Department of the Treasury
Division of Taxation
Transfer Inheritance Tax Revenues

July 1, 2001 to June 30, 2003
Enclosed is our report on the audit of the Department of the Treasury, Division of Taxation, Transfer Inheritance Tax Revenues for the period July 1, 2001 to June 30, 2003. If you would like a personal briefing, please call me at (609) 292-3700.

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December 11, 2003
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Scope

We have completed an audit of the Department of the Treasury, Division of Taxation, Transfer Inheritance Tax Revenues for the period July 1, 2001 to June 30, 2003.

The Transfer Inheritance Tax law imposes a graduated tax ranging from 11 percent to 16 percent on the transfer of real and personal property with a value of $500 or more to certain beneficiaries. Revenues for the audit period totaled $985 million and were deposited in the state’s General Fund.

Objectives

The objectives of our audit were to determine whether revenue transactions were related to the Transfer Inheritance Tax program, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of the significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of revenue transactions. We also read the budget message, reviewed financial trends, and
interviewed agency personnel to obtain an understanding of the programs and the internal control.

A nonstatistical sampling approach was used. Our samples of revenue transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were stratified and large dollar transactions were examined. Other transactions were randomly selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the division and performed tests on the system to determine if the corrective action was effective.

Conclusions

We found that the revenue transactions included in our testing were related to Transfer Inheritance Tax program, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted an internal control weakness and a matter of compliance with laws and regulations meriting management’s attention. We also found that the division has resolved the significant issues noted in our prior report.
The division should deposit all receipts in a timely manner.

Timeliness of Deposits

Treasury Circular Letter 94-24-OMB requires the deposit of receipts on the same day as received. Our review disclosed that 27 of 35 sampled checks ranging from $80 to $13,984,000 were not deposited timely. The average time from the date received to the date of deposit was seven days. During the audit period inheritance tax receipts totaled $1.1 billion. We calculated lost investment earnings to be approximately $500,000 between July 1, 2001 and June 30, 2003.

Additionally, we noted that checks were not kept in a secure location prior to deposit. In-process checks were kept with the tax returns and were left on employees’ desks at the end of the day. This condition increases the risk that checks could be lost, misplaced or stolen.

Recommendation

We recommend that the division revise procedures to ensure that checks are properly secured and deposited in a timely manner.

Auditee’s Response

The Division of Taxation has discontinued the practice of verifying certain information prior to the deposit of checks. Instead, it is sending checks for deposit immediately, with the verifications being performed post deposit.

In addition, the Division of Taxation has reissued its policy of not leaving checks or confidential information on desktops or other non-secure areas. Checks will be locked in a cabinet each night if they are received too late for forwarding to Mill Hill. The division will continue its practice of hand delivering checks in excess of one million dollars.

Finally, the Division of Taxation will share this report with the Division of Revenue to give them the opportunity to take measures that will ensure timely processing once a check is delivered to Mill Hill.

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