

LOUISIANA TAX COMMISSION
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JUNE 7, 2017

**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

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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.55. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3475 or Report ID No. 80170018 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana Tax Commission



June 2017

Audit Control # 80170018

Introduction

The primary purpose of our procedures at the Louisiana Tax Commission (LTC) was to evaluate certain controls that LTC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

The mission of LTC is to serve Louisiana taxpayers fairly and with integrity by administering property tax laws.

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, we performed procedures on selected controls and transactions relating to travel expenditures, professional service contracts, revenues and receivables, and movable property. We also prepared a summary of assessment fees by year for the last five fiscal years.

Current-year Findings

Inadequate Controls over Collection of Change Order Fees

LTC did not have an adequate process for collecting change order fees (fees) from local tax assessors (assessors), resulting in the inconsistent collection and remittance of fees on change orders by assessors and possible loss of revenues to the state. Although the Louisiana Administrative Code provides for LTC to collect a \$20 fee for the filing of late change orders for reduced assessments, management has not formally defined the types of change orders this fee is applicable to and represented to auditors that no guidance has been provided to assessors to ensure consistency of collection on these fees. LTC asserted that the fee is only applicable to business personal property and not real estate, but did not provide evidence to support this assertion.

We identified inconsistencies statewide with the collection of fees among the 67 reporting units in fiscal year 2017 for the 64 assessors in the state. During the period July 1, 2016, through December 31, 2016, 46 reporting units did not remit any fees for business personal property

change order requests, and three remitted fees associated with real estate change order requests, which would not require a fee according to LTC.

We also reviewed 20 of 413 change orders submitted to LTC by assessors that included payment information (check number and amount) indicating fees were collected and due to LTC. As of February 23, 2017 (the date of our test), LTC had not received the fees collected for two (10%) of the 20 change orders approved by LTC, and the days lapsed from the date the change orders were approved ranged from 42 to 211.

Louisiana Administrative Code Title 61, Part V, Chapter 35, Section 3501(D) (4) states that a \$20 fee is to be levied for the filing of late Louisiana Ad Valorem Tax (LAT) forms on amended renditions for reduced assessments. LAT forms are used to request changes to assessments for business personal property, real estate, and the homestead exemption.

Management should provide assessors with written guidance for collecting fees on change order requests. Management should also ensure that change orders submitted without payment are not processed and approved until payment is received. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Inadequate Controls over Depositing Checks

LTC did not timely deposit checks received for fees related to audits, assessments, and change orders, increasing the risk of loss due to error or fraud. In a review of 30 checks, all checks were deposited between seven and 84 days after receipt by LTC. 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.

Management should establish procedures to ensure that all fee revenue received is deposited timely. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Other Results of Our Procedures

Travel Expenditures

LTC has two controlled billed accounts (CBA) for airfare, hotels, 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, 2016, through January 31, 2017, to identify any unusual or risky transactions. We reviewed the selected transactions and determined that LTC had adequate controls to ensure that expenditures were properly approved and made for proper business purpose; sufficient documentation was maintained to support the expenditure; and there was evidence of review by accounting.

Professional Service Contracts

We obtained an understanding of LTC's procedures and controls over procurement of professional services. LTC had four professional service contracts for legal and consulting services. We examined the largest contract 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 expenditures of public funds; adequately monitored; and properly coded in the accounting records.

Revenues and Receivables

We reviewed Title 47 of the Louisiana Revised Statutes to identify fees that LTC is authorized to assess and collect, which include assessment fees, change order fees, and audit fees. We performed inquiries and reviewed a sample of assessment fees, change order fees, and audit 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 the collection of fees (see Current-year Finding section).

Movable Property

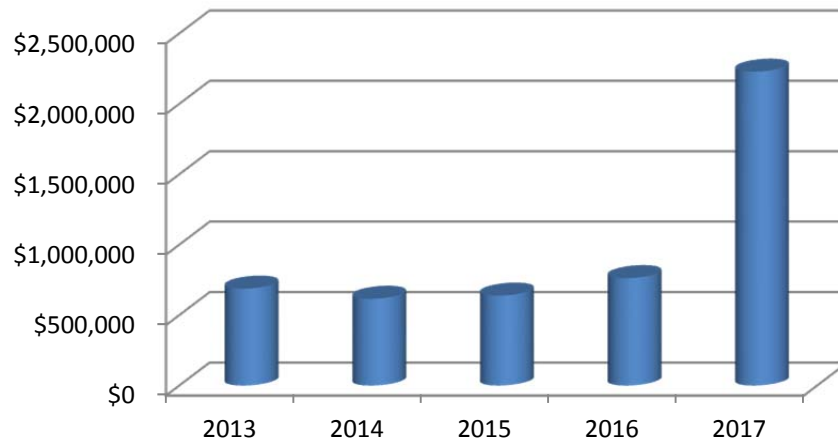
We obtained an understanding of LTC's procedures and controls over movable property. LTC's most recent certification of annual property inventory disclosed an original acquisition cost of \$121,790 as of July 13, 2016, and represents an increase of \$3,043 from the prior-year annual certification. We analyzed acquisition related purchases in fiscal year 2017 to determine if the purchases were properly included or excluded in the state's Asset Management System. Based on the results of our procedures, LTC has adequate controls to ensure that movable property is accurately recorded.

Trend Analysis

We compared the most current and prior-year financial activity using the LTC's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from LTC's management for significant variances that could potentially indicate areas of risk. Management provided reasonable explanations for all significant variances.

We prepared a summary of assessment fees by fiscal year (see Exhibit 1). Assessment fees increased significantly in fiscal year 2017. Under R.S. 47:1838, the fee for the assessment of public service property increased from .01% in fiscal year 2016 to .04% in fiscal year 2017.

Exhibit 1
Assessment Fees by Fiscal Year
(As of April 30, 2017)



Source: Prepared by legislative auditor's staff using agency-generated reports.

Under R.S. 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

VM:EM:BQD:EFS:aa

LTC2017

APPENDIX A: MANAGEMENT'S RESPONSE

Louisiana Tax Commission
State of Louisiana



May 22, 2017

JOHN BEL EDWARDS
Governor

LAWRENCE E. CHEHARDY
Chairman

Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804

Dear Mr. Martin:

We are in receipt of your office's May 8, 2017 letter and enclosed audit findings regarding (1) controls over change order fees and (2) controls over depositing checks. We appreciate your staff's time and effort in reviewing our procedures in these areas and identifying problems concerning them. We generally agree with the findings and have already implemented changes to remedy the problems identified by your staff. As requested, we provide the following as our official response to the findings and recommendations:

(1) **Controls over Collection of Change Order Fees**

The Tax Commission generally concurs with these findings and recommendation. In fact, on March 3, 2017, after discussion with your staff, the Tax Commission disseminated the attached guidance to all Assessors outlining the correct procedure for collecting fees for change order requests. Further, internally, the Tax Commission has revised the change order procedure to ensure that no change order requests are processed until payment, if required, is received.

(2) **Controls over Depositing Checks**

The Tax Commission generally concurs with these findings and recommendation. The Tax Commission has established a procedure to ensure that all checks/fees are timely deposited. Specifically, the Tax Commission's internal policy now requires that staff place deposit slip with any checks received in interoffice mail for pickup and transfer to the Treasury Department for deposit within 24 hours of receipt.

If you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles Abels".

Charles Abels
Administrator

Enclosure

**GUIDANCE ON PROCEDURE FOR COLLECTION OF FEES UNDER LAC
61:V:3501(D)(4)**

Louisiana Administrative Code 61:V:3501(D)(4) provides that a \$20 fee is to be levied for the filing of late LAT forms on amended renditions for reduced assessments, unless the amendment is as a result of error by the assessor's office. It has recently come to the Commission's attention that the fee is not being uniformly and correctly collected, reported, and forwarded to the Commission. The Commission provides this guidance document to better explain the procedure for the collection of the fee.

The \$20 fee shall be collected for any late filed LAT 5 (personal property) forms, which necessitate a change order to reduce the assessment, unless the late filed LAT form is as a result of an error by the assessor's office. The \$20 fee shall not be collected if the change order is necessary as a result of an error by the assessor's office. The \$20 fee shall also not be collected for any other late filed forms or change order requests. The fee should only be levied for late filed personal property forms, unless the late filed form is a result of an error by the assessor's office. You must indicate on the change order request whether the error was by the assessor's office or not. If no indication is selected, the change order request will not be processed. If the change order request indicates that it was not an error by the assessor's office, but the fee is not included with the request, the request will not be processed.

The \$20 fee shall be made payable to the Louisiana Tax Commission and collected at the time of filing said late LAT 5 form. The \$20 fee shall be immediately forwarded to the Louisiana Tax Commission for deposit in accordance with La. Const. Art. 7, Section 9.

APPENDIX B: SCOPE AND METHODOLOGY

We conducted certain procedures at the Louisiana Tax Commission (LTC) for the period from July 1, 2016, through May 31, 2017. Our objective was to evaluate certain internal controls LTC uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds. The scope of our procedures, which are 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 LTC's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. LTC 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 control 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, we performed procedures on selected controls and transactions relating to travel expenditures, professional service contracts, revenues and receivables, and movable property.
- 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 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.