DEPARTMENT OF REVENUE
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 23, 2015

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

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Revenue

December 2015

Audit Control # 80150136

Introduction

As a part of our audit of the state of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana for the year ended June 30, 2015, we performed procedures at the Louisiana Department of Revenue (LDR) to provide assurances on financial information that is significant to the state's CAFR, evaluate the effectiveness of LDR's internal controls over financial reporting and compliance, and determine whether LDR complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

LDR is the state agency charged with the assessment, collection, administration, and enforcement of taxes, fees, licenses, penalties, and interest due to the state of Louisiana. The department's mission is to fairly and efficiently collect state tax revenues to fund public services; to regulate charitable gaming and the sale of alcoholic beverages and tobacco; and to support state agencies in the collection of overdue debts.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated November 26, 2014. We determined that management has resolved the prior-year findings related to Ineffective Controls over Refunds from Legal Settlements and Ineffective Internal Audit Function. The prior-year findings related to Inadequate Controls over LaCarte Card Purchases and Inadequate Preparation of the Annual Fiscal Report have not been resolved and are addressed again in this report.

Current-year Findings

Overpayment of Sales Tax Distributions to Local Government

LDR has overpaid the Algiers Economic Development District No. 1 (District) more than \$6.9 million in sales tax distributions since the beginning of its Cooperative Endeavor

Agreement (Agreement) executed in 2004, which provides for the amount of sales tax collections to be paid to the District.

The Agreement between LDR and the District states that LDR shall calculate and distribute the "Monthly Pledged State Increment" to the District every quarter, which is defined by the Agreement as the lesser of the "Monthly State Increment" (MSI) or the "Monthly Local Increment."

The MSI is equal to the excess of 1.25 cents (31.25%) of the 4-cent sales tax collections from taxpayers in the District over the monthly state base ($74,864 per the agreement). Rather than using 31.25% of the sales tax collections in its calculation, LDR used the total sales tax collections from the taxpayers in the District, which resulted in the overpayments.

The Agreement requires that LDR eliminate any shortage or overage by adjusting future distributions. LDR should work with the District to establish a recoupment process to recover the overpayments. Additionally, management should improve the design and execution of its sales tax distribution process and ensure that an adequate review is performed before distributions are made. Management did not concur with the finding and stated that no corrective action plan is needed (see Appendix A, pages 1-2).

Additional comments: LDR's response states that "the auditor's report fails to set forth the methodology or analysis used by the auditor to establish the finding." On December 7, 2015, auditors met with the Undersecretary and Executive Counsel to discuss the finding and law in detail. We also had a spreadsheet prepared to explain the auditor calculation and were told that they (the Undersecretary and Executive Counsel) did not want to see it. Management's response also states that "LDR is required to use the 4-cent sales tax collection amount as the basis for the calculation because the statutory authority mandates a state collection rate of 4% of every dollar collected." The Agreement dictates the calculation of the distributions. As we detail in the finding, the Agreement defines the MSI as the excess of 1.25 cents (31.25%) of the 4-cent sales tax collections from taxpayers in the District over the monthly state base ($74,864 per the agreement). Based on the Agreement language, we believe the department is incorrectly calculating the MSI, resulting in overpayments to the District.

Inadequate Planning and Management of Information Technology Projects and Systems

LDR did not adequately manage the upgrade of the Delta tax information (Delta) system or the implementation of the Scan Optics Tax Express revenue processing software (Tax Express system) resulting in the untimely deposit and posting of paper checks and errors in converted severance tax records.

- Issues experienced with the implementation of the Tax Express revenue processing software caused more than $66 million in untimely deposits of tax payments and late postings to the related taxpayer accounts. Of 175,445 checks received and processed through the Tax Express system between October 22, 2014, and January 30, 2015, 44,461 checks (25%) totaling $66,372,003 were deposited between 14 and 248 days after receipt, an average of 26 days after receipt. Of those 44,461 checks, 27,265 (61%) totaling $26,405,788 were posted to the respective taxpayer accounts in the Delta tax information system an average of eight days after deposit. The average days between receipt and posting to the taxpayer account was 34 days.

- During the upgrade of the Delta system and conversion of severance tax records, penalty and interest updates were erroneously performed on non-return documents, creating $5.4 million in residual balance errors on taxpayer accounts. As of November 2015, $1.2 million in credit balances and $280,000 in debit balances remained unresolved. Stop billing and stop refund indicators that were placed on the accounts to prevent erroneous refunds and bills are set to cease on December 31, 2015; therefore, prompt attention is needed or inaccurate bills and refunds could be released on these accounts.

The lack of adequate project planning documentation and a continuous risk assessment process for the Delta upgrade project allowed the errors in the conversion of severance tax data to occur without a timely resolution. That, along with the accelerated project timeline to implement the Tax Express system, resulted in scanning delays and errors, coding errors, and a failed interface with the Delta system that caused the untimely deposit and posting of tax payments.

We evaluated LDR's information technology (IT) controls based on best practices, as defined by Control Objectives for Information and Related Technology (COBIT 5), a framework developed by the Information Systems Audit and Control Association. According to COBIT 5, management should minimize IT project risk by planning, identifying, recording, monitoring, and controlling areas associated with changes. Louisiana Revised Statute 49:307(A) requires all money received by an agency to be deposited immediately upon receipt into the State Treasury. DOA policy generally defines "immediately" as within 24 hours of receipt. LDR policy requires the deposit of funds from one to seven days of receipt, depending on the dollar amount and time of year. Good accounting controls would ensure the timely posting of tax payments to the associated taxpayer account.

Failure to ensure adequate risk management planning prevents the department from adequately addressing risk factors that can endanger IT projects and increase system problems after conversion or implementation. LDR's failure to deposit and post tax payments timely increases the risk of loss or misappropriation of funds due to error or fraud and results in noncompliance with LDR policy, state law, and DOA policy.

LDR management should make certain that IT projects are adequately planned and documented to ensure that new or modified programs operate as designed, and are appropriately tested and validated prior to being placed into production. Furthermore, unavoidable errors should be addressed and corrected in a timely manner. LDR management should also ensure the timely deposit and posting of tax payments in accordance with state law and department policies; and should ensure that all erroneous balances on severance tax accounts due to the conversion are reviewed and corrected in a timely manner to reduce the risk of inaccurate bills and refunds being released on these accounts.

Management concurred in part with the finding. While management acknowledged the errors occurred and explained that the reported issues have either been resolved or are in the process of being resolved, they do not agree that the project was inadequately planned or managed. Management did concur that the resolution to the noted issues could have been more timely and outlined planned corrective action to prevent this from occurring with future projects (see Appendix A, pages 3-4).

Ineffective Controls over Certain Severance Tax Refunds

LDR did not have effective controls over refunds of severance tax overpayments for wells that qualified for the severance tax suspension for new horizontal or deep wells, resulting in $94,512 in overpayments. In a sample of 12 severance tax refunds, eight qualified for the severance tax suspension. Of those eight, we noted two (25%) overpayments totaling $40,868 for interest calculation errors. While further reviewing these taxpayer accounts, we noted an additional $53,644 in overpayments from two different filing periods. All of these refunds went through three levels of review and approval before being released to the taxpayer.

Act 658 of the 2014 Regular Session (R.S. 47:1624.1) changed the method for calculating interest on refunds to an operator whose well qualifies for the severance tax suspension for new horizontal or deep wells. Because the Delta tax information system automatically calculates interest on refunds, this change in law required a program change in the Delta system. However, in November 2014, the Executive Steering Committee denied the service request due to implementation costs and lack of resources. As a result, when processing these types of refunds, a stop interest indicator must be manually added to the accounts and the interest manually calculated.

All of the overpayments were subsequently detected by LDR quality reviews and/or compliance audits and have been recovered by LDR; however, the lack of adequate controls over the issuance of refunds increases the risk that overpayments could be distributed that may not be subsequently detected and recouped.

Management should improve the design and execution of its manual refund approval process to ensure that an adequate review is performed before the issuance of refunds. Additionally, management should consider an update to the Delta system to automatically calculate interest in accordance with R.S. 47:1624.1. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 5).

Inadequate Controls over LaCarte Card Purchases

For the second consecutive year, LDR did not effectively implement or adequately monitor controls over LaCarte card purchases, resulting in unauthorized purchases, inadequate documentation, an increased risk of errors and fraud, and noncompliance with state guidelines.

A review of 59 transactions from the last four months of fiscal year 2015 for 13 LDR LaCarte cardholders, including one from the Louisiana Office of Alcohol and Tobacco Control (ATC), disclosed the following:

- Twenty transactions (34%), including five for the ATC cardholder, included $3,836 in purchases that are disallowed by state and LDR LaCarte purchasing card policies. Exceptions noted are as follows:

  - Seven purchases totaling $2,840 were travel related and should have been processed following travel procedures. In addition, these purchases were made using PayPal accounts, which are prohibited by LDR policy.

  - Eleven purchases totaling $714 were made through Amazon.com without evidence of pre-approval from the program administrator or documentation of being the sole source, as required by LDR policy.

  - Two purchases totaling $282 were for decorative items that are prohibited purchases under the LDR policy.

- Five transactions, including two for the ATC cardholder, totaling $3,293 did not have the proper documentation attached in the Bank of America online LaCarte program management tool (WORKS site) as required by LDR policy.

As required by the state of Louisiana's LaCarte Purchasing Card Policy, LDR has established policies documenting all internal procedures for cardholders, supervisors, and the program administrator. LDR's policies are written to ensure that the department complies with the state program guidelines. These policies, however, are not being consistently enforced and are therefore not effectively implemented and monitored by LDR.

LDR management should ensure that the WORKS site is reviewed regularly by the Program Administrator to ensure all support and receipts are attached timely to each transaction and that all purchases are allowable per state and LDR LaCarte policies. In addition, management should consider decreased credit lines and/or card suspension for cardholders and supervisors who fail to follow program policies. Furthermore, management should monitor established controls to reduce the risk of error and fraud in the program. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 6-7).

Inadequate Preparation of the Annual Fiscal Report

For the second consecutive year, LDR incorrectly reported refunds payable and pending litigation in its 2015 Annual Fiscal Report (AFR), which is used by the Division of Administration (DOA), Office of Statewide Reporting and Accounting Policy (OSRAP) to compile the state of Louisiana's CAFR. Refunds payable was understated by $10.7 million; pending litigation was overstated by $27.3 million; judgments rendered pending appropriation was understated by $7.2 million; and receivables were overstated by $3.4 million, $2.3 million in proposed assessments, and $1.1 million in qualified receivables.

- Refunds payable was understated by $10.7 million because of errors made in calculations, incorrect reports, and misuse of information in reports generated from the Delta tax information system, including the incorrect offset of $11.4 million in refund payments that were not valid payables at June 30; doublecounting of $7.9 million in refunds issued; and the incorrect exclusion of $8.6 million in refund and interest payments.

- Pending litigation was overstated by $27.3 million because LDR double-counted $20.2 million in claims as both “Refund Claims” and “Claims Against the State,” and erroneously included $7.1 million in claims paid prior to June 30 as pending litigation. In addition, LDR failed to disclose $7.2 million in judgments rendered prior to June 30, 2015 but not appropriated in the 2015 Legislative Session.

- Revenues and receivables were overstated by $3.4 million. Proposed Assessments, or estimated tax receivables, were overstated by $2.3 million because LDR included amounts that were resolved prior to June 30, 2015 or paid during the accrual period. Qualified receivables, or tax receivables based on an actual tax return, were overstated by $1.1 million because LDR double-counted a receivable balance.

Many of these errors occurred due to the heavy reliance on system reports during AFR preparation without an adequate understanding of how the reports are to be run or the information included in those reports, which resulted in incorrect reports and the misuse of information in reports. Misstatements in LDR’s AFR can result in misstatements of the state’s CAFR. Good internal controls over financial reporting should include adequate procedures to record, process, and compile financial data needed to prepare an accurate and complete AFR; adequate training and supervision of staff; and an effective review of the AFR so that errors can be detected and corrected before submitting the AFR to OSRAP for inclusion in the state’s CAFR. In addition, AFR preparers should have an adequate understanding of system reports before using them to prepare the AFR.

Management should ensure that the AFR is prepared by qualified staff and reviewed in detail prior to its submission to OSRAP. Management should also provide training to improve the preparers’ knowledge and understanding of the balances, calculations, and system reports used in preparing the AFR. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 8).

Comprehensive Annual Financial Report - State of Louisiana

As a part of our audit of the state of Louisiana’s CAFR for the year ended June 30, 2015, we considered LDR’s internal controls over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

Revenues - Corporate income and franchise tax, individual income tax, sales tax, severance tax, and gasoline and special fuels tax
Receivables - Full accrual and modified accrual receivables on the revenues listed above
Note Disclosures - Refunds Payable and Judgments, Claims, and Similar Contingencies

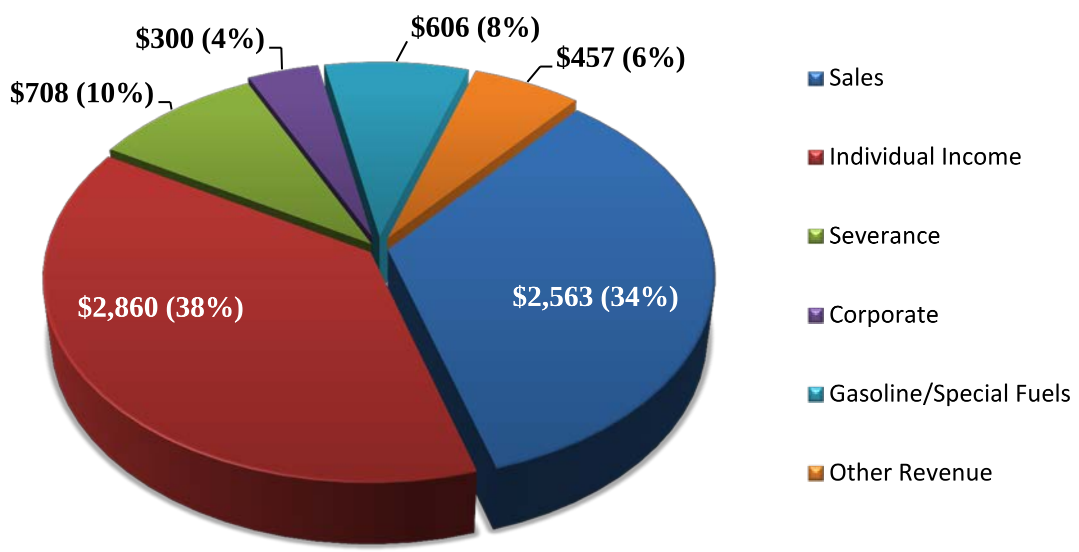
The account balances and classes of transactions tested, as adjusted, are materially correct.

Based on the results of these procedures on the CAFR, we reported five findings related to Overpayment of Sales Tax Distributions to Local Government, Inadequate Planning and Management of Information Technology Projects and Systems, Ineffective Controls over Certain Severance Tax Refunds, Inadequate Controls over LaCarte Card Purchases, and Inadequate Preparation of the Annual Fiscal Report. The finding related to inadequate preparation of the annual fiscal report will also be included in the state of Louisiana's Single Audit Report for the year ended June 30, 2015.

Trend Analysis

We compared the most current and prior-year financial activity using LDR's annual fiscal reports and/or system-generated reports and obtained explanations from LDR management for any significant variances. We also prepared an analysis of fiscal year 2015 tax revenue collections. The majority of revenues collected by LDR, 94% of total tax revenues, is composed of Individual Income tax and major business taxes including Sales tax, Corporate Income and Franchise tax, Severance tax, and Fuel tax revenue.

Exhibit 1
Fiscal Year 2015 Collections, in millions
Total: $7,494



Source: Fiscal Year 2015 Department of Revenue Annual Fiscal Report

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

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

EMS:BQD:EFS:aa

LDR 2015

APPENDIX A: MANAGEMENT’S RESPONSES

Bobby Jindal
Governor

Tim Barfield
Secretary

State of Louisiana
Department of Revenue

December 11, 2015

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70804

RE: Overpayment of Sales Tax Distributions to Local Government

Dear Mr. Purpera:

The management team of the Department of Revenue ("LDR") understands the importance of having policies and procedures for the overall successful operations of an organization. This would include the distribution of state funds to third party stakeholders. The finding addressed below indicates that the agency overpaid the Algiers Economic Development District over $6.9 million in sales tax distributions since its inception in 2004.

The agency does not concur with the finding of the Legislative Auditor. While the Monthly State Increment ("MSI") is the excess between the Monthly State Collection Amount and the Monthly State Base amount, LDR is required to use the 4-cent sales tax collection amount as the basis for the calculation because the statutory authority mandates a state collection rate of 4% of every dollar collected. Only after the state's sales tax amount is determined, can ratios and other amounts be applied to the calculation methodology to determine the amount of the MSI.

Also, the auditor's report fails to set forth the methodology or analysis used by the auditor to establish the finding. Absent such, LDR has no way of adequately responding to the finding with any certainty.

As an aside, LDR feels compelled to note that the auditor's calculation and methodology would render an absurd result and offend the spirit of the TIF law enacted by the Louisiana Legislature and the Cooperative Endeavor Agreement ("CEA") entered into by the parties, as it would subject the Algiers TIF district to little or no generation of funds for the TIF and result in the inability to satisfy bond obligations.

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All taxing statutes, including TIFs, are representative of a taxing system set up by the legislature that should be given its full weight, read and interpreted as a whole. A review of committee tapes regarding the statute, La. R. S. 33:9038.31 et seq., which gave municipalities the authority to do TIFs, clearly shows the purpose of the legislation was to provide local municipalities an opportunity to raise money and finance projects in their area. Improper application of TIF definitions and calculations violate the spirit of the TIF statute, which was to generate funds for local municipalities. Additionally, Sections 2.4 and 3.3 of the CEA were included to further support the purpose of the TIF statute. Again, application of the Legislative Auditor's methodology, which would generate little to no funds for the TIF, is in direct contrast to the intent of the Louisiana Legislature.

In conclusion, the senior management team of the agency does not concur with the finding. We feel no corrective action is needed.

Please feel free to reach out to our agency for any additional information or clarification is required by your office.

Sincerely,

Tim Barfield
Secretary

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BOBBY JINDAL
Governor

TIM BARFIELD
Secretary

State of Louisiana
Department of Revenue

December 15, 2015

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70804

RE: Inadequate Planning and Management of IT Projects and Systems

Dear Mr. Purpera:

The management team of the Department of Revenue recognizes the importance of planning major projects especially those with the importance of the integrated tax system and return processing system.

These two system upgrades were delayed for several years due to resources and the possibility of tax reform. The agency elected to proceed with these upgrades due to lack of maintenance options and support for these systems, contract limitations and the need to ensure that the agency had viable systems in place to operate in future years. The senior management team does agree that these upgrades were not without issues but does not concur that these projects were inadequately planned or managed.

Both of the reported projects had dedicated project manager(s), detailed project plans, documented issues list, daily scrums held to discuss ongoing issues, and SQR's (Tax Application change system) were entered and tracked. The reported issues with Tax Express upgrade have been resolved and only three accounts remain to be corrected in reference to the DELTA upgrade. These issues were either resolved or in the process of being resolved at the time of this audit. We do concur that this resolution could have been more timely and have put forth new Action tracking in the project management system to ensure this does not happen with future projects.

Each individual change to the system via these upgrades and all current processes were tested both by an independent test team and each associated business unit. Due to the probability of system issues arising during rollout, the agency had systems for issue tracking to ensure a mechanism for follow-up and resolution to any problems that arose. These mechanisms were most certainly in place at all points during these projects.

The agency will continue to provide resources for project management, planning and testing of projects. The senior management team acknowledges the importance of proper planning, management and documentation of any major project whether in IT or another area of the agency.

Please feel free to reach out to our agency for any additional information or clarification is required by your office.

Sincerely,

Tim Barfield
Secretary

BOBBY JINDAL
Governor

TIM BARFIELD
Secretary

State of Louisiana
Department of Revenue

December 14, 2015

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70804

RE: Ineffective Controls over Certain Severance Tax Refunds

Dear Mr. Purpera:

The management team of the Department of Revenue understands the importance of having internal control procedures for the overall successful operations of an organization. This would include the distribution of refunds of overpayments. The finding addressed below identifies two (2) severance refunds that contained overpayments of interest totaling $40,868 and an additional overpayment of $53,644.

The agency concurs with the finding but would like to point out that this error was discovered by agency personnel prior to this audit. It is important to note that these overpayments were discovered by agency through its quality/compliance reviews. This demonstrates that the agency has detective procedures that are functioning as designed. The agency will conduct additional training for front line staff and those management team members with review and approval authority. The agency will reevaluate the possibility of an update to the DELTA system to automatically calculate interest and eliminate the manual process currently in place.

Please feel free to reach out to our agency for any additional information or clarification is required by your office.

Sincerely,

Tim Barfield
Secretary

BOBBY JINDAL
Governor

TIM BARFIELD
Secretary

State of Louisiana
Department of Revenue

December 11, 2015

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70804

RE: Inadequate controls over LaCarte Card Purchases

Dear Mr. Purpera:

The management team of the Department of Revenue recognizes the importance of controls over the LaCarte Card Program. This method of obtaining necessary supplies for operations is essential to the overall efficient operation of our agency.

The senior management team concurs in part with the finding and acknowledges that there are some improvements that can be made to the LaCarte Card program within the agency to ensure more control over this program and encourage voluntary compliance with the requirements of the program.

Though this is the second consecutive year LLA has found that LDR did not effectively implement its LaCarte card program, LDR's program administrator and other employees involved in the program have taken significant strides in improving the program in the last year. We have instituted cardholder discipline, increased review of cardholder transactions, provided additional one-on-one and group training to program participants, and decreased cardholder limits to better align with spending needs and habits.

The transactions reviewed and exceptions identified by LLA related largely to LDR policy, and no major violations of DOA policy have been noted. Five of the exceptions related to issues with uploading receipts and other documentation to the Bank of America WORKS website. We have since obtained copies of all documentation identified by the auditors and have uploaded it to the accompanying transaction. These copies were included with the cardholders' paper submissions, but were not uploaded properly to the Bank of America WORKS site and therefore could not be located at that time by the auditors. They were subsequently provided via email.

As mentioned above, all of the exceptions/issues related at least partially to our currently enacted LaCarte policy. We have since determined that some provisions of this policy are unnecessarily restrictive and hindered the agency's ability to conduct business effectively and efficiently. For example, the policy provided that conference registrations were travel related and required an exception from the program administrator. However, since DOA implemented its mandate disallowing reimbursement of higher cost travel expenditures, LDR has worked through several iterations of solutions, and ultimately found it was necessary to place such registrations on LaCarte cards, as is allowed by DOA policy. Until the policy is revised to delete this provision, the program administrator will ensure exceptions are properly granted.

As a result, we are working to revise the policy to ensure it aligns with DOA policy and provides the appropriate balance of precautions to ensure cards are used properly. In the interim, we have revisited all transactions that have posted thus far in FY 2016 to ensure all documentation is uploaded and tied to the accompanying transaction. LDR is committed to implementation of the necessary controls over the LaCarte program. We assert that we have made significant improvements and will continue to do so.

Please feel free to reach out to our agency for any additional information or clarification is required by your office.

Sincerely,

Tim Barfield
Secretary

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BOBBY JINDAL
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TIM BARFIELD
Secretary

State of Louisiana
Department of Revenue

December 11, 2015

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70804

RE: Inadequate Preparation of the Annual Fiscal Report

Dear Mr. Purpera:

The management team of the Department of Revenue understands the importance of accurate financial reporting. This would include the preparation of the Annual Fiscal Report and accompanying notes, schedules and exhibits.

The agency concurs with the finding and recognizes that additional time must be made for the review and analysis of this report. In addition, training will be provided for those relatively new to their roles. The agency wishes to point out that the Attorney General's office was informed on August 11, 2015 of the $7,172,097.65 final judgement amount rendered prior to June 30, 2015 that was not appropriated in 2015 Legislative Session.

The agency will implement a corrective action plan to address these errors and to ensure they will not happen in the future. In addition to internal due dates for reports from divisions with contributions to the AFR will moved up in due date to allow for additional time to review the AFR. Director level meetings will be arranged with contributing divisions to review source documentation. In order to improve the review function of the end of year close out, all applicable detail used or created by participating divisions to determine specific balances will be provided to specific accountants to review the documentation pertaining to their area of responsibility. Assigned individuals for the corrective action plan, as it relates to Litigation and Financial Reporting, are respectively Antonio Ferachi and Theresa Chatelain.

Please feel free to reach out to our agency for any additional information or clarification is required by your office.

Sincerely,

Tim Barfield
Secretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Revenue (LDR) for the period from July 1, 2014, through June 30, 2015, to provide assurances on financial information significant to the state of Louisiana's Comprehensive Annual Financial Report (CAFR) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2015.

- We evaluated LDR'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 LDR.

- Based on the documentation of LDR's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on LDR's account balances and classes of transactions to support the opinions on the CAFR.

- We compared the most current and prior-year financial activity using LDR's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from LDR management for significant variances.

The purpose of this report is solely to describe the scope of our work at LDR and not to provide an opinion on the effectiveness of LDR'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 purposes.

We did not audit or review LDR's Annual Fiscal Report, and, accordingly, we do not express an opinion on that report. LDR's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.