



Auditing for a Better Oregon

January 4, 2005

Susan Browning, Deputy Director
Department of Revenue
955 Center Street NE, Room 457
Salem, Oregon 97301-2555

Dear Ms. Harchenko:

The statewide single audit that included selected financial accounts at the Department of Revenue (department) for the year ended June 30, 2004, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's *Comprehensive Annual Financial Report* and to report on internal control and the state's compliance with laws and regulations. Regular audits of the department will continue on a periodic basis.

The following department accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
General Fund		
0065	Unreconciled Deposit	117,306,657
0070	Cash on Deposit with Treasurer	37,541,458,933
0410	Taxes Receivable – Current	186,069,794
0411	Allowance for Uncollectible Taxes – Current	(20,664,912)
0420	Taxes Receivable – Noncurrent	474,440,407
0937	Allowance for Uncollectible Taxes – Noncurrent	(52,303,502)
0111	Personal Income Taxes	4,278,734,492
0115	Corporate Excise and Income Taxes	314,364,596
0121	Cigarette Taxes	41,063,662

Management Letter No. 150-2005-01-01

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
Health and Social Services Fund		
0121	Cigarette Taxes	189,337,868

Based on our audit, we did not identify any reportable conditions related to the accounts audited. However, we did identify other conditions, which are issues of lesser significance that we wanted to communicate to agency management. These conditions are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter. These conditions do not require a Corrective Action Plan. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

Should you have any questions, feel free to contact Geoff Hill or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA, CFE
Audit Manager

cc: Susan Browning, Deputy Director
Jack Ogami, Administrator, Information Processing Division
Laurie Warner, Acting Director, Department of Administrative Services

Audit Findings and Recommendations Summary Department of Revenue Statewide Audit State Fiscal Year 2004

OTHER CONDITIONS

Reviews of Financial Data

A key control over financial reporting is the review of financial transactions by a knowledgeable individual independent of the preparation process. Such a review helps to ensure errors are detected and corrected timely.

During testing of cash and taxes receivable, we identified instances where the department's review processes were insufficient. Specifically, data input errors went undetected and corrected and some amounts used in generating estimates needed to calculate year-end accruals were inappropriate. The instances identified required material adjustments to the financial accounts being audited.

We recommend the department revise its review processes to ensure amounts reported are complete and accurate. At a minimum, those processes should include:

- Independent review by a knowledgeable staff,
- Specific checks and balances that better identify errors, and
- Evaluation of the reasonableness of amounts included in estimates.

The department also should ensure the review is conducted timely.

Timeliness of Cash Reconciliations

The periodic reconciliation of bank statements to accounting records is an essential control over cash accounts. Timely preparation and review of bank reconciliations ensures that management has time to identify and resolve discrepancies to ensure that cash is reported correctly in the financial records.

During testing of cash, we reviewed the monthly reconciliations for the department's Revenue Suspense account. The ending balance for the account was approximately \$151 million as of June 30, 2004. We found that department staff did not prepare and review four of the 12 reconciliations timely, taking 48, 68, 72 and 98 days to complete the reconciliation process.

We recommend the department ensure cash reconciliations are prepared and reviewed in a timely manner.

Retention of Tax Returns

The department collects approximately \$4.2 billion in Personal Income Tax (PIT) revenues each year. During testing of PIT revenues, we found that the supporting documentation, specifically the corresponding tax returns, for three of the 42 transactions selected for testing had been prematurely destroyed. Although the returns were from tax years 1993, 1995, and 1996, each of the accounts tested had activity recorded during fiscal year 2004.

Per the department's policy, PIT returns should be maintained for four years after the account is closed. However, the policy does not specify when an account is considered closed.

We recommend the department better define in the policy when an account is considered closed and when tax returns are to be destroyed. We also recommend management ensure compliance with the policy.