



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (504) 339-3800  
FACSIMILE: (504) 339-3870

February 5, 1997

**DEPARTMENT OF REVENUE AND TAXATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1996, we conducted certain procedures at the Department of Revenue and Taxation. Our procedures included (1) a review of the department's internal control structure; (2) tests of financial transactions; and (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities.

The June 30, 1996, Annual Fiscal Report of the Department of Revenue and Taxation was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The department's accounts are an integral part of the financial statements of the State of Louisiana, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

Based upon the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

**Theft of Cash Receipts**

The Department of Revenue and Taxation, Baton Rouge Regional Office did not perform a daily reconciliation of cash received by revenue agents and cash submitted for deposit. This lack of internal controls over the collection and reconciliation of cash receipts collected by revenue agents resulted in thefts, totaling \$6,455. Good internal controls require that cash receipts be reconciled to cash deposits daily.

The Baton Rouge Regional Office detected the thefts when it began using a new on-line computer system. During the first week under the new system, it was discovered that some taxpayers had made payments on their accounts but had not received credit for the payments. Further investigation by the department revealed that the thefts began in

**DEPARTMENT OF REVENUE AND TAXATION  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

**Management Letter  
Dated February 5, 1997**

**Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.**

**March 5, 1997**

**LEGISLATIVE AUDIT ADVISORY COUNCIL**

**MEMBERS**

**Representative Francis C. Thompson, Chairman  
Senator Ronald C. Bean, Vice Chairman**

**Senator Robert J. Barham  
Senator Wilson E. Fields  
Senator Thomas A. Greene  
Senator Craig F. Romero  
Representative F. Charles McMains, Jr.  
Representative Edwin R. Murray  
Representative Warren J. Triche, Jr.  
Representative David Vitter**

**LEGISLATIVE AUDITOR**

**Daniel G. Kyle, Ph.D., CPA, CFE**

**DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Revenue and Taxation  
State of Louisiana  
Baton Rouge, Louisiana

March 5, 1997



***Financial and Compliance Audit Division***

---

---

***Daniel G. Kyle, Ph.D., CPA, CFE***  
***Legislative Auditor***

LEGISLATIVE AUDITOR

DEPARTMENT OF REVENUE AND TAXATION  
STATE OF LOUISIANA  
Management Letter, Dated February 5, 1997  
Page 3

strengthen internal controls to ensure that procedures adequately address the duties and responsibilities of all persons involved in the processes that affect the escrow fund. The current reconciliation procedures will be expanded to ensure that the periodic reconciliation of the manual escrow fund records to the computer system records is complete.

**Educational Expenditures Questioned**

The Office of State Inspector General issued a report titled "Revenue Official's Abuse," dated November 13, 1996. The Inspector General's report concluded the former secretary of the Department of Revenue and Taxation, Mr. Ralph Slaughter, abused his position by establishing one set of rules governing college educational reimbursement and leave for all other employees, while applying a different, more liberal standard for himself.

In a letter dated January 6, 1997, Mr. John Neely Kennedy, Secretary, stated that the department has no basis to disagree with the Inspector General's report. He is discussing the Inspector General's recommendations with the governor, and appropriate action will be taken based on the recommendations included in the report.

The former secretary, Mr. Ralph Slaughter, provided a detailed response to the Inspector General. He did not concur with the report findings.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation cost, and their potential impact on operations of the department should be considered in reaching decisions on courses of action.

By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

DLH:LWM:dl

[DORT]

LEGISLATIVE AUDITOR

DEPARTMENT OF REVENUE AND TAXATION

STATE OF LOUISIANA

Management Letter, Dated February 5, 1997

Page 2

March 1994, continued through September 1995, and were not detected until October 1995 when the agency began using the new on-line system. Following the discovery of the thefts, the responsible employee reimbursed all missing funds and was dismissed on December 21, 1995. At that time the Baton Rouge Regional Office implemented additional control procedures.

The Department of Revenue and Taxation, Baton Rouge Regional Office should ensure that the implemented control procedures require that cash receipts are reconciled to cash deposits daily. Also, the department should consult with the East Baton Rouge Parish District Attorney for possible legal action. The department concurred with our finding and recommendations.

**Unreconciled Protested Taxes**

The Department of Revenue and Taxation does not have adequate internal control procedures to ensure that a periodic reconciliation of the Escrow Fund - Protested Taxes is performed. A good internal control structure should provide the department with procedures to reconcile the escrow fund so that any errors and/or irregularities can be detected and corrected timely. Several divisions within the department input transactions into the computer system that directly affect protested taxes. At June 30, 1996, the department failed to reconcile its manual ledger balances for the Escrow Fund - Protested Taxes to the transactions that were input from the other divisions. Our audit tests and subsequent reconciliation by the department disclosed that the total amount originally recorded for the escrow fund balance at June 30, 1996, contained a net overstatement of \$897,645. This caused the major state revenues balances to be understated by the same amount. Adjustments were made to the financial statements to reflect the corrections to the escrow fund balance and the major state revenues balances. The lack of adequate internal control procedures over the reconciliation of the Escrow Fund - Protested Taxes increases the risk that errors and/or irregularities relating to protested taxes and major state revenues could occur and not be detected timely. In addition, these errors increase the risk that the department's financial statements could be misleading to those individuals and organizations that rely on the statements.

The department should establish internal control procedures that require a periodic reconciliation of the escrow fund manual ledgers to the system records so that any errors and/or irregularities can be detected and corrected timely. The procedures should address the duties and responsibilities of the employees of the various divisions who must input transactions that directly affect the Escrow Fund - Protested Taxes balance in the computer system. In a letter dated October 24, 1996, Mr. Cyril Buchert, Undersecretary, agreed with our finding and recommendations. The department will