



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Office of the State Tax Commissioner

Audit Report for the Biennium Ended June 30, 2019

Client Code 127





WHAT WE LOOKED AT

Our team audited the Office of the State Tax Commissioner which included reviewing tax collections and refunds, expenditures and blanket bond coverage.

WHAT WE FOUND

This audit did not identify any areas of concern.

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HAVE QUESTIONS? ASK US.

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Introduction

Office of the State Tax Commissioner

January 30, 2020

We are pleased to submit this audit of the Office of the State Tax Commissioner for the biennium ended June 30, 2019. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241.

We wish to express our appreciation to Tax Commissioner Rauschenberger and his staff for the courtesy, cooperation and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conflict of Interest: Situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.

ConnectND: The accounting system for North Dakota.

Default: Failures to do something required by duty or law.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

OBJECTIVE RELATED TO OUR STATUTORY AUDIT REQUIREMENTS

Are there any exceptions to report relating to
statutorily required audit testing?

Statutorily required audit testing includes: performing the post-audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented.

We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation and effectiveness of the same. We also identified controls relating to information and communication, specifically the principle of using quality information.

Based on the audit work performed, auditors are required to report deficiencies in internal control that are significant within the context of the audit objectives. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.

Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

SCOPE

This audit of the Office of the State Tax Commissioner is for the biennium ended June 30, 2019. The Office of State Tax Commissioner has operations in the following locations. Each location was included in the audit scope:

- The central office in the State Capitol.
- Remote offices in Dickinson, Fargo, Grand Forks, Minot and Williston.

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Inspected documentary evidence.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Queried the ConnectND (PeopleSoft) and GenTax systems for data analysis. Significant evidence was obtained from ConnectND and GenTax.
- Non-statistical sampling was used and the results were

projected to the population.

- Observed the Office of the State Tax Commissioner's processes and procedures related to revenue collections. Where necessary, internal control was tested to determine if controls were operating effectively and if collections were classified to the proper tax type.
- Tested compliance with appropriation laws and regulations including related transfers and emergency commission action. Where necessary, internal control was tested to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Tested significant Tax Commissioner certifications to the State Treasurer as well as amounts deposited into the State Aid Distribution Fund.

STATUTORY CRITERIA

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purposes.
 - o 2017 North Dakota Session Laws Chapter 5 (H.B. 1006)

- o 2019 North Dakota Session Laws Chapter 31 (S.B. 2006) and Chapter 49 (S.B. 2024)
- o N.D.C.C. 54-16-03, N.D.C.C. 54-44.1-11
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)
- Proper payment of tax refunds (N.D.C.C. 44-08-05.1)
- Deposit of taxes to the proper funds, including:
 - o City Sales Tax (N.D.C.C. 57-01-02.1(2))
 - o Sales and Use Tax (N.D.C.C. 57-39.2-20 and 57-40.2-13)
 - o Individual and Corporate Income Tax (N.D.C.C. 57-38-55)
 - o Oil and Gas Production Tax (N.D.C.C. 57-51-14)
 - o Oil Extraction Tax (N.D.C.C. 57-51.1-06)
 - o Motor Fuel Tax (N.D.C.C. 57-43.1-28)
 - o Special Fuels Tax (N.D.C.C. 57-43.2-19)
- Certifications to the State Treasurer's Office for distributions to local subdivisions were completed for the proper amounts for the following certifications:
 - o State Aid Distribution Fund (N.D.C.C. 57-39.2-26.1)
 - o Oil & Gas Production Tax (N.D.C.C. 57-51-14)
 - o City Sales Tax (N.D.C.C. 57-01-02.1(2))
 - o Oil Extraction Tax (N.D.C.C. 57-51.1-06)



AUTHORITY AND STANDARDS

This biennial audit of the Office of the State Tax Commissioner has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are published in the publication Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14-704G).

STATUS OF PRIOR RECOMMENDATIONS

Approval of GenTax Access (Finding 2017-1)

Recommendation: We recommend the Office of the State Tax Commissioner document approval of the GenTax system access privileges timely and on an annual basis at a minimum.

Status: Implemented

The Office of State Tax Commissioner implemented a process which includes annual instruction to the supervisory staff to review and document approval of the GenTax system access privileges. Lastly, the Director, Fiscal Management Division, tracks to ensure timely reviews occur.



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Financial statements were not prepared by the Office of the State Tax Commissioner in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?

Yes.

3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?

Yes.

4. WERE THERE ANY INDICATIONS OF LACK OF EFFICIENCY IN FINANCIAL OPERATIONS AND MANAGEMENT OF THE AGENCY?

No.

5. HAS ACTION BEEN TAKEN ON FINDINGS AND RECOMMENDATIONS INCLUDED IN PRIOR AUDIT REPORTS?

Yes.

6. WAS A MANAGEMENT LETTER ISSUED? IF SO, PROVIDE A SUMMARY BELOW, INCLUDING ANY RECOMMENDATIONS AND THE MANAGEMENT RESPONSES.

No, a management letter was not issued.



LAFRC Audit Communications

7. IDENTIFY ANY SIGNIFICANT CHANGES IN ACCOUNTING POLICIES, ANY MANAGEMENT CONFLICTS OF INTEREST, ANY CONTINGENT LIABILITIES, OR ANY SIGNIFICANT UNUSUAL TRANSACTIONS.

There were no significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. IDENTIFY ANY SIGNIFICANT ACCOUNTING ESTIMATES, THE PROCESS USED BY MANAGEMENT TO FORMULATE THE ACCOUNTING ESTIMATES, AND THE BASIS FOR THE AUDITOR'S CONCLUSIONS REGARDING THE REASONABLENESS OF THOSE ESTIMATES.

The Office of the State Tax Commissioner's financial statements do not include any significant accounting estimates.

9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.

Significant audit adjustments were not necessary.

10. IDENTIFY ANY DISAGREEMENTS WITH MANAGEMENT, WHETHER OR NOT RESOLVED TO THE AUDITOR'S SATISFACTION RELATING TO A FINANCIAL ACCOUNTING, REPORTING, OR AUDITING MATTER THAT COULD BE SIGNIFICANT TO THE FINANCIAL STATEMENTS.

None.

11. IDENTIFY ANY SERIOUS DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT.

None.

12. IDENTIFY ANY MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION.

This is not applicable for audits conducted by the Office of the State Auditor.

13. IDENTIFY ANY MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS ABOUT AUDITING AND ACCOUNTING MATTERS.

None.

14. IDENTIFY ANY HIGH-RISK INFORMATION TECHNOLOGY SYSTEMS CRITICAL TO OPERATIONS BASED ON THE AUDITOR'S OVERALL ASSESSMENT OF THE IMPORTANCE OF THE SYSTEM TO THE AGENCY AND ITS MISSION, OR WHETHER ANY EXCEPTIONS IDENTIFIED IN THE SIX AUDIT REPORT QUESTIONS TO BE ADDRESSED BY THE AUDITORS ARE DIRECTLY RELATED TO THE OPERATIONS OF AN INFORMATION TECHNOLOGY SYSTEM.

ConnectND Finance, Human Resource Management System (HRMS), GenTax, Great Plains, and Mirror Image are high-risk information technology systems critical to the Office of the State Tax Commissioner

Financial Statements

Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Natural Resource Taxes (Net of Refunds) **	\$ 2,599,300,804	\$ 2,092,269,791
Sales and Use Taxes (Net of Refunds) **	1,573,091,761	1,397,645,901
Income Taxes (Net of Refunds) **	561,797,909	474,913,035
Business Taxes	25,745,862	22,793,943
Telecommunication Taxes	8,342,997	9,682,818
Pre-paid Wireless Emergency 911 Fees (Net of Refunds) **	1,200,652	1,175,158
Miscellaneous Revenues	310,417	207,850
Alcohol License Fees	99,355	93,656
Transfers In	1,417,214	0
Total Revenues and Other Sources	\$ 4,771,306,971	\$ 3,998,782,152

** Statement includes total refunds of \$305,745,613.

Financial Statements

Statement of Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Salaries and Benefits	\$ 9,931,337	\$ 10,340,310
Homestead Tax Credit	8,260,999	7,903,389
Disabled Veterans Tax Credit	4,705,146	4,067,952
Information Technology	2,208,421	2,182,233
Equipment Under \$5,000	415,733	11,120
Postage	369,463	323,242
Professional Services	214,068	212,882
Other Operating Expenditures	187,765	155,509
Supplies	153,884	126,655
Professional Development	94,743	80,856
Travel	77,239	71,606
Printing	30,845	6,477
Transfers Out	1,462,375	42,207
Total Expenditures and Other Uses	\$ 28,112,018	\$ 25,524,438

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Salaries and Wages	\$ 21,799,004	\$ 20,271,647	\$ 1,527,357
Operating Expenses	6,749,295	6,495,793	253,502
Capital Assets	6,000	0	6,000
Homestead Tax Credit	16,218,623	16,218,623	0
Disabled Veteran Credit	8,808,200	8,806,230	1,970
Totals	\$ 53,581,122	\$ 51,792,293	\$ 1,788,829

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 53,456,122	\$ 51,769,951	\$ 1,686,171
Other	125,000	22,342	102,658
Totals	\$ 53,581,122	\$ 51,792,293	\$ 1,788,829

Source: ConnectND Financials



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