STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Department of Revenue
State of Louisiana
Baton Rouge, Louisiana

April 5, 2000

Financial and Compliance Audit Division

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

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Twenty-four copies of this public document were produced at an approximate cost of $51.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. A copy of this document is available on the Legislative Auditor's Web site at www.lla.state.la.us.

DEPARTMENT OF REVENUE
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated March 2, 2000

April 5, 2000

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: (225) 339-3800
FACSIMILE: (225) 339-3870

March 2, 2000

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, 1999, we conducted certain procedures at the Department of Revenue. Our procedures included (1) a review of the department's internal control; (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, 1999, Annual Fiscal Report of the Department of Revenue 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 State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

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

In our prior report on the Department of Revenue for the year ended June 30, 1998, we reported findings relating to inadequate controls over movable property reporting and noncompliance with state movable property regulations, internal audit division not effectively utilized, and timeliness of deposits of tax collections. These findings are addressed again in this report.

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

Internal Audit Division Not Effectively Utilized

For the third consecutive year, the Department of Revenue has not effectively utilized its internal audit division. This function should provide management with assurances 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 Year 2000 conversion, and staff vacancies, the department did not effectively use the internal audit division as follows:

1. There were no significant internal audit reports issued for the year ended June 30, 1999, that would assure management that adequate internal control policies and procedures exist and are operating as designed. The division completed several projects, many involving computer access and security, but these projects did not provide adequate assurances for an effective internal audit function.

2. A comprehensive risk-based plan for internal audits was not prepared.

3. The internal audit manuals are in the process of being updated but have not been formally approved by management.

The department collected revenues of more than $5,226,332,459 for the year ended June 30, 1999, which indicates the need for a comprehensive internal audit function.

The Department of Revenue should effectively use its internal audit division to ensure that the assets of the department are properly safeguarded, that internal controls are established and operating in accordance with applicable laws and regulations, and that procedures are sufficient to prevent or detect errors and/or fraud in a timely manner. Management did not concur with the finding and stated in its response ". . . the Internal Audit Division assists us by providing information, evaluations, assurances and recommendations about control procedures, safeguards, and compliance issues, in addition to matters dealing with efficiency or effectiveness. We consider their reports, management letters, and other contributions significant to the Department's decision-making process." (See Appendix A, pages 1-2.)

Additional Comments: We acknowledge that the Department of Revenue's Internal Audit Division did complete some projects that were beneficial; however, many of the audits on internal control over safeguarding assets are of a reactive nature in that the reviews are completed due to an act of fraud, loss, or theft or recommendations coming from internal and external audits. The comprehensive risk-based plan was not initiated until May 1999 and is not completed; therefore, for fiscal year 1999, there was no comprehensive risk-based approach.

Information Systems Control Weaknesses

The Department of Revenue did not have adequate internal control over its computer-related Information Systems (IS) functions, which could affect the integrity of programs, processing, and data. IS general controls should include controls over (1) organization and management of electronic data processing activities, (2) application development and maintenance, (3) system software support, (4) computer operations, (5) security administration policies and procedures, and (6) logical security. Good IS general controls are necessary to preserve the integrity of the system and to provide reliance on the results produced by the system.

The Department of Revenue's Information Systems annually process information for over $5 billion in taxes and over six million tax returns, as well as other various types of transactions. Control deficiencies were observed that related to systems development and changes; access to programs. systems, and data; computer operations; and segregation of duties. These deficiencies could affect the integrity of programs, processing, and data. As a result, a general risk exists that programs and data could be accessed and modified without proper authorization, review, and approval.

Management of the Department of Revenue should establish adequate internal control for IS general operations to preserve the integrity of computer programs, processing, and data. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Noncompliance With State Movable Property Regulations

For the second consecutive year, the Department of Revenue did not have adequate internal control to ensure that movable property is properly and accurately reported to the Louisiana Property Assistance Agency (LPAA) in compliance with state movable property regulations. The state property regulations, defined in the Louisiana Administrative Code (LAC) 34:VII.307, require that all acquisitions of qualified property be tagged and pertinent inventory information be sent to LPAA within 45 days of receipt of the property.

Seventy items totaling $950,566 were selected from LPAA records and tested for timely entry into the LPAA system. Fifty-eight of those items were also tested for tagging and location. In addition, auditors randomly selected 18 assets found in local offices and traced those items to LPAA records. The department had deficiencies in internal control and noncompliance with movable property regulations as follows:

1. Fifteen of the 70 items (21%) tested totaling $18,416 were not reported timely to LPAA.

2. Six of the 58 items (10%) tested totaling $2,956 were not located.

3. Two of the 58 items (3%) tested totaling $18,678 were not tagged.

4. One of the 18 items (5%) traced from the asset to LPAA records was not found in the LPAA records. The value of the asset was $1,082.

5. There was no reconciliation of monthly LPAA reports of additions and deletions to department records.

6. The Certification of Annual Property Inventory for the Department of Revenue listed $86,436 in discrepancies. Many of the unlocated items were computers and printers.

7. The Certification of Annual Property Inventory for the Office of Alcohol and Tobacco Control was not approved by LPAA because it was not submitted timely. The report was due January 5, 1999, but submitted on March 26, 1999.

The department's management has not placed sufficient emphasis on the importance of following LPAA guidelines nor has the department established and maintained adequate internal control over movable property. Good internal control requires that procedures be in place to ensure that (1) the acquisition, valuation, and disposition of movable items are accurately reflected in the accounting records; (2) the location of all movable items is monitored and updated frequently; and (3) property records generated by LPAA are reviewed for accuracy. In addition, good internal control should ensure that movable property is properly safeguarded against loss arising from unauthorized use, that movement of items from one location to another is recorded, and that errors in processing transactions are recognized and corrected.

Management should take the necessary measures to ensure that the Department of Revenue maintains adequate internal control over movable property to comply with state movable property regulations as prescribed by the Commissioner of Administration and Louisiana law. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 4-7).

Inadequate Controls Over Financial Reporting

The Department of Revenue did not have adequate internal control over the compilation of the annual financial statements for the year ended June 30, 1999. Revenues as reported in the financial statements were understated $1,421,972; the notes to the financial statements had seven errors ranging from $27,813 to $69,820,329; and the Schedule of Expenditures of Federal Awards contained two errors, $85,283 and $36,680. Good internal control requires adequate supervision and review of the compilation of financial statements so that preparation errors can be detected and corrected in a timely manner by agency employees. The lack of adequate supervision and review increases the risk that errors in the financial statements can occur and not be detected in a timely manner.

The Department of Revenue should establish adequate internal control over financial reporting to include supervision and review of the compilation process. Management concurred in part with the finding and stated that the employees in the Controller's Division are properly supervised and their work is reviewed. The material errors made in the footnotes were a result of key employee turnover in the Controller's Division, the lack of clearly documented procedures, and incorrect data furnished to the Controller's Division by other divisions. Management outlined a plan of corrective action to reduce the risk of significant errors in the future (see Appendix A, pages 8-9).

Timeliness of Deposits of Tax Collections

For the second consecutive year, the Department of Revenue did not comply with state law for timely deposits of tax collections for major state revenues. Article 7, Section 9 of the Louisiana Constitution requires that all money received by state agencies shall be deposited in the state treasury immediately upon receipt. The *Division of Administration and State Treasurer Policies and Procedures Manual* defines immediately as "within 24 hours of receipt." In addition, good internal control requires that collections received by the department be deposited timely to properly safeguard assets. Forty-seven of 60 tax payments (78%) reviewed were not deposited timely. These tax payments ranged from 2 to 39 days late in being deposited, for an average of 8 days late; and the tax payments ranged from $9 to $147,108, for an average payment of $10,793.

Management has not placed sufficient emphasis on the importance of depositing receipts in a timely manner, nor has the department implemented an adequate method of monitoring the effectiveness of its system for depositing tax payments. Consequently, the department has an increased risk that untimely deposits will be susceptible to loss and/or theft. In addition, by not making deposits in a timely manner, the state's Treasury Department is hindered from earning interest on these collections. If deposits had been made within one day of receipt, the state could have earned approximately $1.4 million in interest, assuming a simple interest rate of 5%.

Management should review current procedures and identify changes that can be made to enhance its compliance with the Louisiana Constitution relative to timely deposits in the state's Treasury Department accounts. Management concurred with the finding and recommendation and outlined a plan of corrective action, stating that it is proud of the progress made in improving the timeliness of deposits. However, management also questioned whether the department should pursue compliance with the 24-hour standard, given the cost to the state to achieve compliance with that standard (see Appendix A, pages 10-13).

Inadequate Reconciliation of Protested Tax Balances

The Department of Revenue did not perform a reconciliation of the protested tax balances in its Tax Claims and Litigation Tracking System to assure that the balances agree with those actually collected and recorded by the Controller's Division. The Controller's Division reconciles payments received under protest to amounts recorded by the Tax Divisions in order to determine if payments received are properly recorded. Each division keeps a subsidiary of balances of taxes paid under protest. However, the department's Legal Division did not reconcile its balances of taxes paid under protest to the reconciled amounts in the Controller's Division. Good internal control should provide the department with procedures to reconcile the protested tax balances between the amounts received and the amount of the lawsuits in the Legal Division.

The Legal Division uses its Tax Claims and Litigation Tracking System to maintain activity on lawsuits against the state. The amount input into the system is the amount of the actual lawsuit and not the amount received by the department. This system is not updated for activity in the Controller's Division. The Legal Division does not compare the amount of the lawsuit to the amount received in protest, and these amounts can differ. In addition, the Legal Division does not perform a timely reconciliation to determine changes in the balances. The balance of taxes paid under protest for fiscal year ended June 30, 1999, was $181,288,632. The lack of a timely reconciliation increases the risk that errors and/or fraud may occur and not be detected and corrected in a timely manner.

The department should establish written procedures that include a reconciliation of the balances in the protested tax accounts in the Legal Division to the amounts actually collected and recorded by the Controller's Division to maintain accurate and complete records, to provide a method of updating the Tax Claims and Litigation Tracking System, and to provide assurance that the lawsuits are valid. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 14).

Inadequate Internal Control Over Transactions of the Office of Alcohol and Tobacco Control

The Department of Revenue did not have adequate internal control over the transactions of the Office of Alcohol and Tobacco Control (ATC). Good internal control requires management to establish and maintain effective procedures that ensure the department is managing receipts and disbursements in compliance with laws, regulations, and the provisions of contracts or grant agreements. Also, good internal control should provide for supervisory review and segregation of duties so that no one employee is in a position to both initiate and conceal errors or fraud.

The department could not determine the total costs for payroll, equipment, investigative activities, mileage, et cetera, because of the condition of the accounting records and inadequate documentation. Some of these costs were associated with a Food and Drug Administration (FDA) (CFDA 93.unknown) contract totaling $473,576, effective September 15, 1998, to September 29, 2000. As of January 18, 2000, the department had not requested reimbursement of federal program costs from the FDA program.

The department's Internal Audit Division issued a report dated July 27, 1999, which identified several major internal control weaknesses related to ATC's Investigative Fund, including a cash shortage of $1,251. The Internal Auditor's report and our audit tests of the department's procedures for the administration of the ATC disclosed the following:

1. The ATC failed to provide an adequate segregation of duties. One employee functioned as timekeeper, petty cash custodian, purchasing agent, fleet and equipment manager, accounts payable clerk, and custodian of the Investigative Fund.

2. Expenditures for overtime and mileage reimbursements could not be substantiated, including $50,186 and $11,551, respectively, of charges related to the FDA program. There was no supervisory review for payroll entries or for agents' time sheets that included calculations for mileage reimbursements. At times, the employee would key additional overtime hours for agents without proper approval. Sometimes the employee would not key enough overtime hours, and there were cases where no time was keyed at all.

3. There is inadequate support for Investigative Fund expenditures, of which $19,724 related to the FDA program. The Investigative Fund is a petty cash account that covers the costs incurred by agents in performing their duties. The vouchers supporting the payment of money to the agents are questionable. The vouchers apparently were not used in sequential order, and there was no accountability for missing vouchers. Multiple vouchers were issued to the same agent during the course of one day with no evidence of an approval signature authorizing the payment for any of the vouchers.

4. There was an inadequate supervisory review of Investigative Fund reimbursements. The request for funds from the State Treasury for reimbursement of the Investigative Fund did not agree to supporting documentation. In addition, the total of vouchers, agent advances, and cash on hand did not equal the authorized amount for the fund. It is apparent that no supervisory review was performed, on any level within the Department of Revenue, to verify that the reimbursements were appropriate. Also, vouchers to support the June 30, 1999, request for reimbursement from the State Treasury were not submitted to the Controller's Division until after the reimbursement was made.

5. The checks issued for reimbursement were made payable solely to the custodian of the fund, and the custodian was the sole endorser on the checks.

The department did not take the necessary measures in the ATC to ensure that employees' duties are properly segregated and transactions are properly recorded. Lack of adequate internal control also subjects the department to noncompliance with federal rules and regulations and the possibility of losing future federal funds. ATC cannot identify actual costs related to the FDA program contract because of the lack of controls.

Management should develop and implement procedures to provide adequate internal control over the transactions of the ATC, including adequate segregation of duties, proper supervision and review, and compliance with laws and regulations and the provisions of contracts or grant agreements regarding federal programs. Furthermore, the department should also implement procedures to ensure that its petty cash accounts are properly monitored to guard against theft or misuse. Management concurred in part with our finding and recommendation and outlined a plan of corrective action. Management also stated that the reimbursement was advanced to ATC based on the signed authorization of the Commissioner of ATC with the agreement that the supporting vouchers would subsequently be furnished to the Controller's Division. The Controller's Division did subsequently receive all but a few vouchers (see Appendix A, page 15).

Additional Comments: We acknowledge that ATC subsequently furnished all but a few of the supporting vouchers to the Controller's Division. However, the department did not have adequate control over its reimbursement requests because the Controller's Division should not have requested the funds from the State Treasury without receiving all of the supporting documentation in advance.

The recommendations in this report 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 the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended solely for the information and use of the Department of Revenue and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

BB:DLH:DSP:ss
[REVNUE99]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

STATE OF LOUISIANA
DEPARTMENT OF REVENUE

M. J. "MIKE" FOSTER, JR.
Governor

BRETT CRAWFORD
Secretary

July 23, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

Thanks again for your follow-up of the issues relating to the Department's internal audit function. Your perspective is appreciated, since all levels of management at the Department of Revenue continue to be cognizant of their responsibility for protecting the collected revenues and State assets that are in our custody. Our comments on the points discussed in your audit finding entitled "Internal Audit Division Not Utilized Effectively" follow.

Assurances about Controls/Management Emphasis

We do not concur with the statement that the Department "has not effectively utilized its Internal Audit Division." We believe we have effectively put to use our internal audit resources to assist our oversight responsibilities. However, we have recognized that additional resources are needed to accomplish all of the Department's internal audit objectives. Therefore, additional staff positions have been assigned to the division, and the vacancies are now filled. Evaluation of the division's needs is ongoing, and we will include them in our future budget requests.

Among other things, the Internal Audit Division assists us by providing information, evaluations, assurances and recommendations about control procedures, safeguards, and compliance issues, in addition to matters dealing with efficiency or effectiveness. We consider their reports, management letters, and other contributions significant to the Department's decision-making process.

Likewise, while it is important for internal audit to perform its work according to the assigned priorities described in your audit finding, it is also important for us to have the internal audit staff involved while we are reviewing, improving, or developing new processes. Since change is inevitable and constant, their input about controls and compliance in many instances is more cost-effective and meaningful during the policy, procedure, or system development or design stages. The contributions of the Internal Audit staff to the Department's major project to redesign its computerized systems have been recognized and considered significant. Their unique, broad view of the organization and the controls and improvements needed could not be provided as effectively by any other unit in the Department.

Additionally, the protection of state funds, property, and human resources are a responsibility of the Department. Therefore, Internal Audit reviews, advises and provides assistance

Post Office Box 201 · Baton Rouge 70821-0201
Telephone 225-925-7537 · 225-925-7533 (TDD)
An Equal Opportunity Employer

regarding controls and safeguards that affect the integrity, reliability, and accuracy of our information systems and taxpayer records, which are also used for financial reporting, estimating revenues, monitoring operations, and so on. Additionally, these projects assist us in complying with state and federal laws and the requirements of various agreements which contributed to the Department's collection of more than $21 million dollars during the 1999 fiscal year.

Various other projects and activities of the division during the year also benefited us because they supported or contributed to objectives that involve either effective, efficient operations; compliance with laws, policies and procedures; or reliable reporting and data.

Comprehensive Risk-based Plan

Your audit finding stated that the Department has not performed a comprehensive risk assessment to assist in prioritizing audit projects. In fact, Internal Audit is conducting such a risk assessment, which will be completed on schedule (August 31, 1999), according to the action plan that was previously submitted to your staff.

Internal Audit Manual Being Updated

Furthermore, the division has updated many of its procedures, and continues to update others. Internal Audit has also proposed several new, comprehensive policies for adoption at the Department level. These policies are being reviewed and considered by the executive staff, who plan to act on them during their current review of Department Policies and Procedure Memorandums. The intent of the proposed policies is to assist managers in understanding the role and responsibility of management and internal audit regarding internal controls.

In conclusion, we think that management emphasizes and supports the internal audit function within the Department of Revenue. We rely frequently on Internal Audit's independent and objective perspective, and accept and adopt most of their appraisals and recommendations. Moreover, as evidence of our commitment to the internal audit function, we have increased the audit staff by 50% over the past year. As we move forward, we will continue to implement our action plan regarding internal audits and include internal audit needs in our budget requests. Please contact the director of the Internal Audit Division or me, if you have any questions.

Sincerely,

Brett Crawford
Secretary

BC/hh

STATE OF LOUISIANA
DEPARTMENT OF REVENUE

M. J. "MIKE" FOSTER, JR.
Governor

BRETT CRAWFORD
Secretary

September 2, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
State of Louisiana
1600 North Third Street
P O Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

In reference to the audit finding for the Department of Revenue entitled, " Information Systems Control Weaknesses", we offer the following response.

We concur with this audit finding and are taking the necessary steps to address these areas. This general finding refers to specific issues that were outlined in an EDP Audit also conducted this past fiscal year by the Legislative Auditors Staff.

The EDP Audit noted items of potential control deficiencies in Information Systems. Approximately 50% of these issues have been completely addressed. Activities are in progress for corrective actions on the remaining.

We anticipate that all of these items will be sufficiently addressed by the end of this fiscal year. Greg Montagnino, Information Services Director, is the contact person responsible for these corrective actions. He can be reached at 925-7604.

If you would like to further discuss this finding, please contact Greg or myself.

Sincerely,

Brett Crawford, Secretary
Louisiana Department of Revenue

cc: Mr. Kenneth Comeaux, Deputy Undersecretary
Mr. Greg Montagnino, Director Information Services
Ms. Phyllis Walker Perry, Director Internal Audit

330 N. Ardenwood Dr Post Office Box 201 Baton Rouge 70821-0201
Telephone 225-925-7537 (TDD) *Telephone 225-925-7533
An Equal Opportunity Employer

State of Louisiana
Department of Revenue

M. J. "Mike" Foster, Jr.
Governor

Brett Crawford
Secretary

September 1, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Legislative Auditor Finding
Noncompliance with State's Movable Property Regulations

Dear Dr. Kyle:

I would like to thank you for the opportunity to respond to the reportable audit finding concerning the Department's noncompliance with the state's moveable property regulations.

The Department is in basic agreement with the finding that the necessary and proper controls and procedures to accurately account for all the moveable property in control of the Department of Revenue were lacking. Consequently, we are developing the necessary controls, procedures and training to ensure that this finding is not repeated in future audit periods. Discussion of some of these controls and procedures are included in this response as we address each of the seven discrepancies noted in the report.

Item No. 1 – Fifteen Items Not Reported to LPAA Timely

The delay in reporting twelve of the items was due to the agency's reliance on an internal system, Atrack, for tracking and reporting property to LPAA. The Atrack system failed to download to LPAA's on-line system correctly. Our agency's Property Control Manager mistakenly believed LPAA had granted an exception to this regulation until problems with the Atrack system could be corrected. The use of the Atrack system was discontinued immediately upon receipt of a legislative audit finding on August 17, 1998. On-line keying to LPAA was begun at that time; however, the forty-five days reporting deadline had been exceeded for some items. We continue to use on-line keying to LPAA to assure compliance with the forty-five days reporting deadline.

The remaining three items which were not reported timely to LPAA were delivered directly to our regional offices. Notification of receipt from the regional office did not

Post Office Box 201 • Baton Rouge 70821-0201
Telephone 225-925-7537 • 225-925-7533 (TDD)
www.rev.state.la.us

prove timely and delayed entry into the LPAA system. To ensure timely receipt of information for items delivered directly to one of our regional offices, the following procedures were established as of July 1, 1999:

1. Copies of purchase orders for qualifying items are given to the Agency Property Manager. A qualifying item is movable property having an original acquisition cost of $250 or more.

2. The Agency Property Manager will pre-assign a property control tag to each qualifying item listed. The Agency Property Manager will forward the assigned property tag(s), a property tag tracking form and a copy of the purchase order to the person responsible for receiving the item(s).

3. Upon receipt of the qualified item(s), the receiving person will tag the item(s), complete the property tag tracking form and return it to Agency Property Manager within 30 days of receipt of item(s). To assure compliance, the Agency Property Control Manager follows up on this every 15 days.

4. The Agency Property Manager will enter information into the LPAA database within 15 days of receipt of the property tag tracking form.

Item No. 2 – Six Items Not Located

Most of these items were not located due to keying errors whereby the incorrect cost center codes were entered into the system. Corrections were made on May 28, 1999. As of July 1, 1999, the employee responsible for entering the information into the LPAA system will verify all entries at the end of each month to ensure correctness.

Item No. 3 – Two Items Not Tagged

In both instances, the property tags were misplaced. A duplicate tag has been secured and affixed to one of the items, and the other item has a temporary tag pending receipt of the permanent tag.

Item No. 4 – One Item Not in LPAA Records

This is one of the items that was entered into our internal system, Atrack. It was inadvertently omitted when all records from the Atrack were entered into the LPAA system. It was keyed into the LPAA system on April 5, 1999. An in-house audit was performed on June 1, 1999 to verify that all Atrack records had been entered into the LPAA system. Use of the Atrack System was discontinued in August of 1998.

Item No. 5 – No Monthly Reconciliation

The Agency Property Manager was unaware of the requirement for the monthly reconciliation. Monthly reconciliation of LPAA reports of additions and deletions to the Department records was initiated on July 1, 1999.

Item No. 6 - $86,436 Discrepancy

Some of the property that the Department was unable to locate has been discussed previously in Items 1 through 4. A training workshop is being developed at the present time to educate the Property Control Managers in the various divisions and regions to assist in the detection and elimination of these types of occurrences. A significant amount of the unlocated property is computer related and is sent to the Information Service Division for configuration prior to being delivered to the proper division. As of July 1, 1999, the following procedures will be followed upon the receipt of computers, printers, etc., if they must be sent to the Information Services Division before delivery to the end users.

1. The Agency Receiving Clerk notifies the Agency Property Manager of the delivery.

2. A property tag is placed on each item indicating assignment to the Information Services Division and the item is entered into LPAA database under the cost center for Information Services.

3. Information Services Division employees will provide the Agency Property Manager with a listing of the installation locations once the items are installed.

4. The Agency Property Manager will ensure that the receiving divisions complete Form R11690 (Property Control Transferral Transaction Form) covering the items received and upon receipt of the completed form will enter the information into LPAA database under the proper cost center codes.

Item No. 7 – Late Certification for Office of Alcohol and Tobacco Control

The property certification for Office of Alcohol and Tobacco Control was filed late. The Agency Property Manager is now aware of the correct due date and has taken the necessary steps to ensure that the certification is reported timely next year.

We acknowledge that we have experienced problems in the control of our movable property. However, the management and staff of this department are committed to strict adherence to all property control laws and regulations. Primary responsibility for property control has been transferred from the Support Services Division to the Controller Division recently. It is our intent to correct this situation immediately.

We appreciate the hard work and professionalism exhibited by your staff and we know that we have benefited from the work they have performed.

Sincerely,

Brett Crawford
Secretary

BC:KJC:ld

c: Mr. Kenneth Comeaux, Deputy Undersecretary
Mr. Dale LeJeune, Controller
Ms. Debbie Brecheen, Director Support Services Division
Ms. Phyllis Walker Perry, Director Internal Audit

STATE OF LOUISIANA
DEPARTMENT OF REVENUE

M. J. "MIKE" FOSTER, JR.
GOVERNOR

December 15, 1999

BRETT CRAWFORD
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

The audit finding entitled *Inadequate Controls Over Financial Reporting* has been reviewed by the Department of Revenue (DOR). We concur in part with the finding.

The finding states that the DOR does not adequately supervise or review the financial statement compilation process. The Controllers Division is responsible for the compilation of the annual financial statements, and its employees are properly supervised and their work is reviewed.

The majority of the errors noted in your finding related to the footnotes to the financial statements. The most material error made in the footnotes was a result of key employee turnover in the Controllers Division and the lack of clearly documented procedures relating to the calculation of estimated refunds payable at the end of the accrual period. Other material errors were a result of incorrect data furnished to the Controllers Division by other divisions regarding moveable property additions and the estimated liability for escheat property.

The DOR has taken the following corrective action to help ensure accurate data is furnished to the Controllers Division for disclosure in the footnotes to the financial statements:

- The Controllers Division will properly document the procedures required to accurately compile the data needed to estimate the refunds payable at the end of the accrual period. The Controllers Division will closely review the footnotes. The director of the Controllers Division is the contact person who is responsible for the corrective action relating to footnote disclosures.

- The Property control function has been transferred from the Support Services Division to the Controllers Division, effective September 1, 1999, in order to provide closer supervision over the function. The director of the Controllers Division is the contact person who is responsible for the corrective action relating to moveable property.

Post Office Box 201 • Baton Rouge 70821-0201
Telephone 225-925-7537 • (TDD) Telephone 225-925-7533
www.rev.state.la.us

- The Personal Income Tax Division plans to have more than one person thoroughly examine the estimated liability calculation for escheat property, and it will be reviewed by the Controllers Division before being reported. The assistant director of the Personal Income Tax Division is the contact person who is responsible for corrective action relating to the annual estimated liability calculation for escheat property.

Sincerely,

Brett Crawford
Secretary

STATE OF LOUISIANA
DEPARTMENT OF REVENUE

M.J. "Mike" Foster
Governor

Brett Crawford
Secretary

July 28, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

We would like to thank you for the opportunity to respond to the reportable audit finding entitled "Timeliness of Deposits of Tax Collections."

The Department concurs with the basic finding that not all tax payments were deposited within the 24-hour time frame required by the Division of Administration. However, we would like to place the finding in the proper historical, logistical and economic context so that it can be evaluated appropriately.

Specifically, we feel it is important to note that the Department of Revenue has *never* in its history been able to deposit all of its tax collections within the 24-hour standard established by the Division of Administration. Nevertheless, we are proud of the fact that we have made significant progress in recent years toward meeting that standard. At present, the efficiency of our deposit efforts is the best the Department has ever achieved, and we are continuing to improve upon our performance.

We have embraced new technologies, such as electronic funds transfer (EFT), document imaging, and electronic filing, in order to accelerate the processing of tax payments. We have also expanded our use of temporary employees during peak filing seasons and lengthened our work day to nearly 18 hours during peak periods in an effort to speed up the process. Consequently, much of what once took days to process and deposit can now be accomplished nearly instantaneously or within a matter of hours of receiving a payment. For example, in 1992 the Department was capable of depositing within 24 hours less than 40 percent of the funds it received (out of $4.4 billion collected). In contrast, the analysis your staff conducted indicates that in 1998, we deposited nearly 68 percent of the funds within 24 hours (out of $5.5 billion collected)—a significant improvement in just six years.

330 North Ardenwood Street • PO Box 201 • Baton Rouge, LA 70821 • (225) 925-7680

As I stated earlier, we are proud of the progress we have made in improving the timeliness of our deposits. But it hasn't been an easy feat, owing to a number of factors that make our job of collecting and depositing taxes a monumental effort. Some of these factors include:

- the ***concentrated timing and tremendous volume of tax returns and payments we process***. For example, we process more than 3.8 million tax returns a year, most of which are concentrated around a handful of due dates scattered throughout the year. In particular, at the height of income tax season, we can receive more than 120,000 tax returns and 65,000 payments in a single day. These numbers increase every year as the number of taxpayers increases, thereby making our job even more difficult.

- ***labor market and budget constraints*** which have severely limited our ability to recruit and retain skilled permanent and temporary employees. Most of the employees who work in our tax payment processing section are in entry-level positions. The combination of low pay, tedious work, and frequent opportunities for promotion to other areas of the Department have resulted in a turnover rate of permanent and temporary staff of more than 50 percent. Many of the vacancies are essentially unfillable, while many of the remaining staff require substantial training time to bring them up to a minimum acceptable performance level, further diluting productivity while they are being trained.

- ***taxpayer errors***, which are a fact of life in the Department. Even the best designed systems for depositing payments will succumb to the gear-stopping effects of taxpayer errors and oversights. Because our current process has been optimized to allow rapid processing of the relatively homogeneous tax returns which comprise the vast majority of all returns, we use a separate process to handle returns that contain errors or that are uniquely problematic. This process for handling exceptional returns and payments is necessarily slower than the normal process because of the additional work involved in researching, evaluating and correcting the errors. However, by devoting more time up front to correcting those errors, we save considerably more time and effort in later processing steps and avoid considerable potential for wrongful tax bills being sent to taxpayers. We believe it pays to be extra careful in our efforts.

As you can see from the impediments described above, we are working against a stiff headwind to meet our obligation to deposit payments within 24 hours. Nevertheless, we believe that with sufficient human, technical and financial resources we ***could*** come much closer to meeting the 24-hour requirement. But a more pragmatic view of our situation leads us to question at what cost ***should*** we pursue total compliance with the 24-hour standard.

Specifically, your staff has estimated at $1.4 million the amount of interest that could be earned annually if we deposited every tax payment within 24 hours. However, that amount represents only one side of the equation. What is missing is the cost to the state to achieve total compliance with the standard.

We have estimated conservatively that the additional cost to the state necessary to meet the 24-hour standard for all deposits would exceed $5.9 million in the first year (including additional payment processing equipment) and $2.6 million in each successive year. A detailed breakdown of these costs has been provided to your staff. As part of our cost figures, we estimate that we will need nearly 600 additional temporary employees (who, as noted above, are in very scarce supply) in order to fulfill the deposit obligations you describe in your report.

I feel certain you would not advocate that we embark on such a path, knowing that the state would expend considerably more taxpayer dollars in the effort than it would actually receive in return. Clearly, there should be a point at which our efforts to increase the percentage of deposits made within 24 hours will become cost prohibitive. We don't know exactly where that breakeven point is at this time, but we don't believe we have reached it yet—we still have room for cost effective improvements which we continue to strive towards. Nonetheless, we believe the breakeven point is considerably closer to our current performance level than to the absolute standard we are required to meet.

Thus, we believe a more flexible interpretation should be allowed of the constitutional requirement that deposits be made "immediately"–one that requires deposits to be made "without *unnecessary* delay" and in a manner that is both practicable and cost effective. In the absence of such flexibility, the 24-hour standard is both unrealistic and uneconomical in the context of the Department of Revenue.

Corrective Action Plan

The Department has an action plan in place to improve the timeliness of its tax collection deposits which includes the following elements:

- Completion by December 1999 of the installation and implementation of automated rapid payment processing equipment in the Operations Division.
- Concentrated efforts to recruit, train and retain qualified employees to assist in the processing of tax returns and the deposit of payments. This includes reviewing existing budgetary resources to identify funds that can be used to increase the pay of the entry-level positions who are responsible for the processing of tax returns and the deposit of tax payments.
- Continued efforts to streamline the internal processes and procedures required to deposit funds in order to make them more efficient.
- Development of improved systems to monitor the timeliness of our deposits.
- Review and amendment of the Department's Policy and Procedure Memorandum 10.26, Cash Management Policy/Tax Collections, to provide Department employees with realistic goals for the deposit of cash receipts.
- Application to the Treasurer's Office and the Commissioner of Administration for an exception to the 24-hour standard that reflects the logistical and economic realities confronting the Department, as provided in Chapter 6, Section 6.1.1 of the current Division of Administration and State Treasurer Policies and Procedures Manual.

The implementation of our action plan is currently underway. Ms. Janet Macmurdo, Director of the Operations Division, has primary responsibility for the implementation of our action plan, with support from Dale Lejeune, Controller; Greg Montagnino, Information Services Director; and the Office of the Undersecretary. A study team will be formed in the very near future to review the existing cash management policy and to prepare a recommendation to the Treasurer's Office and the Division of Administration.

Again, we appreciate the hard work and professionalism exhibited by your staff and we know that we have benefited from the work they have performed.

Sincerely,

Brett Crawford

Brett Crawford
Secretary

State of Louisiana
Department of Revenue

M. J. "Mike" Foster, Jr.
Governor

Brett Crawford
Secretary

November 30, 1999

Dr. Daniel G. Kyle, CPA,CFE
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge. Louisiana 70804-9397

Dear Dr. Kyle:

This letter is in response to your audit finding entitled "Inadequate Reconciliation of Protest Tax Balances". We concur with your finding.

We will establish a task force that will be charged with developing and implementing written procedures to ensure reconciliation of the balances in the protested tax accounts in the Legal Division to the amounts actually collected and recorded by the Controller's Division. The Controller's Division and the various Tax Divisions will implement measures to inform the Legal Division of subsequent payments under protest. Furthermore, the Legal Division will establish written procedures for updating their case tracking system to account for subsequent escrow payments made under protest.

The Department would like to thank you and your staff for providing us with information that will be used in making improvements with the Department.

Sincerely

Brett Crawford
Secretary

BC:abd

Post Office Box 201 • Baton Rouge 70821-0201
Telephone 225-925-7537 • 225-925-7533 (TDD)
www.rev.state.la.us
An Equal Opportunity Employer

STATE OF LOUISIANA
DEPARTMENT OF REVENUE

M. J. "MIKE" FOSTER, JR.
GOVERNOR

BRETT CRAWFORD
SECRETARY

February 10, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

We have reviewed the issues relating to your audit finding entitled "Inadequate Internal Control Over Transactions of the Office of Alcohol and Tobacco Control," and we concur in part with the finding. The Department is very concerned that proper and accurate records are maintained.

We acknowledge that procedures relating to the Food and Drug Administration Program (FDA) were either not completed or not implemented to adequately compile the expenditures, and record keeping problems were experienced and identified in the areas you mentioned. A new director has been hired in the Office of Alcohol and Tobacco Control (ATC), and action will be taken to fill other vacancies there. Steps will also be taken to follow through on record keeping and other areas to ensure compliance with the requirements of the grant. ATC has submitted an invoice to the FDA for reimbursement of costs for April through June 1999, which are the only months of fiscal year 1999 that are included in the initial project period (September 1998 through September 1999). Also, ATC will submit an invoice to the FDA for reimbursement of costs for July through December 1999 by the end of February 2000. In September 1999, the FDA extended the initial contract and increased the contract to the amount referred to in the finding.

Concerning the lack of supervisory review of the June 30, 1999, reimbursement of the investigative fund, the reimbursement was advanced to ATC based on the signed authorization of the Commissioner of ATC with the agreement that the supporting vouchers would subsequently be furnished to the Controller's Division. The Controller's Division did subsequently receive all but a few vouchers.

The Controller's Division has taken corrective action to strengthen internal control over the reimbursement process. All reimbursement requests must now be supported by vouchers that have been approved by the appropriate ATC official before the Controller's Division will process the reimbursement. Furthermore, we will be implementing new procedures for handling reimbursements whereby they will be made directly to each ATC investigator by the Controller's Division. We expect to have these procedures in effect in January 2000.

Sincerely,

Brett Crawford
Secretary

Post Office Box 201 • Baton Rouge 70821-0201
Telephone 225-925-7537 • (TDD) Telephone 225-925-7533
www.rev.state.la.us