corporate income taxes, inheritance and gift taxes, amusement device taxes, and tobacco taxes. Additionally, though the department collects no property taxes, it is responsible for overseeing the application of the property tax laws throughout the state and also for collecting timber severance taxes for distribution to local districts.

The director's principal duties include administering state and local tax programs, advising the governor, Legislative Assembly, and elected officials in the creation of tax policy for the state and local governments, and administering the department's operations.

FINANCIAL ACTIVITIES

The Oregon Department of Revenue directs the collection of 94 percent of the state's General Fund revenues and 92 percent of all local government revenues. The department's current biennial operating budget is approximately \$103 million. In addition, the department processes over three million tax returns per year.

For the fiscal year ended June 30, 1996, the department reported collecting \$3.8 billion of state revenues and \$202 million for local governments.

SCOPE AND METHODOLOGY

We conducted a limited review of the Oregon Department of Revenue (department) for the purpose of complying with *Oregon Revised Statutes* (ORS) 297.210(2). This statute

requires the Secretary of State to review any state agency when the executive head leaves his or her position. Certain transactions were tested to evaluate the effectiveness of internal controls and compliance with laws and regulations.

Travel Claim Procedures: We selected all expense claims paid to the director from July 1, 1995, through January 31, 1997, to determine if the claims complied with appropriate regulations. We also selected a sample of expense claims approved by the director for other employees. Specifically, we verified the claims were approved, receipts were attached to support the expense claim, the amounts were in accordance with the Department of Administrative Services' travel rules, and the travel was related to the employees' duties.

Payroll Procedures: We reviewed the director's timesheets for the period July 1, 1996, through December 31, 1996, to verify they were prepared and approved. Additionally, we reviewed the related payroll registers to determine whether amounts paid agreed with the timesheets submitted. We also selected three employees the director supervised and performed a review of their timesheets and payroll registers for the same period.

Assets and Computer Access Procedures: We determined if credit cards, key cards, keys, computers, and other items were turned in when the former director retired. We also verified the director's access to computer systems was terminated and signature authorization was removed from all financial approval processes.

We conducted our audit in accordance with generally accepted government auditing standards. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

REPORT ON INTERNAL CONTROL

The management of the Department of Revenue is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections 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.

In planning and performing our audit, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations

that we considered to be material weaknesses as defined above.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the Oregon Department of Revenue is the responsibility of its management. As part of our audit, we performed tests of the department's compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Department of Revenue and its management, the Department of Administrative Services' management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Oregon Department of Revenue during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Beth Taylor, CIA, Audit Administrator
Ann Waterman, CPA
Mark Montgomery

