

**Secretary of State  
Department of Revenue Financial Audit  
Year Ended June 30, 2014**

**Perform Cash Reconciliations on a Regular and Timely Basis  
Significant Deficiency**

During fiscal year 2014, the department received, processed and deposited over \$7 billion in revenues from various tax programs. To facilitate efficient accounting, the department set up specific cash accounts for these tax programs. Much of the cash received is processed through the Revenue Suspense Account at the Oregon State Treasury before being transferred to the General Fund or other funds, as appropriate. State policy recommends that departments reconcile cash accounts on a regular basis. Cash reconciliations are an important internal control to provide assurance that cash received by the Treasury agrees to amounts recorded by the department.

The department's usual process is to perform monthly reconciliations between cash accounts in its subsidiary accounting system and related accounts at the Oregon State Treasury and the state accounting system. During the audit, we found the department completed monthly reconciliations of its subsidiary accounting system to the Revenue Suspense Account at the Oregon State Treasury for July 2013 through September 2013, but did not complete the reconciliations for October 2013 through June 2014. Department management reported staffing shortages and other priorities contributed to reconciliations not being completed. By not performing the monthly reconciliations, the department has less assurance errors will be detected and corrected in a timely manner.

**We recommend** department management ensure cash accounts in its subsidiary accounting system are consistently reconciled to Oregon State Treasury accounts.

***MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:***

*We agree and have developed a plan to have all reconciliations current by June 30, 2015. The plan includes reprioritization of our workload, utilizing other staff to assist, where possible, and cross-training our Accountants on the most complex of reconciliations to reduce the risk of this occurring in the future.*

*Anticipated Completion Date: June 30, 2015*

**Perform Management Review of Taxes Receivables Accruals  
Significant Deficiency**

Department management must ensure proper accounting and reporting of receivables for the statewide annual financial statements. For this purpose, state agencies are to estimate and accrue receivables that are expected to be collected within 90 days of fiscal year end. Department management is responsible for ensuring the accuracy and completeness of the information that supports its year end accruals.

Each year, as part of its annual financial reporting process, the department prepares estimates of the taxes receivable accrual for department administered tax programs. These estimates involve many separate calculations and are based on several sources of data, including historical trends, uncollectible taxes, refunds payable, and other information contained in the department's subsidiary accounting system. Typically, these estimates are calculated by a Revenue Accountant and reviewed by a more senior Revenue Accountant or the Budget and Finance Manager. Because the calculations are fairly complex and interdependent, it is especially important a review is done to ensure the accruals are accurate. For fiscal year 2014, this review was not completed due to staffing shortages and other priorities.

In reviewing the taxes receivable estimates prepared for fiscal year 2014, we found multiple errors in the department's calculation, such as incorrectly calculated percentages and omitted amounts. Although the errors were not material to this year's financial statements, they impacted all five of the audited Taxes Receivable accounts.

**We recommend** department management perform effective and timely reviews of the taxes receivable estimates to ensure accrual calculations are accurate.

***MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:***

*We agree. Our Accountant 4, Accountant 3 and Finance Manager will be trained to perform the review of the Tax Receivable accruals by July 31, 2015, The desk procedure and any supporting documentation will be reviewed and updated, if necessary.*

*Anticipated Completion Date: July 31, 2015*

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**Secretary of State  
Department of Revenue Financial Audit  
Year Ended June 30, 2015**

**Perform Cash reconciliations on a Regular and Timely Basis  
Significant Deficiency**

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The department's intended process is to reconcile cash accounts in its subsidiary accounting systems, on a monthly basis, to related accounts at the Oregon State Treasury and in the state accounting system. The department considers reconciliations timely if they are completed by the fifth day after the end of the following month (e.g., May's reconciliation is timely if completed by July 5th). All fiscal year 2015 monthly reconciliations of the department's subsidiary accounting systems to the Revenue Suspense Account at the Oregon State Treasury were completed by July 2015; however, 11 of the 12 were not completed timely. The timing ranged from 10 days to 7 months late. Additionally, 5 of 12 monthly reconciliations of the department's subsidiary systems to the state accounting system were not completed timely. These reconciliations ranged from 10 days to over 2 months late. Department management indicated staffing shortages and a need to redirect resources to the new tax revenue system contributed to the reconciliations not being completed timely. By not consistently performing reconciliations timely, there is an increased risk that errors will not be promptly detected and corrected.

**We recommend** department management ensure cash accounts in its subsidiary accounting systems are consistently and timely reconciled to the Oregon State Treasury accounts and the state accounting system.

**MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:**

*We agree with this recommendation.*

*We have implemented a reconciliation review process to ensure all cash accounts are consistently and timely reconciled as of July 2015.*

**Strengthen Controls to Ensure Supporting Documentation for Tax Revenue Transactions is Retained  
Significant Deficiency**

Agency management is responsible for maintaining a system of internal controls designed to provide reasonable assurance of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. A system of internal controls includes retaining documentation that supports transactions and having it readily available for examination. Additionally, state archiving requirements specify transaction input documentation should be retained for 4 years.

The department did not retain complete supporting documentation for fiscal year 2015 state accounting system tax revenue transactions. Of 106 transactions tested, 31 totaling over \$2 billion did not have documentation to support that the amounts were accurate and properly classified. Department staff overwrote electronic supporting documentation for the 31 transactions when they prepared subsequent transaction entries and did not retain copies of the overwritten support. Although we were able to verify through other audit procedures that these transactions were entered into the state accounting system accurately and were properly classified, it is important to ensure controls are properly performed and documentation retained to support the effectiveness of controls and accuracy of transactions.

**We recommend** department management strengthen controls to ensure complete supporting documentation for all financial transactions is appropriately retained.

***MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:***

*We agree with this recommendation.*

*We have strengthened our procedures related to financial transaction documentation which will help us ensure that complete supporting documentation is appropriately retained as of November 2015.*

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**Secretary of State  
Department of Revenue Financial Audit  
Year Ended June 30, 2016**

**Strengthen Procedures for Taxes Receivables and Accounts Payable Accruals  
Material Weakness**

Department management must ensure proper accounting and reporting of revenues and receivables. To achieve this, department management is responsible for establishing, maintaining and improving agency internal controls, which must be adequate to provide reasonable assurance that transactions are accurate and properly recorded.

Each year, as part of the state's annual financial reporting, the Department of Revenue (department) prepares accruals for taxes receivable and accounts payable to ensure financial reporting is in accordance with generally accepted accounting principles. The accrual estimates involve many separate calculations and are based on several sources of data.

Department staff that performed the taxes receivable and accounts payable accrual estimates made several errors in completing the accrual calculations, including inadvertently using incomplete data, using data for the wrong time period, and applying incorrect percentages in certain calculations. Further, the errors were not detected during the department's review process. Department staff assigned to complete the accruals and perform the review were inexperienced with the process. Additionally, policies and procedures for the accrual calculations had not been updated to reflect changes to the process, including how reports from the department's recently implemented financial system should be used.

As a result of the errors, the net General Fund current taxes receivable account was materially overstated by approximately \$179 million; noncurrent taxes receivable was understated by approximately \$26 million; and accounts payable was understated by approximately \$550,000. In addition, as a result of the calculation errors, the personal income taxes revenue account was materially overstated by approximately \$196 million and the corporate excise and income taxes account was understated by approximately \$16 million. The current taxes receivable and personal income taxes accounts required adjustments before we determined them to be fairly stated in accordance with generally accepted accounting principles.

**We recommend** the department update policies and procedures related to the taxes receivable and accounts payable calculations, and provide relevant training to staff who are assigned to complete and review the calculations to ensure the calculations are complete and accurate.

***MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:***

*The department agrees with the recommendation.*

*Finance is developing procedures and peer review processes to maintain quality control assurances over calculations. Staff will receive additional training during GenTax rollout 4 in the fall of 2017 and by the Department of Administrative Services Statewide Accounting and Report Services team.*

*Anticipated Completion Date: Fall 2017*

**Perform and Review Cash Reconciliations on a Regular and Timely Basis  
Significant Deficiency**

During fiscal year 2016, the department received, processed, and deposited over \$8 billion in revenues from various tax programs. To facilitate efficient accounting, the department set up specific cash accounts for these programs. Much of the cash received is processed through the Revenue Suspense Account at the Oregon State Treasury before being transferred to the General Fund or other funds, as appropriate. State policy recommends departments reconcile cash accounts regularly and provide adequate review and approval of the reconciliations. Cash reconciliations are an important internal control to provide assurance that actual assets agree to recorded amounts.

The department's intended process is to reconcile cash accounts in its subsidiary systems, on a monthly basis, to related accounts at the Oregon State Treasury and in the state's accounting system. Reconciliations should then be reviewed by a separate accountant or manager. The department considers reconciliations to be timely if they are completed by the fifth day after the end of the following month (e.g., May's reconciliation is timely if completed by July 5<sup>th</sup>). All fiscal year 2016 monthly reconciliations of the department's subsidiary systems to the Revenue Suspense Account at the Oregon State Treasury were completed timely; however, 8 of the 12 reconciliations were not separately reviewed and approved. Additionally, all fiscal year 2016 monthly reconciliations of the department's subsidiary systems to the state's accounting system were completed, but 4 of 12 monthly reconciliations were not completed timely, and none of the monthly reconciliations were separately reviewed and approved during the fiscal year. Department management indicated that staffing shortages contributed to some reconciliations not being completed timely and separately reviewed and approved. By not consistently performing reconciliations timely and separately reviewing them, there is an increased risk that errors will not be promptly detected and corrected.

**We recommend** department management ensure cash accounts in its subsidiary accounting systems are consistently and timely reconciled to the state accounting system and that all cash reconciliations are separately reviewed and approved.

**MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:**

*The department agrees with the recommendation.*

*An additional resource will be added to the Finance team in February 2017 to specifically focus on reconciliations to the state accounting system and cash accounts. An accounting manager was hired in December 2016 and will be charged with conducting a review of all reconciliations performed. Finance estimates that all reconciliations will be up-to-date and reviewed by September 2017.*

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*Anticipated Completion Date: September 2017*

### **Improve Monitoring Controls to Ensure Revenues are Recorded to the Proper Period Significant Deficiency**

Department management is responsible for ensuring the proper accounting and reporting of revenues in accordance with generally accepted accounting principles. Revenues are to be recognized when they are both measurable and available.

During our audit procedures to reconcile cigarette taxes revenue recorded in the department's subsidiary system to the revenue reported in the state's accounting system, we noted approximately \$16.6 million of fiscal year 2016 revenue had mistakenly been recorded in the state's accounting system for fiscal year 2017. Documentation we received from the department showed additional revenues totaling approximately \$138.3 million had also been recorded in the wrong fiscal period. The errors were found in time to allow the department to make correcting entries to prevent material misstatements from occurring to the financial statements. However, the department's monitoring controls did not detect the errors.

**We recommend** department management develop and implement effective monitoring procedures to ensure all accounting transactions are entered in the state accounting system in the proper period for financial reporting purposes.

#### ***MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:***

*The department agrees with the recommendation.*

*Implementing the peer review process will ensure the accuracy of accounting transactions. Peer reviews began in January 2017 for all transactions associated with distributions and accounts payable. Peer reviews for reconciliations will be February 2017.*

*Anticipated Completion Date: February 2017*

### **Controls over System Access Need Strengthening Significant Deficiency**

The department records tax revenue transactions in its subsidiary systems before the information is entered into the state's accounting system at a summary level. The department authorizes employees to access the subsidiary systems based on employee job or role requirements. Sound internal control over information systems requires access rights be revoked upon employee termination, or revoked or updated when an employee's job requirements change.

Department policy requires that when an employee leaves the department, the employee's manager is to immediately submit a request to revoke all access. The policy also states when staff transfer positions within the department, the employee's new manager is to submit a request to both terminate the prior role access and request access to the new role. Additionally, department management is required to perform an annual review of higher risk access levels to ensure access remains appropriate.

Department management did not ensure all access rights were reviewed regularly and system access rights timely terminated or updated. As a result, our review of employee access to the department's subsidiary systems identified six instances when system access was not revoked timely for terminated employees or was not updated timely for employees assigned to different roles and responsibilities within the department. Additionally, while the department has a process for authorizing access to the department's new tax accounting system for each phase of the system implementation, the process for managing access for on-going operations has not yet been established.

Strong access controls decrease the risk of unauthorized or unintentional use or modification of the system, which could result in inappropriate tax transactions.

**We recommend** department management ensure employee system access be reviewed regularly and promptly revoked upon termination or updated upon transfer of employee responsibilities within the agency.

***MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:***

*The department agrees with the recommendation.*

*In January 2017 the department's Information Technology Systems Security Office began a review of the Request for Computer Access process. Concluding the review the department will define a process and develop procedures to ensure timely revocation of employee system access. The review is anticipated to be completed by June 2017, which will provide recommendations about how to move forward and presented to the Revenue Leadership Team. (RLT). RLT will decide on best approach. In the interim, HR will be putting a step on the Employee Lifecycle process on Rocket a reminder to terminate accesses when an employee leaves. That should be completed by the end of February of 2017.*

*Anticipated Completion Date: February 2017*

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