

LEGISLATIVE AUDITOR

DEPARTMENT OF REVENUE
STATE OF LOUISIANA
Management Letter, Dated January 9, 1998
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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

HDC:LHM:dl

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LEGISLATIVE ADDRESS

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2. A comprehensive risk-based plan for audits to be performed has not been prepared.
3. The division's standard operating procedures and internal audit manuals have not been updated in recent years and do not include specific auditing standards to be followed in conducting internal audits or describe the specific support to be provided to the independent auditors.
4. The internal audit reports issued during the year ended June 30, 1997, did not identify the audit standards followed and the working papers did not include formal audit plans and audit programs.

The department has assets in excess of \$750,000,000 and collected revenues of more than \$4,700,000,000, as of and for the year ended June 30, 1997.

In addition to conducting reviews of operational plans and performance, the department should effectively utilize the internal audit division to ensure that the assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations, and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner. In a letter dated August 20, 1997, Mr. John Kennedy, Secretary, stated that the strategic plan for the internal audit division includes the review and update of the division's mission, responsibilities, charter, curriculum plan, reporting and working paper standards as well as placement in the organization. The division expects to complete these projects by December 31, 1998. The department recognizes that it does not currently have adequate resources to accomplish all of its internal audit objectives; therefore, the department has included internal audit needs in its budget requests. For the year ended June 30, 1998, the department received approval for one additional position for the internal audit division.

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 costs, and their potential impact on operations of the department should be considered in reaching decisions on courses of action.

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reconcils with the manual records maintained by the divisions. During the year ended June 30, 1987:

1. The tax divisions failed to follow up with the legal division when funds had been in escrow for more than 90 days.
2. There were no written procedures to ensure that non-system (manually maintained) taxes were removed from escrow when a lawsuit had not been filed timely.
3. The tax divisions certified as correct escrow account balances that contained errors.
4. There was no periodic reconciliation of the legal division's inventory of cases with the escrow listing.

The department's failure to properly reconcile the protested tax account on a periodic basis increases the risk that the department's financial statements could be misleading to those individuals and organizations that rely on the statements.

The Department of Revenue's Protested Tax - Escrow Account has assets in excess of \$215,000,000 and additions of more than \$75,000,000 as of and for the year ended June 30, 1987. The department should implement adequate internal control procedures to ensure that a proper periodic reconciliation of the Protested Taxes - Escrow Account is performed. In a letter dated September 17, 1987, Mr. John Kennedy, Secretary, stated that the department is continuing to review policies and procedures to make further improvements and the current redesign project will include improvements in the system of accounting for escrow funds.

Internal Audit Division Not Effectively Utilized

The Department of Revenue has not effectively utilized its internal audit division. This function should provide management with assurance that assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations, and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner. Because of lack of management emphasis, the department has not effectively utilized the internal audit division as follows:

1. Although the division completed several reviews of operational plans and performance during the year ended June 30, 1987, these projects did not provide assurance that departmental assets are properly safeguarded, proper internal controls are established and operating in accordance with laws and regulations, and procedures are sufficient to prevent or detect errors and fraud.



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January 9, 1998

DEPARTMENT OF REVENUE
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, 1997, we conducted certain procedures at the Department of Revenue. Our procedures included (1) a review of the department's internal control structure; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The June 30, 1997, Annual Fiscal Report of the Department of Revenue was not within the scope of our procedures, and, accordingly, we offer no opinion or any other form of assurance on that report. The department's accounts are an integral part of the State of Louisiana's financial statements 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.

In our prior audit of the Department of Revenue for the year ended June 30, 1996, we reported findings relating to a theft of cash receipts, unrecorded protested taxes, and educational expenditures questioned. These findings were resolved by management, except for the issues relating to reconciliation of protested taxes.

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

Timely Reconciliation of Protested Taxes

For the second consecutive year, the Department of Revenue has not fully implemented adequate internal control procedures to ensure that a proper periodic reconciliation of the Protested Taxes - Escrow Account is performed. A good system of internal control should provide the department with procedures to properly reconcile the escrow fund so that any errors and/or irregularities can be detected and corrected timely. The department has taken action to strengthen the controls and expand the reconciliation procedures over the protested tax account; however, the department's divisions have been reluctant to accept responsibility for properly reconciling the computer system

DEPARTMENT OF REVENUE
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated January 9, 1990

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.

February 4, 1990

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STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Revenue
State of Louisiana
Baton Rouge, Louisiana

February 4, 1990



Financial and Compliance Audit Division

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