

LOUISIANA DEPARTMENT OF REVENUE

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Management Letter
Issued February 7, 2024

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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BATON ROUGE, LOUISIANA 70804-9397**

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MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
BETH Q. DAVIS, CPA

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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Louisiana Department of Revenue



February 2024

Audit Control # 80230032

Introduction

As a part of our audit of the State of Louisiana's Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2023, we performed procedures at the Louisiana Department of Revenue (LDR) to provide assurances on financial information that is significant to the state's Annual Comprehensive Financial Report; 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 also determined whether management has taken actions to correct the findings reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year findings reported in the LDR management letter dated March 1, 2023. We determined that management has resolved the prior-year finding related to Inadequate Preparation of Annual Fiscal Report. The prior-year finding related to Inadequate Controls over Payroll has not been resolved and is addressed again in this letter.

Current-year Finding

Inadequate Controls over Payroll

For the second consecutive year, LDR did not maintain adequate controls over payroll processing, which resulted in untimely or lack of certification of time statements by employees and untimely or lack of approval of time statements by supervisors. Failure to ensure that employees and supervisors are timely certifying and approving time statements increases the risk that errors and/or fraud could occur and not be detected in a timely manner.

Our review of system reports for the period January 9, 2023, through June 30, 2023, identified the following exceptions:

- Of 6,899 time statements for the period under review for timely certification:
 - 280 (4.06%) were certified by employees between 1 and 83 days after the payroll posting date, and
 - 141 (2.04%) were not certified by employees.
- Of 6,927 time statements for the period under review for timely approval:
 - 856 (12.36%) were approved by supervisors between 1 and 114 days after the payroll posting date, and
 - 209 (3.02%) were not approved by supervisors.

LDR did not adhere to controls over payroll related to the certification and approval of time statements. LDR's payroll policies and procedures require employees to certify and supervisors to approve time sheets in the time and attendance application, Cross Application Time Sheet, and it requires time keepers to monitor the e-certification process.

LDR management should ensure employees comply with existing policies and procedures, including properly certifying and approving time sheets in a timely manner. In cases where employees are unable to certify and/or approve timesheets by the required deadlines, management should ensure proper certifications, approvals, and retroactive adjustments are done as soon as the employee returns to work or is able to complete the task. Management indicated concurrence with the finding and provided a corrective action plan (see Appendix A).

Annual Comprehensive Financial Report – State of Louisiana

As a part of our audit of the Annual Comprehensive Financial Report for the year ended June 30, 2023, we considered internal control 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 - Modified Accrual Receivables on the revenues listed above and Full Accrual Receivables in the aggregate

Note Disclosures - Refunds Payable and Tax Abatement Programs

We also evaluated certain controls and compliance related to payroll at LDR.

Based on the results of these procedures, we reported the finding relating to Inadequate Controls over Payroll, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

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's management for any significant variances.

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of LDR. The nature of the recommendation, its implementation costs, and its 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,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

WSN:EBT:BH:BQD:aa

LDR2023

APPENDIX A: MANAGEMENT'S RESPONSE

State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor



KEVIN J. RICHARD, CPA
Secretary

December 22, 2023

Via Email Only, to: Ethornton@lla.la.gov; elizabeth.thornton@la.gov

Mr. Michael J. "Mike" Waguespack CPA
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Louisiana Department of Revenue's (LDR) Response to LLA's Audit
Lack of Adequate Controls over Payroll Certification Process

Dear Mr. Waguespack:

In a letter dated November 30, 2023, the office of the Louisiana Legislative Auditor (LLA) notified LDR of the results of your office's follow-up audit of LDR's payroll certification process. LDR reviewed the information and provides its responses below.

Inadequate Controls Over Payroll Certification Process	
Description	LDR did not maintain adequate controls over payroll processing
LLA's Recommendation	<ul style="list-style-type: none">LDR management should ensure employees comply with existing policies and procedures, including properly certifying and approving time sheets in a timely manner.In cases where employees are unable to certify and/or approve timesheets by the required deadlines, management should ensure proper certifications, approvals, and retroactive adjustments are done as soon as the employee returns to work or is able to complete the task.

While the LLA shares a conclusory statement and broad recommendations regarding its finding, it did not specify whether its focus was the percentage of untimely certifications or the number of days of untimely certifications. So, for purposes of this response and the actions outlined herein, LDR will move forward to address both the percentage of untimely certifications and the number of days of untimely certifications.

In LDR's 2022 response it outlined the following situations that impact an employee's ability to timely certify payroll. Those situations include but are not limited to:

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- Absence(s) due to authorized annual, sick, family medical leave act (FMLA) or other leave from the office;
- Absence(s) due to an employee on a scheduled day off per his authorized work schedule;
- Student and/or part-time employees who had no work hours entered for a specified payroll period;
- Employee separation/termination during the payroll period (So, the now “former employee” no longer has system access); and,
- Payroll certification due on a day when an office closure occurs.

Next, LDR’s 2022 response outlined a two (2) pronged approach to address the situations outlined above. The approach is summarized below as a refresher.

1. In March 2022, LDR began requiring all timekeepers to send email reminders to their assigned employees and supervisors regarding payroll certification and/or approval deadlines. To supplement this requirement,
 - a. On December 26, 2022, HR employees began running a report each payroll period to check the status of time certifications and list any outstanding certifications and/or approvals.
 - b. HR shared the report with management to enable additional certification and/or approval email reminders to be sent.
2. By December 31, 2022, LDR updated its time keeper manual with the process updates discussed in the first prong.

In addition to these steps, LDR’s Internal Audit division also completed its own audit of LDR’s payroll certification process, which assisted LDR in monitoring its progress.

Despite taking these steps, LDR was notified that its supervisors untimely (after the payroll posting date-between 1-112 days) approved 12.36% of the 6,927 LDR time statements that were reviewed. So, LDR will continue performing division level reviews of time statements, via its Internal Audit division; and, it will complete the following steps by the end of the payroll period one (1) of 2024.

1. Update its timekeeper manual;
2. Send a pdf copy of the updated manual to all LDR timekeepers;
3. Post a copy of the updated manual on LDR’s MyLDR site; and,

4. Send a memo to all LDR employees sharing information from the updated manual and letting them know where a copy of the updated manual can be found.

In further detail, LDR's timekeeper manual updates will include notifications to:

a. Employees:

- i. In the event an employee is absent from work, the employee should certify his time as soon as reasonably possible when he returns to work and include a comment in the "Employee Remark" section indicating the reason for his untimely certification.
- ii. Comments available for use are as follows:
 - Late due to continuous FMLA
 - Late due to approved leave
 - Late due to office closure
 - Did not work in pay period XX (for use for WAE, student worker and LWOP employee)

b. Supervisors:

- i. If an employee is unavailable to certify his time record, his supervisor should approve/decline the employee's time statement before the employee has taken action.
- ii. In addition to approving/declining the time statement, the supervisor should also include a comment in the "Approver Remark" section as to why the supervisor has approved/declined the employee's time statement prior to the employee's action.
- iii. Comments available for use are as follows:
 - Employee out on continuous FMLA
 - Employee Separated on **/**/****
 - Employee out on approved leave
 - Employee not available during office closure
 - Employee did not work in pay period XX (for use for WAE, student worker and LWOP employee)

In closing, LDR believes its actions will resolve the issues discussed by your office and prevent similar issues from developing in the future. Should you have any questions or require additional information, please feel free to contact me.

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Letter to: Mike Waguespack, CPA
Re: LDR Response-Lack of Adequate Controls
Over Payroll Certification Process
December 22, 2023
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Sincerely,



Kevin Richard
Secretary
Louisiana Department of Revenue

cc: Elizabeth Thornton, Audit Manager, Legislative Auditor's Office
Lisa Landaiche, Senior Financial Auditor, Legislative Auditor's Office
Mia Strong, Confidential Assistant to the Secretary, Louisiana Department of Revenue
Benjamin Spears, Director, Internal Audit Division, Louisiana Department of Revenue
Sophia Pipsair, Director, Human Resources Division, Louisiana Department of Revenue
Shone Pierre, General Counsel, Louisiana Department of Revenue
Laura Lapeze, Undersecretary, Louisiana Department of Revenue
Luke Morris, Deputy Secretary, Louisiana Department of Revenue

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APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Revenue (LDR) for the period from July 1, 2022, through June 30, 2023, to provide assurances on financial information significant to the State of Louisiana's Annual Comprehensive Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana for the year ended June 30, 2023.

- 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 certain account balances and classes of transactions to support our opinions on the Annual Comprehensive Financial Report.
- 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's 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 Annual Comprehensive Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.