

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Revenue  
State of Louisiana  
Baton Rouge, Louisiana

September 1, 1999



## ***Audit Resolution Report***

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

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**LEGISLATIVE AUDITOR**

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

**Audit Resolution Report  
Dated September 1, 1999**

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, New Orleans, and Shreveport offices of the Legislative Auditor.

**September 1, 1999**

**DEPARTMENT OF REVENUE  
STATE OF LOUISIANA**

Audit Resolution Report  
Dated September 1, 1999

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OFFICE OF  
**LEGISLATIVE AUDITOR**  
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September 1, 1999

Mr. Brett Crawford, Secretary  
Louisiana Department of Revenue  
P.O. Box 201  
Baton Rouge, LA 70821

Dear Mr. Crawford:

We have performed a limited review of data relating to timeliness of deposits made by the Louisiana Department of Revenue. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes. The examination was performed to analyze data and to assist us in our follow-up on the finding relating to timeliness of deposits of tax collections for the year ended June 30, 1998.

The accompanying report includes conclusions and recommendations beginning on page 7.

Copies of this report have been delivered to other authorities as required by law.

Respectfully submitted,

A handwritten signature in cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

BB:DLH:DSP:dl

[DORSP]

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

**BACKGROUND AND METHODOLOGY**

Our management letter to the Department of Revenue (Department), dated December 16, 1998, included a finding titled "Timeliness of Deposits of Tax Collections." This finding reported that the Department was not in compliance with Article 7, Section 9 of the Louisiana Constitution, which requires the immediate deposit of receipts with the State Treasury. The finding stated that 11 of 63 payments reviewed (17%) were not deposited timely. These tax payments ranged from 3 to 16 days late in being deposited for an average of 9 days late.

Article 7, Section 9 of the Louisiana Constitution requires the immediate deposit of receipts with the State Treasury. The *Division of Administration and State Treasurer Policies and Procedures Manual* defines immediately as "within 24 hours of receipt." Furthermore, Department Policy and Procedure Memorandum (PPM) Number 10.26 dated July 1, 1995, establishes guidelines for the timely deposit of tax payments. PPM 10.26 requires the majority of tax payments to be deposited the day of receipt or the day after, with the exception of payments received during peak processing times. PPM 10.26 allows for an additional three days for deposits during peak processing times.

The objective of our examination was to determine whether appropriate action was taken to correct the finding included in the management letter. Our procedures consisted of the following: (1) examining selected Departmental records; (2) interviewing management and certain employees of the Department; (3) reviewing applicable Louisiana laws, rules and regulations; and (4) making inquiries to the extent we considered necessary to achieve our purpose.

We analyzed data relating to timeliness of deposits submitted to us by the Department. We used Audit Command Language (ACL) software to determine the time that it takes for the Department to deposit a tax receipt in the State Treasury. Our procedures were as follows:

1. We reviewed the processing procedures in the Department's Operations Division. This division includes the following sections: Incoming Mail, Mail Opening, Deposit, Pre-Audit, Batching Services, Micrographics, Data Entry, Error Resolution, Imaging and Scanning System Pipeline, Microfilming, and Data Entry Pipeline.

There are three methods for processing tax returns, remittances, supporting documentation, and correspondence received by the Department. These include scannable, unscannable, and electronic funds transfers (EFT) processing. Scannable returns are simple returns such as individual income tax returns that are processed through a high-speed processing machine. The returns, remittance, et cetera, are photographed; the information is captured during scanning and automatically updated to the Department's mainframe computer. Unscannable returns are those that cannot be scanned because of the voluminous size of the return, such as those for corporate income taxes. These unscannable returns are manually processed and do not automatically post to

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the Department's mainframe computer. EFT payments are received over the phone lines from the taxpayer's financial institution and recorded in the Department's mainframe computer. See page 6 for a summary of the usage of the three methods.

2. We obtained a data file from the Department's Information Services Unit that contained over 141,000 batch headers for deposits for the period January 1998 through February 1999. A batch is a number of documents, ranging from one to 99 items per batch, that represents tax information including tax returns and remittances. The batch header is a summary of the information in the batch that includes total dollar amount, dates, and number of items in the batch. Attempts to validate batch header totals to physical documents were unsuccessful. Exceptions noted during the validation process were researched and reviewed with Department personnel, but the causes were too numerous and varied to be resolved (see section titled "Data Reliability Issues").
3. We requested and received from Information Services a file of 121,075 batch headers for calendar year 1998. The 1998 calendar year was chosen for review in order to have 12 complete months of data, including the peak processing months of April and May. A sample of the data file information was performed to determine if key dates and amounts on the physical documents matched the information in the related batch header. Test results revealed that approximately 25% of the items tested did not fully match the batch header deposit information (see section titled "Data Reliability Issues").

#### **Data Reliability Issues**

An analysis of the 121,075 batch headers for the calendar year 1998 identified the following data reliability problems that remain unresolved:

1. **Inability to Reconcile Batch Header Totals to the Controller's Totals** - Deposit totals from batch headers could not be reconciled to the controller's totals without significant additional effort. Some of the reasons for the difference in the totals include:
  - The batch header information was not originally designed for use in reconciling deposits. Corrections to individual items and adjustments made by the controller to batch header deposit amounts may not be modified on the corresponding batch header.
  - Incorrect deposit dates in the batch headers may cause monthly totals to vary between the data files and the controller's totals.
  - Duplicate batch headers may not have been entirely eliminated from the data file.

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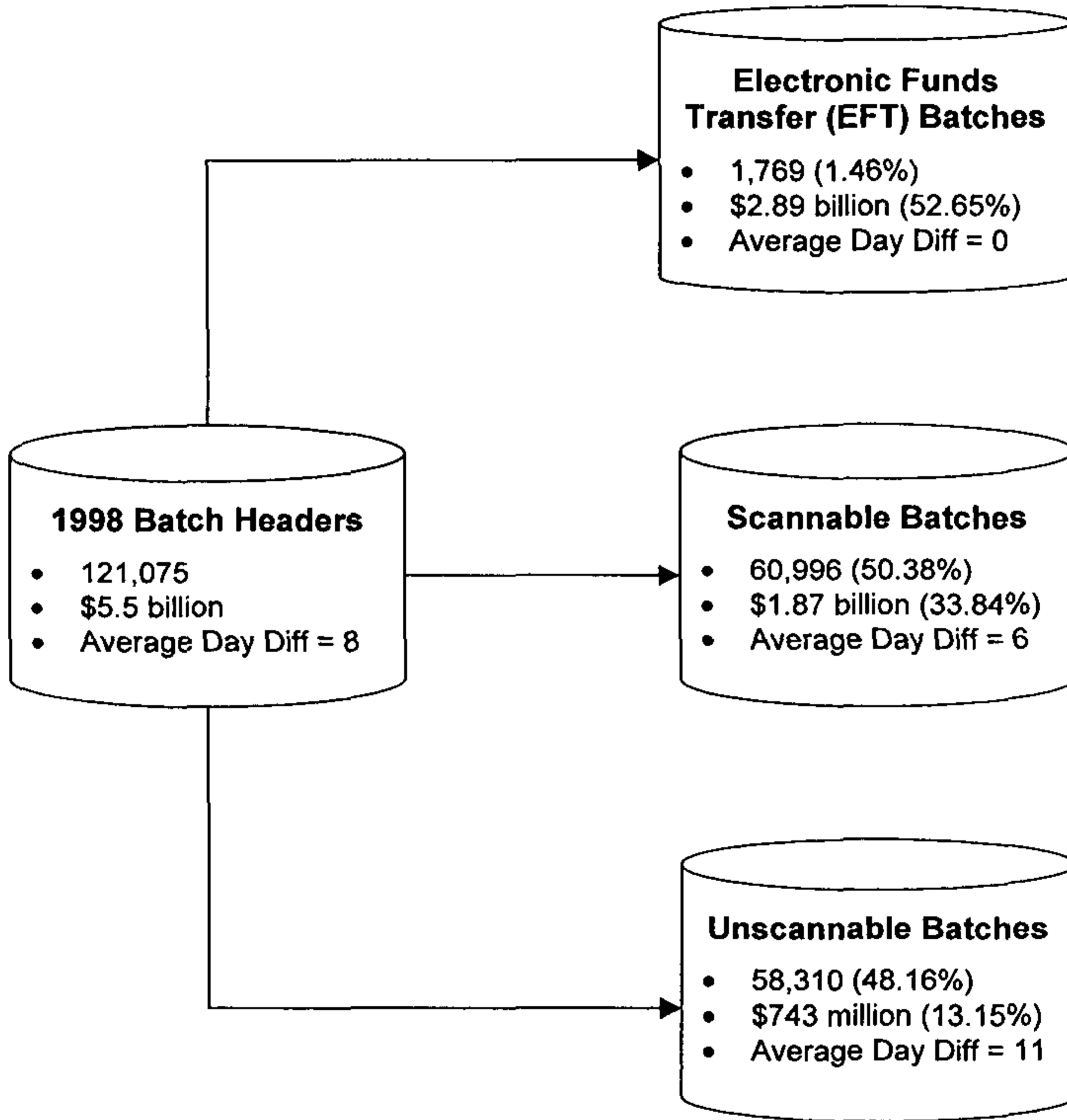
2. **Invalid Deposit Date** - Over 50 deposit dates were shown as a Saturday or Sunday--a condition that should not occur.
3. **Mail (Receipt) Date** - The mail date was not reliable for a significant number of batches.
  - The mail date could not be determined for 12,821 batches (over 9%) in the data files. These batches were given a mail date of "999999" to signify that items in the batch contained various mail dates. Consequently, a calculation of the number of days between deposit date and mail date could not be performed.
  - 2,769 batches contain mail dates before 1998. Some of these appear valid, while others appear to be keying errors.
  - The mail dates included over 80 dates that were weekends. This should not occur since mail is not received on weekends. These appear to be data entry errors.
  - A small percentage (less than 1%) of the items batches had a negative "days difference," indicating a deposit date earlier than the mail date--a condition that should not occur.
4. **Duplicate Document Locator Numbers (DLNs) for Batch Headers** - DLNs are used to identify information processed through the Department's computer system. The DLN is composed of a 15-character field. The first 13 digits in the DLN indicate various information, such as type of tax, calendar year, and whether the document was processed manually or as an EFT payment. The last two digits are the sequence number of the individual documents in the batch. The sequence number for the batch will have "00" as the sequence number. The sequence number for the documents in the batch will be "01" to "99." The individual documents in the batch will have the same DLN as the batch header with the exception of the sequence number. Of the 121,075 batch headers, there were 116,049 unique DLNs; 2,421 DLNs with one duplicate for a total of 4,842 batch headers; 60 DLNs that have two duplicates for a total of 180 batch headers; and one DLN that has three duplicates for a total of four batch headers.

Duplicate DLNs might be valid in certain situations where items are corrected. However, our discussions with Department personnel indicate that additional research is needed to determine why duplicate batch headers are occurring and how to correct this problem. We could not reconcile the batch amounts between Operations and Controllers. We believe the duplicate DLNs may contribute to the fact that we could not reconcile the data.
5. **Questions Concerning Batch Amounts** - The deposit amount for 5,281 batches was zero. The reason for the zero amounts could not be determined during this examination.
6. **Invalid DLN Year** - This field contained 408 batches with a year other than "98" (1998). Other years included were 00, 80, 88, 97, and 99. The reason for the invalid DLN years could not be determined during this examination.



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Summary of Batch Header Analysis



Average Day Diff = Average Deposit Date minus Mail Date for all batches with a day difference of 0 through 60 days. This calculation excludes roughly 10% of the batches containing less than 3% of the total batch header amounts. Most of these batches had invalid mail or deposit dates resulting in a day difference that was invalid.

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Baton Rouge, Louisiana**

**CONCLUSIONS AND RECOMMENDATIONS**

These conclusions and recommendations are based on the data as received from the Department. We make no representations nor provide assurances concerning the underlying data. Our concerns about the reliability of the data are summarized in the section "Data Reliability Issues." If corrections or changes are made to the underlying data, the results of the analysis may also be affected.

1. **Confirmation of Prior Year Finding** - Using the data provided by the Department, which is not completely reliable (as explained in "Data Reliability Issues"), we determined that the conditions described in the prior year finding on timeliness of deposits were valid and still in existence after June 30, 1998. Analysis of the data revealed that the average days difference between deposit date and mail (receipt) date was:

For all batches analyzed	8 days
For Electronic Funds Transfer batches	0 days
For Scannable Batches	6 days
For Unscannable Batches	11 days

The number and percentage of batches and amounts are shown on the Summary of Batch Header Records Analyzed on page 6.

**Recommendation:** The Department should identify the primary causes for the delays between receipt date and deposit date. Management should then identify changes that can be made to enhance the Department's compliance with the Louisiana Constitution and the *Division of Administration and State Treasurer Policies and Procedures Manual*. Proposed changes should include a consideration of implementation costs and the potential impact on the overall operations of the Department.

2. **Data Reliability Issues Limit Usefulness of Analysis** - The data reliability issues documented in this report limit the usefulness of the current analysis. Analysis of data using ACL or other similar data retrieval programs can be effective in helping management assess the timeliness of deposits and related operations issues. However, the effectiveness of the analysis is directly related to the reliability of the data.

**Recommendation:** The Department should review the issues noted in the section "Data Reliability Issues" and work to make operational or data input changes that would make the data more reliable and would be cost-effective.

3. **Significant Interest Is at Stake** - We calculated the amount of interest that would have been earned if all deposits had been made within 24 hours of receipt, as required by the Louisiana Constitution and the *Division of Administration and State Treasurer Policies and Procedures Manual*. To calculate the potential interest earnings, the excess number

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of days (over the required one day or 24 hours) between receipt and deposit was applied to an assumed interest rate of 5%, simple interest. This resulted in over \$1.4 million in interest that would have been earned had the Department deposited all receipts within 24 hours.

**Attachment 1**  
**Management's Response**



M.J. "Mike" Foster  
Governor

STATE OF LOUISIANA  
DEPARTMENT OF REVENUE

Brett Crawford  
Secretary

August 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:

I would like to thank you for the opportunity to respond to your audit report related to the timeliness of deposits made by the Department of Revenue.

The Department concurs with the basic finding that not all tax payments were deposited within the 24-hour timeframe standard established by the State Treasurer and 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 24 hours. 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 striving 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 indicated 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. We expect this percentage to continue to increase once we complete the installation later this year of a new automated payment processing system that has been under development since early 1998.

Nevertheless, continued improvement in our cash management efforts will not be an easy task, 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 annually. Many of the vacancies are essentially unfillable, while many of the remaining staff require substantial training time to bring them up to an acceptable performance level, further diluting productivity while they are being trained.
- *problematic tax returns*, 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 mistakes 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 deposit all 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 additional 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. As you point out in your report, what is missing from your analysis 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 deposit all funds within 24 hours.

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 is 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, and we don't believe we have reached it yet. Nonetheless, we believe the breakeven point is considerably closer to our current performance level than to the absolute standard against which we are being measured.

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.

Fortunately, two of the entities responsible for overseeing the state's cash management have recognized the practical logic of such flexibility. Just last month, The Treasurer's Office, in conjunction with the Division of Administration, modified its Policies and Procedures Manual to allow agencies like Revenue to receive exceptions to the 24-hour rule. Once our new automated payment processing system that I mentioned earlier becomes operational (expected by December 1999), we intend to request just such an exception linked to the improved operating capabilities of the new system and the logistical and economic realities confronting the Department.

### ***Data Reliability Issues***

Regarding the data reliability issues you identify in your report, we concur with your findings and recommendations. I would like to emphasize however, that the data issues in question pertain only to statistics measuring the efficiency of the Department's internal processes. The accuracy and integrity of tax data and taxpayer records are unaffected by these issues.

Several of the data reliability issues are being addressed as part of our current efforts to upgrade the automated payment processing equipment in our Operations Division. Additional data issues will be addressed in our ongoing computer reengineering project over the next two to three years. We anticipate that these improvements will help us to assess more accurately the timeliness of deposits and other tax return and payment processing issues. As we discussed with your staff during the audit, when our mainframe system was designed 25 years ago, little thought was given to the tracking and reporting of information related to our internal processes. Consequently, the deposit data records generated for your auditors were never designed for that purpose, resulting in the data inconsistencies you identified. We will continue to analyze these issues to ensure that our performance data is reliable.

***Corrective Action Plan***

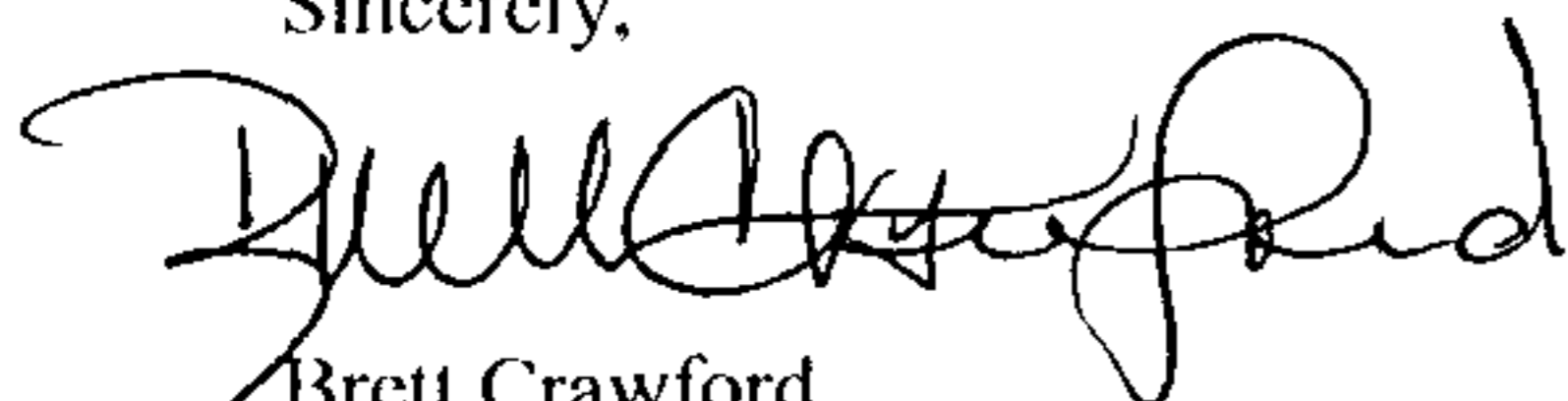
The Department has an action plan in place to improve the timeliness of its tax collection deposits which includes the following elements:

- Completion by December 1999 of the installation and implementation of automated rapid payment processing equipment and software in our 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 information systems to monitor the timeliness of our deposits.
- Development of an appropriate deposit performance standard that reflects the logistical and economic realities confronting the Department. We anticipate working closely with your staff and the staff of the Treasurer's Office and the Division of Administration to establish this realistic performance standard, as provided in the recent change to Chapter 6, Section 6.1.1 of the State Treasurer and Division of Administration Policies and Procedures Manual. As I noted earlier, we expect to begin work by January 2000 to develop this standard, once our new automated payment processing system becomes operational and we have an opportunity to assess its performance capabilities. Until then, any efforts to develop such a standard would be premature and wasted, given our impending shift to a completely new deposit system.

The implementation of our action plan is currently underway. Our Operations Division has primary responsibility for the implementation of our action plan, with support from the Controller's Division, the Information Services Division, and the Office of the Undersecretary.

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