

DEPARTMENT OF REVENUE

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 20, 2017

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Revenue

December 2017

Audit Control # 80170124

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017, we performed procedures at the Louisiana Department of Revenue (LDR) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of LDR's internal controls over financial reporting and compliance; and determine whether LDR complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

LDR is the state agency charged with the assessment, collection, administration, and enforcement of taxes, fees, licenses, penalties, and interest due to the State of Louisiana. The department's mission is to fairly and efficiently collect state tax revenues to fund public services; to regulate charitable gaming and the sale of alcoholic beverages and tobacco; and to support State agencies in the collection of overdue debts.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated November 30, 2016. We determined that management has resolved the prior-year findings related to Inadequate Controls over LaCarte Card Purchases, Untimely Deposit of Tax Payments, and Inadequate Controls over Human Capital Management and Advantage Financial System Access. The prior-year finding related to the Overpayment of Sales Tax Distributions to Local Government has not been resolved and is addressed again in this letter.

Current-year Findings

Overpayment of Sales Tax Distributions to Local Government

LDR has continued to overpay the Algiers Economic Development District No. 1 (District). The overpayment to the District since the beginning of its Cooperative Endeavor Agreement (Agreement) executed in 2004 is now more than \$7.9 million, including \$497,060 in fiscal year

2017. LDR concurred with our prior-year finding; however, no changes to the agreement or to the method of calculation for distributions were made during fiscal year 2017.

The Agreement between LDR and the District states that LDR shall distribute the calculated “Monthly Pledged State Increment” to the District every quarter, which is defined by the Agreement as the lesser of the “Monthly State Increment” (MSI) and the “Monthly Local Increment.”

The MSI is equal to the excess of 1.25 cents of the sales tax collections from taxpayers in the District over the monthly state base (\$74,864 per the agreement). Rather than using the excess of 1.25 cents of the sales tax collections in its calculation, LDR used the total sales tax collections from the taxpayers in the District, which resulted in the overpayments. The Agreement requires that LDR eliminate any shortage or overage by adjusting future distributions.

LDR management should re-evaluate the current distribution calculation and work on a plan to recoup past overpayments. Management noted that it will continue its efforts to discuss and work with the local government to legally amend the Agreement to address the finding while ensuring compliance with the law (see Appendix A, pages 1-2).

Ineffective Controls over Severance Tax Collections and Refunds

LDR did not effectively implement or adequately monitor controls over severance tax collections and refunds. LDR did not ensure required forms were on file supporting severance tax reductions and exemptions prior to accepting reduced payments or issuing related refunds. LDR also issued refunds without including the manual calculation of interest on those refunds in the taxpayer’s account as required by LDR’s policy, PPM 32.02. Total severance tax offsets allowed in fiscal year 2017 total more than \$134 million. The lack of adequate controls over the review of severance tax filings and the issuance of refunds increases the risk of understated and lost tax revenue, overpayment of tax refunds, and noncompliance with state law.

During our test of 40 severance tax transactions, we found:

- Five (13%) of the 40 transactions tested totaling a net \$2.6 million included reductions and/or exemptions totaling \$339,887 that were not supported by the required reduced and/or exempt well documentation. In an extended review of the accounts for these five exceptions, we identified an additional 48 refund transactions totaling \$1.8 million that were issued without adequate support that the taxpayer was eligible for the reduced rate or exemption to support the refund.
- Of the 12 refunds tested, eight required a manual interest calculation; however, none of those eight included the required support in the Delta tax information (Delta) system upon issuance of the refund, as required by department policy. This issue was also reported in a June 2017 LDR Internal Audit report, which found that only one of the 12 accounts reviewed had the manual refund interest calculation in Delta.

- The threshold for review of severance tax refunds is \$250,000, per LDR PPM 32.01. As a result, only \$4 million out of the \$30 million in severance refunds issued in fiscal year 2017 were required by policy to be reviewed for accuracy and compliance prior to issuance.

Louisiana Revised Statute 47:635 requires taxpayers severing oil and gas to use department-approved forms for monthly reporting of information necessary to enforce the law, including quantity, location, and owners at the time of severance. Given the authority granted by the statute and the risk of loss associated with refunds, LDR management should ensure proper documentation is required, maintained, and reviewed prior to the issuance of refunds and to ensure the correct tax has been remitted. In addition, management should consider lowering the dollar threshold for approvals of refunds and should consider automating interest calculations, verification of supporting documents for tax offsets, and verification of well production with the Department of Natural Resources, Office of Conservation to decrease the risk of loss and noncompliance.

Management concurred in part with the finding and is planning corrective action. Management explained that when processing returns, LDR is required to record information exactly as submitted by the taxpayer, and that failure to file the referenced form is not a prerequisite in the determination of eligibility for a reduced or exempt rate (see Appendix A, pages 3-5).

Additional Comments: We acknowledge the filing process and agree that LDR is unable to tamper with the information submitted by the taxpayer. However, management should ensure a follow-up review is performed when taxpayers claim reduced rates and exemptions but do not provide the detailed information necessary to verify eligibility. Because LDR is unable to perform a detailed review on all taxpayer accounts, at a minimum, it should ensure that the required forms for reporting severance activity have been submitted. Those taxpayers severing oil and gas without submitting the required forms should not be granted a reduced tax or exemption until the required forms have been submitted, in particular when a refund is being issued.

Comprehensive Annual Financial Report (CAFR) - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2017, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

Revenues - Corporate Income and Franchise tax, Individual Income tax, Sales tax, Severance tax, and Gasoline and Special Fuels tax

Receivables - Full Accrual and Modified Accrual Receivables on the revenues listed above

Note Disclosures - Refunds Payable and Tax Abatement Programs

Based on the results of these procedures, we reported two findings related to Overpayment of Sales Tax Distributions to Local Government and Ineffective Controls over Severance Tax Collections and Refunds, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

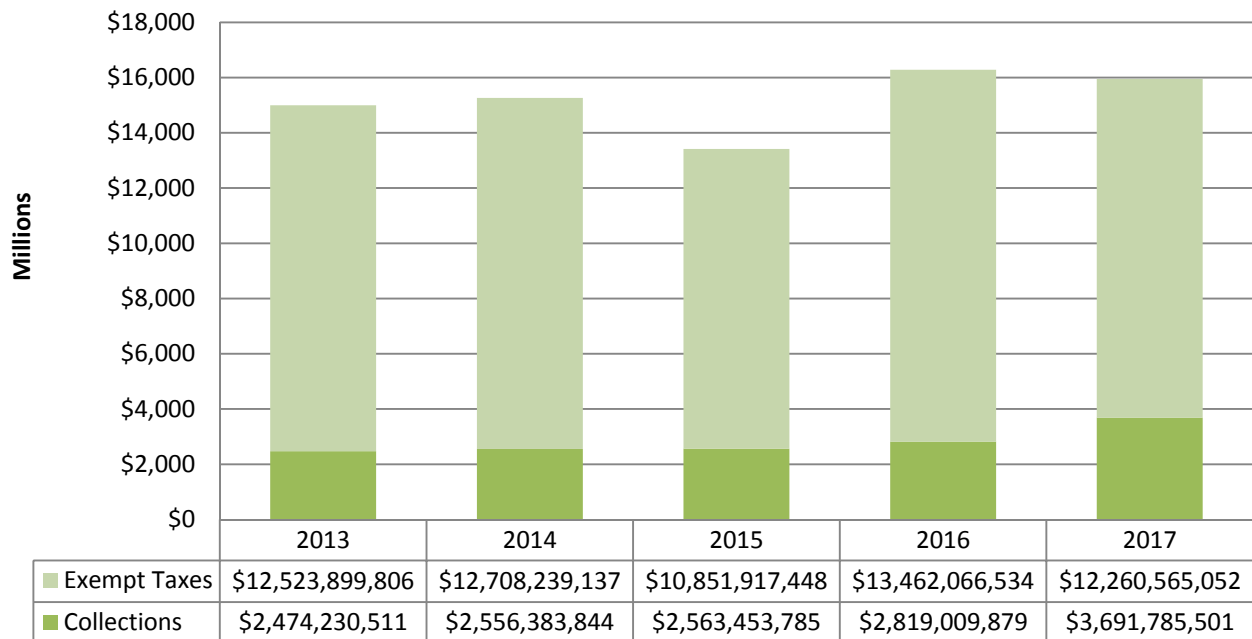
Sales Tax Audits

LDR currently has 50 auditors assigned to the Field Audit Sales Tax Division. In fiscal year 2017, these auditors performed audits on less than 1% of sales tax filers (782 sales tax accounts) to ensure the taxpayers have filed and paid in accordance with State law. Audits are selected due to identified issues within an industry, errors on a return, observations from the audit staff, and random selection.

During our fiscal year 2017 audit procedures, we tested a sample of sales tax payments and refunds that were recorded during the year. The related returns that we reviewed included many exemptions, allowed by law, that are reported as one total for the period without the filing of any supporting documentation. Taxpayers are required to keep the qualifying evidence on file; however, they are only required to submit the documentation if they are audited.

On average over the past five fiscal years, sales tax exemptions have caused a loss in tax revenue of more than \$12 billion a year; four times the amount of sales tax revenue collected in a given year.

Exhibit 1 - Exemptions vs. Collections



Source: Delta tax information system; LDR General Ledger (FY13-17)

LDR may want to consider revising the filing requirements to require additional supporting documentation for sales tax exemptions and/or increasing the number of audits performed. This would decrease the likelihood of inaccurate filing and decrease the potential for excess revenue losses. LDR should also consider using additional data analytics in the selection process for audits, which could make better use of limited resources.

Management provided additional information in Appendix A, pages 6-7.

Office of Debt Recovery

The Office of Debt Recovery (ODR) was established by Act 399 of the 2013 Regular Session of the Louisiana Legislature, as an office within LDR created to collect delinquent taxes and other debts on behalf of other state agencies. R.S. 47:1676 requires all agencies, without existing debt collection contracts with the Attorney General's office by January 1, 2014, to refer all outstanding final debt to ODR.

ODR began pursuing the collection of accounts payable to the State of Louisiana during fiscal year 2015. These debts are pursued by ODR's centralized collection unit, which has access to a variety of enforcement tools that give the office greater potential for successful collections. These unique tools, outlined in Exhibit 2, are used to accomplish ODR's mission to streamline the collection process and aggressively pursue all debts owed to the State of Louisiana.

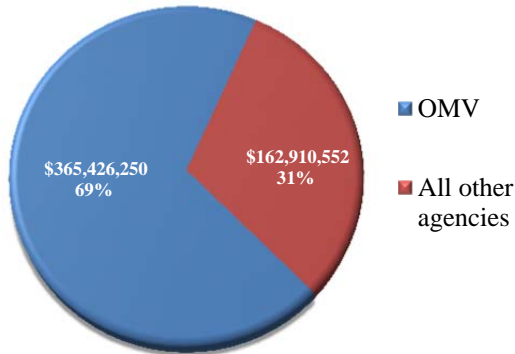
Exhibit 2 Collection Tools	
Tool	Notes
Louisiana Tax Offset Program	Used to offset a non-tax debt (ODR) with a taxpayers refund.
FIDM (Financial Institute Data Match)	Levy of taxpayer bank account to satisfy non-tax (ODR) debt.
OCA (Outside Collection Agencies)	5 outside collection agencies assist in the collection of non-tax debt.
VPOP (Vendor Payment Offset Program)	Offset of non-tax debt (ODR) for federal contracts.
License Suspension	Currently only applies to tax debt (LDR); not non-tax debt (ODR).
Wage Garnishment	Used exclusively for tax debt (LDR) as of April 2017.
Lien on Property	Used as a penalty on non-tax debt. Land, house, or both.
Source: ODR, R.S. 47:1676	

The type of debt owed to the State varies, depending greatly on the originating agency. The inventory slowly increased as ODR met with State entities to work out the details of each transfer and the office began to pursue collections. Debt inventory placed with ODR grew from under \$1 million as of June 30, 2015, to more than \$528 million from 64 different agencies by June 30, 2017. ODR continues to work through differences related to the various types of debt with the agencies to increase collection rates.

As illustrated in Exhibits 3 and 4, the majority of the \$528 million placed with ODR can be linked to a transfer from the Office of Motor Vehicles (OMV) during a single collection campaign originated by OMV. In October 2015, OMV mailed 1.1 million collection letters to drivers for lapsed insurance coverage. The response by many was swift, and the debt was quickly collected. This debt, which is not characteristic of typical uncollectible debt, totaled

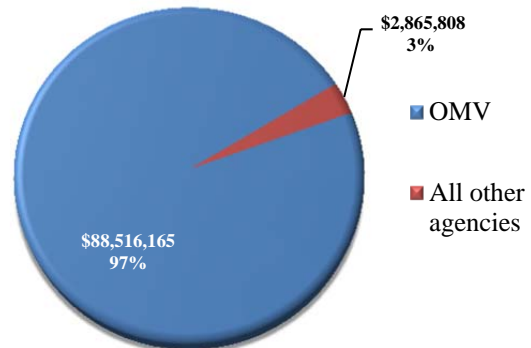
\$88.5 million, or 97 percent of all collections made by ODR. Exclusive of the OMV debt, as of June 2017, ODR has collected \$2.87 million, or 1.8%, of the \$163 million placed.

Exhibit 3 - Total Debt Placement



Source: RevQ, ODR Database (FY15-17)

Exhibit 4 - Total Collections



Source: RevQ, ODR Database (FY15-17)

While ODR has implemented clear operating procedures for the processing of debt, it has not fully implemented and utilized all enforcement tools available. Of the amounts collected by ODR, 86% was through the Louisiana Tax Offset Program. The remaining enforcement tools account for 14% of collections. However, 9% of those collections are in-house and collected from walkup debtors paying onsite at LDR. We recommend that ODR fully utilize all of the tools available to increase the potential for successful collection.

Exhibit 5 Percentage of Collections by Tool	
Tool	% of Collections
Louisiana Tax Offset Program	86%
FIDM (Financial Institute Data Match)	4%
OCA (Outside Collection Agencies)	1%
Other/ODR in house collections	9%
VPOP (Vendor Payment Offset Program)	0%
License Suspension	0%
Wage Garnishment	0%
Lien on Property	0%
Source: ODR - RevQ FY17 Deposit Register	

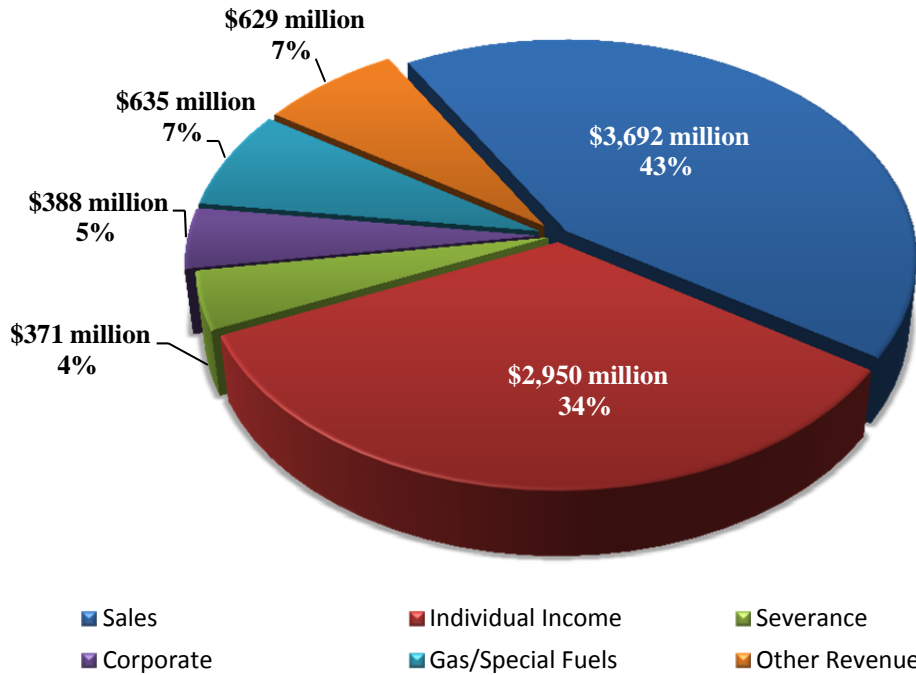
Management provided additional information in Appendix A, pages 7-8.

Trend Analysis

We compared the most current and prior-year financial activity using LDR’s Annual Fiscal Reports and/or system-generated reports and obtained explanations from LDR management for any significant variances. We also prepared an analysis of fiscal year 2017 tax revenue

collections. The majority of revenues collected by LDR, 93% of total tax revenues, is composed of Individual Income tax and major business taxes including Sales tax, Corporate Income and Franchise tax, Severance tax, and Gasoline and Special Fuels tax revenue.

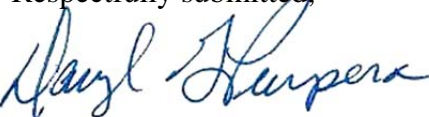
Exhibit 6
Fiscal Year 2017 Collections, in millions



Source: Fiscal Year 2017 Department of Revenue Annual Fiscal Report

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LDR. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LDR should be considered in reaching decisions on courses of action. The findings related to LDR’s compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

AD:EMS:BQD:EFS:aa

APPENDIX A: MANAGEMENT'S RESPONSES

State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor



KIMBERLY LEWIS ROBINSON
Secretary

October 24, 2017

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 N. Third Street
Baton Rouge, LA 70804

Re: Overpayment of Sales Tax Distributions to Local Government

Dear Mr. Purpera:

The Louisiana Department of Revenue (LDR) recognizes the above is a repeat finding from a previous audit year. More importantly, LDR recognizes previously it stated that:

The Louisiana Department of Revenue (LDR) recognizes the importance of having adequate controls in place for distributions to local government and to ensure there are no overpayments in the sales tax distribution process. Notwithstanding the agency's prior disagreement with this finding, we have reevaluated the current distribution calculation and began conversations with the Algiers Development District ("ADD") on a process to address the distributions of the "Monthly Pledged State Increment" set forth in the Cooperative Endeavor Agreement (the "Agreement"). The ADD has committed to working with the LDR to implement the necessary changes. **The new procedures will be implemented and in place no later than the last quarterly distribution for Fiscal Year 17.** (Emphasis supplied by writer.)

LDR is committed to effectively implement and administer the necessary procedures and guidelines for distributions of sales taxes to local governments in accordance with the Agreement and existing statutory provisions. Please feel free to reach out to our agency if any additional information or clarification is needed.

While LDR immediately began working with the local government to negotiate updates to the Cooperative Endeavor Agreement (the "Agreement") and the process to address the distributions, the parties could not complete this review because additional time was needed to evaluate the legal impact of the proposed changes noted in your findings as well as time to

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evaluate the impact of recent sales tax laws on the collections, distribution process and Agreement that govern and impact the Tax Increment Financing (TIF) district. As a result, the parties are still in the process of finalizing the Agreement to ensure it comports with all facets of the law, its corresponding process discussed above and the findings of your office.

Also, while balancing the need to comply with the findings of your office, the parties were conscious that any unilateral change(s) to the Agreement could negatively impact the TIF's outstanding bonds (which as of the date of this letter total approximately \$1,950,000.00) thereby causing needless protracted litigation and litigation related costs to the state. So, in an effort to limit the possibility of litigation and its related costs, the parties chose to continue diligently working toward a resolution of the Agreement and process as described above.

In short, LDR will continue its efforts to discuss and work with the local government to legally amend the Agreement to address the findings of your office while ensuring it has complied with all facets of the law.

Sincerely,



Kimberly Lewis Robinson
Secretary
Louisiana Department of Revenue

Cc: Clarence Lymon, Undersecretary

State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor



KIMBERLY LEWIS ROBINSON
Secretary

November 13, 2017

Mr. Daryl Purpera
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804

Re: Department's Response to Ineffective Controls over Severance Tax Collections and Refunds

Dear Mr. Purpera:

This correspondence serves as Louisiana Department of Revenue's (LLA) official response to the finding referred to above. Each summation supporting your finding will be addressed separately. Basically, we **concur in part** with the finding and submit the following information in support of our position:

LDR did not ensure required forms were on file supporting severance tax reductions and exemptions prior to accepting reduced payments or issuing related refunds.

Our review of the five transactions supporting this synopsis revealed that at least one of the accounts is currently under audit by our field audit staff and any non-compliance will be addressed in an audit report. After a more thorough review of a second account, it was discovered that the missing report (O-5) was filed by the producer under a different account number. For the third account, the reports needed to assist in determining eligibility for the reduced rate or exemption have been requested from the taxpayer which is consistent with our internal review procedures. A review of the final two accounts revealed that the taxpayer failed to file the supporting reports (O-5 and G-5); however the wells in question have a valid horizontal well exemption from the Department of Natural Resources, Office of Conversation.

We take exception with the characterization of the taxpayer claiming a reduced rate or exempt status for a well when filing a return as the Department issuing a refund issued without review. When processing returns received from taxpayers, the Department is required to record the information (returns and/or payments) exactly as it is submitted by the taxpayer. A refund exists only when the taxpayer's return shows that his taxes paid exceeds his tax due for a specific filing period. The scenario as explained in the finding does not involve the Department issuing a refund; it is the factual scenario of the taxpayer filing a return reflecting the tax due

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based on the reduced or exempt rate. Furthermore, the failure to file the form (G-3 or G-5) is not a prerequisite in the determination of eligibility for a reduced or exempt rate. The entitlement determination is performed by the Department of Natural Resources, Office of Conservation. The Department uses the information provided by the Office of Conservation, in conjunction with the reports in question (G-3, G-5, O-3 and O-5), to determine a taxpayer's eligibility for reduced and/or exempt rates.

In summary, a review of the five accounts cited in your finding revealed that the taxpayers were entitled to the exemptions claimed in three instances and the other two are under review by our field and in-house auditors. This further supports the adequacy of our review procedures with respect to the reports in question.

LDR issued refunds without including the manual calculation of interest on those refunds in the taxpayer's account.

In June 2017, a report prepared by LDR's Internal Audit Division addressed the issue included in the LLA's report. Corrective action was taken by the Agency prior to being reviewed by the LLA. The manual refund interest worksheet was prepared and maintained in the Specialist's paper file; however, the paper worksheet was not attached to the taxpayer's electronic account in the DELTA Computer System. The Supervisor of the Severance Tax Unit met with the employees on May 30, 2017, and instructed them to attach the manual refund interest worksheet in DELTA to the refunds that have been approved for issuance. The Severance Tax Manual was also updated to reflect the revised process. In addition, a request will be made to update PPM 32.02 to more clearly reflect the requirement to include this documentation in the taxpayer's electronic file in our DELTA Computer System.

The threshold for review of severance tax refunds is \$250,000 per LDR PPM 32.01.

The refunds were issued in accordance with current Department Policy and Procedure Memorandum 32.01. The refund thresholds are being reevaluated with the intent to increase the number of refunds reviewed prior to issuance, thereby, decreasing the need for back-end reviews and the recapture of any excess refund issued.

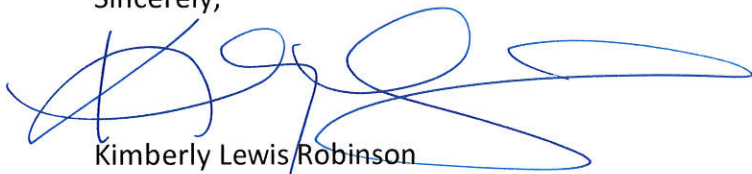
As mentioned herein, the ability to enforce the severance tax laws with respect to the filing of tax returns and payment of taxes is not entirely vested in Louisiana Revised Statute 47:635. This is accomplished via a myriad of reconciliations and collaborative interactions with our sister-agency, the Department of Natural Resources, as well as internal and external data sources. LDR management has ensured that there exists adequate documentation of refunds issued. Management understands its responsibility to ensure that the correct amount of tax is paid. This is done by continuously evaluating compliance initiatives and reviewing available resources to determine the appropriate combination that will result in the highest level of voluntary and involuntary compliance with all tax laws. However, we understand and accept the fact that a one hundred percent audit of all taxpayers is neither feasible nor reasonable.

Letter to: Darryl G. Purpera, CPA, CFE
Re: Ineffective Controls over Severance Tax Collections and Refunds
November 13, 2017
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We agree that a reduction in the dollar amount with respect to a front-end review of a refund is appropriate and have begun the process of evaluating this recommendation. We will continue to evaluate other compliance initiatives mentioned herein and make the necessary adjustments as indicated by our analysis.

Danell Gerchow, Assistant Secretary, Office of Tax Administration Group II, is the person responsible for implementing the corrective actions discussed above.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Kimberly Lewis Robinson', with a long horizontal flourish extending to the right.

Kimberly Lewis Robinson
Secretary
Department of Revenue

State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor



KIMBERLY LEWIS ROBINSON
Secretary

December 12, 2017

Mr. Daryl Purpera
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804

Re: Department's Response to Recommendations for improvements in the Sales Tax Audit and Office of Debt Recovery Programs

Dear Mr. Purpera:

This correspondence serves as Louisiana Department of Revenue's (LDR) official response to the recommendations referred to above. Basically, we are providing this response to ensure that the processes and procedures undertaken for the administration of the programs in question are understood from the perspective of the tax administrator. We respectfully submit the following information in support of our operations and management decisions:

Sales Tax Audit

Audit candidates are selected using various and sundry methods, including but not limited to, non-compliance that is prevalent within an industry, return errors, and audit staff observations. In addition to the aforementioned criteria, numerous other pools of audit candidates are identified. In fact, we have staff dedicated to analyzing return data as well as other data sources in an effort to identify areas where non-compliance with the Louisiana General Sales and Use Tax laws is pervasive. Investments have been made in our DELTA Computer System during the most recent upgrade to GENTAX V.9 as it relates to audit selection. The enhancements include tools such as *MySearches* and *Business Summaries* which allow the user to parse large volumes of data and apply rules that allow for superior analytics and scoring of potential audit candidates. In addition, the use of external data sources for reconciliation purposes has been expanded within the last year via the use of the 1099K and CP2000 data from our federal partners. We believe our audit selection process requires skilled professionals who are familiar with the tax laws as well as the numerous industries required to collect and

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report sales and use taxes. The investments made in this area have proven to be beneficial to the tax collection program.

Our tax system is designed with numerous exemptions and exclusions which the taxpayers can take advantage of at the time of purchase. The system in place requires a "dealer" to acquire documentation in support of an exemption and/or exclusion at the time of sale. LDR is required to process the returns and payments submitted by the taxpayers as filed. The documentation is maintained by the dealer until such time as the Department makes a request to review it. It is virtually impossible to review this information at the time returns are submitted by dealers. These dealers, by law, are considered agents of the State for sales and use tax collection and reporting purposes. If it is determined that the dealer has not acted in good faith when accepting a purchaser's claim for exemption, the dealer becomes liable for the tax himself. As stated, dealers are agents of the State and have a legal duty to evaluate a claim for exemption. Of utmost importance in this explanation is that our tax collection and reporting system is primarily based on the principle of **voluntary compliance**. This means that given the proper guidance from the regulatory agency, taxpayers will voluntarily report and remit their liabilities. It is understood that this system is not without limitations; however, it is arguably the most efficient and effective. We do confirm the validity of the documentation through the audit process and the compliance continuum.

Finally, we agree that a risk-based approach using data analytics should be used in the audit selection process. However, we believe our techniques embody the risk-based approach as well as the others mentioned in this response.

Office of Debt Recovery

As it relates to the utilization of certain Collection Tools as stated in Exhibit 1 of your assessment, a couple of updates are necessary. With respect to Driver's License Suspensions, all Office of Motor Vehicle (OMV) debt placed with the Office of Debt Recovery (ODR) currently has a driver's license suspension in addition to tax debt. Also, the Wage Garnishment tool is used to collect non-tax debt as of July 1, 2017. The Vendor Payment Offset Program has been used in the past and staff is currently working to bring this back online during the current fiscal year.

Exhibits 2 and 3 correctly illustrate that the majority of the \$528 million placed with the ODR is from the OMV. However, after receiving the debt from the OMV, ODR began its own extensive collection campaign which encouraged more debtors to come forward and pay their liabilities. In order to make it convenient for the debtors, it was decided that the debtors should be allowed to pay at either the OMV or the ODR location. As a result of the ODR's contacts with debtors, another \$88.5 million was collected for the OMV after the debt was placed with the ODR.

As stated above, the use of the available collection tools has expanded to other than tax debt. The ODR and OMV have decided that it is more convenient to continue to allow debtors to

Darryl G. Purpera, CPA, CFE

Re: Recommendations for the Sales Tax Audit and Office of Debt Recovery Programs

December 12, 2017

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make payments on OMV debt at the various locations operated by them around the state. The ODR and the OMV have established routine procedures to ensure accounts are updated daily for accuracy when interacting with debtors. ODR will continue to enhance its collection efforts by fully utilizing all of the tools available in an effort to increase the potential for successful collection.

Overall, we appreciate the opportunity to dialogue with you regarding potential improvements the Department should consider in order to be more effective. We look forward to continuing these discussions in the future.

Sincerely,



Kimberly Lewis Robinson
Secretary
Department of Revenue

KLB:cjl

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Revenue (LDR) for the period from July 1, 2016, through June 30, 2017, to provide assurances on financial information significant to the state of Louisiana's Comprehensive Annual Financial Report (CAFR) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2017.

- We evaluated LDR's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LDR.
- Based on the documentation of LDR's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on LDR's account balances and classes of transactions to support our opinions on the CAFR.
- We compared the most current and prior-year financial activity using LDR's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LDR management for significant variances.

In addition, we performed procedures on Sales Tax Audits and the Office of Debt Recovery. The scope of these procedures were significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at LDR and not to provide an opinion on the effectiveness of LDR's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LDR's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. LDR's accounts are an integral part of the State of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.