

LOUISIANA TAX COMMISSION
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JULY 17, 2019

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

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

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

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana Tax Commission



July 2019

Audit Control # 80190077

Introduction

The primary purpose of our procedures at the Louisiana Tax Commission (LTC) was to evaluate certain controls LTC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. In addition, we determined whether management has taken action to correct the findings reported in the prior report.

Results of Our Procedures

We evaluated LTC's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of LTC's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to travel expenditures, LaCarte card purchases, professional service contracts, revenues, movable property, and the Tax Commission Expense Fund.

Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in LTC's procedural report dated June 7, 2017. During our follow-up on the prior-year report finding related to Inadequate Controls over Collection of Change Order Fees, we determined that effective January 1, 2018, Title 61 of the Louisiana Administrative Code no longer authorizes LTC to collect a \$20 fee for Change Orders. In addition, the prior-report finding related to Inadequate Controls over Depositing Checks has not been resolved and is addressed again in this report.

Current-report Findings

Inadequate Controls over Check Receipts

LTC did not maintain adequate controls over checks received to ensure amounts were recorded and deposited timely, increasing the risk of loss due to error and/or fraud. Our review of

assessment fee and change order revenue transactions for fiscal years 2018 and 2019 through February 2019 disclosed the following:

- LTC did not date stamp the checks when received or maintain a check log to document the receipt date of the checks; therefore, we were unable to determine the timeliness of recording and deposit.
- In a sample of 49 assessment fees collected from 10 parishes, checks were deposited from 5 to 72 days after the date of the check.
- In a sample of 19 change order transactions, checks were deposited from 6 to 323 days after the date of the check.
- Two checks received for change orders were returned to LTC by the bank for non-sufficient funds, and LTC has not received payment for those checks.

Louisiana Constitution Article VII, Section 9(A) and Louisiana Revised Statute (R.S.) 49:308 state that all money received by the state or any state board, agency, or commission shall be deposited immediately upon receipt into the State Treasury. The Office of Statewide Reporting and Accounting Policy defines “immediately” as within 24 hours of receipt. This is the second consecutive engagement that untimely deposits were identified. Good internal controls require that checks are recorded as well as deposited timely.

Management should establish procedures to ensure checks are date stamped or logged by receipt date, timely recorded in the accounting system, and deposited within 24 hours as required. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 1).

Inadequate Controls over Travel Expenditures

LTC did not effectively implement or adequately monitor controls over Controlled Billed Account (CBA) purchases, resulting in unapproved and excessive travel expenditures and noncompliance with state laws and regulations. Failure to implement and monitor effective controls over travel increases the risk of error and/or fraud.

In a review of 22 travel expenditure transactions, consisting of 123 individual charges for the period July 1, 2017, through March 11, 2019, we noted the following:

- None of the six transactions relating to non-routine and/or out-of-state trips had prior travel authorizations, although required by the state of Louisiana’s Travel Policy. LTC used a blanket authorization for travel that was signed July 1 of each fiscal year. However, the state of Louisiana’s Travel Policy requires a prior travel authorization before each non-routine trip and all out-of-state trips, and does not allow blanket authorization.
- Six transactions (27%), which included 15 individual charges, exceeded the limits allowed within the state of Louisiana’s Travel Policy (PPM 49), resulting in an

overage of \$830. The overage is comprised mostly of snacks, alcohol, state taxes on a hotel bill, excessive hotel rates, and unallowable rental car charges.

- Four transactions (18%), which included 20 individual charges totaling \$4,850, were not adequately supported by detailed receipts in the WORKS system.
- Three transactions (14%) included 4 individual charges totaling \$955 that were not properly approved in the WORKS system.
- Three transactions (14%) included 7 individual charges totaling \$2,823 that were approved by the traveler in the WORKS system.

Management should ensure that all non-routine and out-of-state travel have prior authorizations before approving the travel, and that CBA purchases are allowed by state policy, are adequately supported by detailed receipts in the WORKS system, and are timely reviewed within the system. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 2).

Inadequate Controls over LaCarte Card Purchases

LTC did not effectively implement or adequately monitor controls over LaCarte card purchases, resulting in unapproved purchases and noncompliance with the state of Louisiana's LaCarte purchasing card policy. Failure to implement and monitor effective controls over LaCarte card purchases increases the risk of error and/or fraud.

LTC has not established its own policy, which is required by the state's Corporate Liability "LaCarte" Purchasing Card and CBA Policy, established by the Division of Administration. The state's policy requires each agency to "develop its own internal policy and procedures to ensure compliance with the statewide card policy."

We reviewed eight LaCarte card transactions totaling \$12,280 (89%) of the \$13,850 total charged by the only LTC cardholder during the period July 1, 2017, through March 7, 2019. Based on our procedures, the following was disclosed:

- Three transactions totaling \$6,212 did not have adequate support in WORKS, and one of those was not approved.
- One approved transaction totaling \$29.99 was for a purchase through an employee's personal Amazon.com account, which is not allowed per state policy.
- One purchase was for a leather executive chair totaling \$1,425. The chair was not purchased on state contract and was not tagged or included in the statewide inventory system. LTC's Purchasing, Receiving, and Payment procedures state, "if the item is available on state contract, the state contract is used." Furthermore, the Louisiana Administrative Code requires all items of movable property having an "original" acquisition cost of \$1,000 or more to be tagged and included in the statewide inventory system. The purchase was recorded as a LaCarte card

transaction and not identified by the purchaser or approver as a fixed asset to prompt tagging.

Management should ensure that LaCarte card purchases are allowed by state policy, adequately supported in the WORKS system, and timely approved within the system. Management should also ensure that purchases comply with the purchasing policy regarding the use of state contracts, and that movable property with a purchase price of \$1,000 or more is properly recorded and identified as a fixed asset to be included in the statewide inventory system. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 3).

Travel Expenditures

LTC has three CBAs for airfare, hotels, conference registrations, and car rentals. Due to the inherent risks associated with these accounts, we obtained an understanding of LTC's related policies and procedures. We analyzed CBA account transactions for the period July 1, 2017, through March 11, 2019, to identify any unusual or risky transactions. Based on the results of our procedures, we determined that LTC did not effectively implement or adequately monitor controls over CBA purchases (see Current-report Findings section).

LaCarte Card Purchases

LTC participates in the state of Louisiana's LaCarte purchasing card program for general office supplies and administrative expenses. We obtained an understanding of LTC's controls over access to and use of these cards.

We analyzed LaCarte card transaction listings for the period July 1, 2017, through March 7, 2019, and reviewed selected transactions. Based on the results of our procedures, we determined that LTC did not effectively implement or adequately monitor controls over LaCarte card purchases (see Current-report Findings section).

Professional Service Contracts

We obtained an understanding of LTC's procedures and controls over procurement of professional services. LTC had three professional service contracts for legal and consulting services. We examined the two largest contracts and reviewed monthly reports that detailed work performed by the contractor. Based on the results of our procedures, LTC has adequate controls to ensure that professional services were properly procured in accordance with state regulations; reasonable and necessary disbursements of public funds; adequately monitored; and properly coded in accounting records.

Revenues

We reviewed Title 47 of the Louisiana Revised Statutes to identify fees that LTC is authorized to assess and collect, which included assessment fees, change order fees, and audit fees. Total assessment fee collections during our engagement period represent 99.6% of total revenues. Therefore, we reviewed a sample of assessment fees, along with change order fees, to determine if LTC is collecting the identified revenues. Based on the results of our procedures, we determined that LTC did not maintain adequate controls over checks received to ensure amounts were recorded and deposited timely (see Current-report Findings Section).

Movable Property

We obtained an understanding of LTC's procedures and controls over movable property and analyzed acquisition related purchases in fiscal year 2018 to determine if the assets were properly included or excluded in the state's Asset Management System. Based on the results of our procedures, LTC had adequate controls to ensure that movable property was accurately recorded.

Tax Commission Expense Fund

We obtained an understanding of the Tax Commission Expense Fund and evaluated whether the fees charged covered the costs associated with the services provided and if LTC had adequate controls to ensure that warrants from the fund are used for allowable expenditures.

R.S. 47:1835(B) creates the Tax Commission Expense Fund. All assessments and fees, including penalties and interest received by the tax commission, are to be deposited in the expense fund. Appropriations from the expense fund can be made for expenses and costs of operations, audits, and examinations and the defense, determination or development of assessments and assessment procedures, including costs associated with outside experts. LTC collects fees for the assessment of public service properties, insurance companies, and financial institutions based on a percentage of the assessed value of properties.

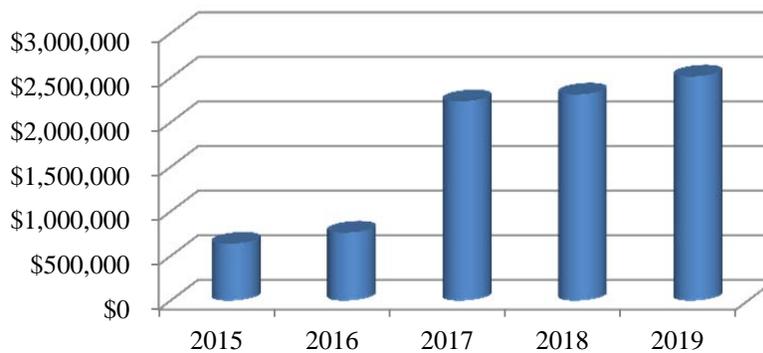
Collections deposited in the fund totaled \$2.28 million for 2017 and \$2.33 million for 2018. The fund paid for 52.6% and 51.3%, of the total cost of services provided during fiscal years 2017 and 2018, respectively, with the remaining costs being funded by the State General Fund. Based on the results of our procedures, LTC had adequate controls to ensure that warrants from the fund were used for allowable expenditures.

Trend Analysis

We compared the most current and prior-year financial activity using LTC's Annual Fiscal Reports and/or system-generated reports and obtained explanations from LTC's management for any significant variances. We also prepared an analysis of assessment fees by fiscal year.

Assessment fees increased significantly in fiscal year 2017, as the fee for the assessment of public service property increased from .01% in fiscal year 2016 to .04% in fiscal year 2017. In addition, assessment fees increased slightly in fiscal year 2019, as the fee for assessment of insurance companies and financial institutions increased from .015% to .03% in fiscal year 2019.

**Assessment Fees by Fiscal Year
(As of April 30, 2019)**



Source: ISIS Business Objects Report

Other Report

On April 3, 2019, a report was issued by Louisiana Legislative Auditor's Investigative Audit Section. The report describes that the former LTC Administrator appears to have claimed and been paid for hours he did not work, used a state rental vehicle for personal purposes, incurred improper and unnecessary travel expenses, and failed to disclose outside business interests. In addition, the report disclosed that LTC failed to exercise adequate oversight over the former Commission Administrator's time. This report is available on the LLA website.

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

APPENDIX A: MANAGEMENT'S RESPONSES

Louisiana Tax Commission
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



LAWRENCE E. CHEHARDY
CHAIRMAN

June 27, 2019

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Louisiana Tax Commission Response to Financial Audit

Dear Mr. Purpera:

As requested, below is the response to your staff's findings in connection with their Financial Audit of the Louisiana Tax Commission regarding Check Receipts.

Inadequate Controls over Check Receipts

Recommendation by LLA: Management should establish procedures to ensure checks are date stamped or logged by receipt date, timely recorded in the accounting system, and deposited within 24 hours as required.

Response by LTC: Agree.

The Tax Commission notes that the date of the check rarely corresponds with the date the check is received by the Commission. Commission staff is and has been aware of the requirement that checks be deposited within 24 hours of receipt. Indeed, Commission staff does deposit checks within a 24 hour period from receipt. However, the Commission will now require staff to date stamp and/or log the date checks are received to monitor compliance with La. R.S. 49:308.

If additional information is needed, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Michael Matherne".

Michael Matherne, Administrator
Louisiana Tax Commission

Louisiana Tax Commission
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



LAWRENCE E. CHEHARDY
CHAIRMAN

June 27, 2019

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Louisiana Tax Commission Response to Financial Audit

Dear Mr. Purpera:

As requested, below is the response to your staff's findings in connection with their Financial Audit of the Louisiana Tax Commission regarding Travel Expenses.

Inadequate Controls over Travel Expenses

Recommendation by LLA: Management should ensure that all non-routine and out-of-state travel have prior authorizations before approving the travel; and should ensure that CBA purchases are allowed by state policy, are adequately supported by detailed receipts in the WORKS system, and are timely reviewed within the system.

Response by LTC: Agree.

The Tax Commission agrees that all on-routine and out-of-state travel must have prior authorizations before approving the travel and that all CBA purchases are allowed by state policy, are adequately supported by detailed receipts in the WORKS system, and are timely reviewed within the system. The Tax Commission notes that as a result of the issues revealed by the investigative audit by the Louisiana Legislative Auditor, published on April 3, 2019, the Tax Commission has already implemented changes to certain internal controls to prevent and deter issues like this one. Specifically, the Tax Commission has amended its policy manual to include a travel authorization form for employee use for non-routine trips. Management will ensure that CBA purchases are allowed by policy, are adequately supported by detailed receipts in the WORKS system, and are timely reviewed. Management will also ensure that Commission staff members are adequately trained on these issues. It should also be noted that many of the issues with regard to travel expenses were committed by employees who are no longer with the agency.

If additional information is needed, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Michael Matherne".

Michael Matherne, Administrator
Louisiana Tax Commission

Louisiana Tax Commission
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



LAWRENCE E. CHEHARDY
CHAIRMAN

June 27, 2019

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Louisiana Tax Commission Response to Financial Audit

Dear Mr. Purpera:

As requested, below is the response to your staff's findings in connection with their Financial Audit of the Louisiana Tax Commission regarding LaCarte Card.

Inadequate Controls over LaCarte Card Purchases

Recommendation by LLA: Management should ensure that LaCarte card purchases are allowed by state policy, adequately supported in the WORKS system and timely approved within the system. Management should also ensure that purchases comply with the purchasing policy regarding the use of state contracts and that movable property with a purchase price of \$1,000 or more is tagged and included in the statewide inventory system.

Response by LTC: Agree.

The Tax Commission notes that as a result of the issues revealed by the investigative audit by the Louisiana Legislative Auditor, published on April 3, 2019, the Tax Commission has already implemented changes to certain internal controls to prevent and deter issues like this one. Moreover, the Tax Commission plans to use the LaCarte card program on a very limited basis. To ensure that LaCarte card purchases are being properly made and monitored, the agency will ensure that LaCarte purchases are allowed by policy, are adequately supported by detailed receipts in the WORKS system, and are timely reviewed. Management will continue to ensure these changes are implemented and are being followed and will continue to ensure that Commission staff members are adequately trained on these issues. Appropriate LTC staff will attend trainings regarding LaCarte Card purchases. It should also be noted that many of the issues with regard to the LaCarte card program were committed by employees who are no longer with the agency.

If additional information is needed, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Michael Matherne".

Michael Matherne, Administrator
Louisiana Tax Commission

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Tax Commission (LTC) for the period from July 1, 2017, through June 30, 2019. Our objective was to evaluate certain controls LTC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review the LTC's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The LTC's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated LTC's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LTC.
- Based on the documentation of LTC's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to travel expenditures, LaCarte card purchases, professional service contracts, revenues, movable property, and the Tax Commission Expense Fund.
- We compared the most current and prior-year financial activity using LTC's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LTC's management for any significant variances that could potentially indicate areas of risk.

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