

STATE OF NORTH CAROLINA

DEPARTMENT OF REVENUE
FINANCIAL RELATED AUDIT
LOCAL GOVERNMENT TAX DISTRIBUTIONS

JUNE 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DEPARTMENT OF REVENUE

FINANCIAL RELATED AUDIT

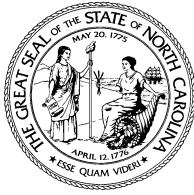
LOCAL GOVERNMENT TAX DISTRIBUTIONS

JUNE 2013

ADMINISTRATIVE OFFICERS

LYONS GRAY, SECRETARY

ELIZABETH COLCORD, CHIEF FINANCIAL OFFICER



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

June 12, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Lyons Gray, Secretary, Department of Revenue

This report presents the results of our financial related audit at the Department of Revenue. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance that are considered reportable under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
AUDIT SCOPE AND OBJECTIVES	2
METHODOLOGY	4
RESULTS AND CONCLUSIONS	5
ORDERING INFORMATION	7

BACKGROUND

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Department of Revenue. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The Department of Revenue was created in 1921 by the General Assembly. As authorized by Article 4 of Chapter 143B of the *North Carolina General Statutes*, the duties of the Department include administering and collecting for the State's tax revenues, ensuring uniformity of administration of the tax laws and regulations, conducting research on revenue matters, and exercising general and specific supervision over the valuation and taxation of property throughout the State. The Department is headed by the Secretary of Revenue, who is appointed by the Governor.

For the fiscal year ended June 30, 2012, the Department collected gross General Fund revenue of \$24.3 billion. The Department also collected gross Highway Fund revenue of \$1.5 billion, Highway Trust Fund revenue of \$476 million, and other funds' revenue of \$10.5 million.

AUDIT SCOPE AND OBJECTIVES

The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope covered the period July 1, 2011 through June 30, 2012. During our audit, we examined internal control designed to ensure that the Department properly calculated and distributed taxes to the local governments and municipalities in accordance with state laws.

For the audit period, distributions to local governments included in our audit scope totaled \$2.7 billion. We considered internal control related to the following tax distributions to local governments:

Local Sales and Use - The State collects sales and use tax levied by local governments under Articles 39, 40, 42, 43, 44, and 46 of Chapter 105 of the *North Carolina General Statutes*. The local governments' portion of the taxes collected is distributed monthly in accordance with *G.S. 105-463* through *G.S. 105-538*.

Franchise Utilities - The State collects franchise tax from electric power companies. The cities' portion of the taxes collected is distributed quarterly in accordance with *G.S. 105-116.1*.

Piped Natural Gas – The State collects an excise tax imposed on piped natural gas received for consumption in this State. The cities' portion of the taxes collected is distributed quarterly in accordance with *G.S. 105-187.44*.

Telecommunications – The State collects taxes imposed on telecommunications service and ancillary service. The cities' portion of the taxes collected is distributed quarterly in accordance with *G.S. 105-164.44F*.

Video Programming Services - The State collects taxes imposed on video programming service. The counties' and cities' portion of the taxes collected is distributed quarterly in accordance with *G.S. 105-164.44I* and *G.S. 105-164.44J*.

White Goods Disposal – The State collects a privilege tax imposed on white goods retailers on new white goods sold by the retailer. The tax is also imposed on new white goods purchased outside the State for storage, use, or consumption in this State. The counties' portion of the taxes collected is distributed quarterly in accordance with *G.S. 105-187.24*.

AUDIT SCOPE AND OBJECTIVES (CONCLUDED)

Scrap Tire Disposal – The State collects a privilege tax imposed on tire retailers at a percentage rate of the sales price of each new tire sold for placement on a vehicle offered for sale, lease, or rental. An excise tax is imposed on a new tire purchased for storage, use, or consumption in this State. The counties' portion of taxes collected is distributed quarterly in accordance with *G.S. 187.19*.

Solid Waste Disposal – The State collects taxes imposed on the disposal of municipal solid waste and construction and demolition debris in any landfill permitted pursuant to Article 9 of Chapter 130A of the General Statutes. An excise tax is also imposed on the transfer of municipal solid waste and construction and demolition debris to a transfer station permitted pursuant to Article 9 of Chapter 130A of the General Statutes for disposal outside the State. The cities' and counties' portion of the tax collected is distributed quarterly in accordance with *G.S. 105-187.63*.

Medicaid Hold Harmless – The General Assembly established a semi-annual distribution to replace funds that local governments had previously received from local sales and use taxes that were repealed in exchange for the State assuming the responsibility for the non-administrative costs of Medicaid. Local governments receive a distribution if the repealed sales tax amount plus its city hold harmless amount for a fiscal year exceeds the county's hold harmless threshold for that fiscal year. Eligible counties receive ninety percent of the projected annual hold harmless amount in March. In August, the counties receive the remainder of the actual hold harmless amount for the fiscal year in accordance with *G.S. 105-523*.

Alcoholic Beverage – The State collects excise taxes levied on the sale of malt beverages, fortified wine, and unfortified wine. The cities' and counties' portion of the taxes collected is distributed annually in accordance with *G.S. 105-113.82*.

Sales and Use Hold Harmless (for repealed reimbursements) – The General Assembly established an annual distribution to replace funds that local governments had previously received from certain repealed taxes (inventory, food stamps, intangible and homestead). Local governments receive a distribution of the difference between the estimated amount of replacement revenue and the total amount a local government would have been entitled to receive during the 2002–2003 fiscal year for the taxes repealed. The local government's portion is distributed annually in accordance with *G.S. 105-521*.

METHODOLOGY

To accomplish our audit objective, we gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

RESULTS AND CONCLUSIONS

The results of our audit disclosed no internal control deficiencies or instances of noncompliance that are considered reportable under generally accepted government auditing standards.

[This Page Left Blank Intentionally]

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes
Director of External Affairs
919-807-7513

This audit required 625 audit hours at a cost of \$45,000.