

LOUISIANA DEPARTMENT OF REVENUE

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Management Letter
Issued March 1, 2023

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

LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Louisiana Department of Revenue



March 2023

Audit Control # 80220052

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 (Single Audit) for the fiscal year ended June 30, 2022, 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 determined whether management has taken actions to correct the findings reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the LDR management letter dated April 13, 2022. We determined that management has resolved the prior-year findings related to Weaknesses in Controls over the Gentax System and Noncompliance with Tax Incentive and Exemption Reporting to the State Legislature and the Governor.

Current-year Findings

Inadequate Preparation of the Annual Fiscal Report

LDR incorrectly reported revenue received and accounts receivable balances in its 2022 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 Annual Comprehensive Financial Report (ACFR). Sales, corporate, and individual tax modified revenues were understated by \$39.5 million, and modified receivables were understated by \$32.2 million due to the omission of \$7.3 million of hotel/motel sales tax revenues and \$32.2 million of pending sales, corporate, and individual tax receivables. Management did not identify the omissions noted above during the AFR preparation and review process.

Failure to establish adequate controls increases the risk that errors and omissions may occur and remain undetected resulting in misstatements of the state's ACFR.

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, including 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 ACFR.

Management should perform a thorough review of the AFR, including supplementary schedules, to identify and correct preparation errors and omissions before submitting the reports to OSRAP. Management's response indicated concurrence with the noted errors in the AFR and provided a corrective action plan to prevent these types of errors from occurring in future years (see Appendix A, pages 1-2).

Inadequate Controls over Payroll

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. In addition, LDR did not maintain adequate controls over pre-input procedures when making changes to human resources' (HR) master data. Failure to ensure that employees and supervisors are timely certifying and approving time statements and that changes to HR data are correct increases the risk that errors and/or fraud could occur and not be detected in a timely manner.

Our review of system reports and supporting documentation for the period July 1, 2021, through May 29, 2022, identified the following exceptions:

- Of 14,116 time statements for the period under review:
 - 463 (3.3%) were certified by employees between 1 and 203 days (or an average of 15 days) after the payroll posting date,
 - 374 (2.7%) were not certified by employees,
 - 1,840 (13.0%) were approved by supervisors between 1 and 371 days (or an average of 16 days) after the payroll posting date, and
 - 860 (6.1%) were not approved by supervisors.
- Four of 22 (18.2%) changes to HR master data, including pay changes, were not supported by evidence of review and approval.

LDR did not adhere to controls over payroll related to the certification and approval of time statements or the documentation of review and approval of changes to HR master data. 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. In addition, LDR's HR change entry procedures require supervisor review and approval of changes to HR master data.

LDR management should ensure employees comply with existing policies and procedures, including properly certifying and approving time sheets in a timely manner and review and approval of HR changes. Management indicated concurrence with the finding and provided a corrective action plan (see Appendix A, pages 3-5).

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, 2022, 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 findings related to Inadequate Preparation of the Annual Fiscal Report and Inadequate Controls over Payroll, as described previously. The finding relating to Inadequate Preparation of the Annual Fiscal Report will also be included in the Single Audit for the year ended June 30, 2022. In addition, the account balances and classes of transactions tested, as adjusted, were 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 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,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

LL:EBT:BQD:EFS:aa

LDR2022

APPENDIX A: MANAGEMENT'S RESPONSES

State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor



KEVIN J. RICHARD, CPA
Secretary

December 15, 2022

Via Email Only, to: EThornton@lla.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 the
Office of the Louisiana Legislative Auditor's (LLA)
Inadequate Preparation of the FYE '22 Annual Financial Report (AFR)

Dear Mr. Waguespack:

In a letter dated December 7, 2022, the LLA notified LDR of the results of your office's audit of LDR's FYE '22 AFR. In overall summary of its audit findings, the LLA stated,

The Louisiana Department of Revenue (LDR) incorrectly reported revenue received and accounts receivable balances in its 2022 Annual Fiscal Report (AFR), which is used by the Division (DOA), the Office of State Reporting and Accounting Policy (OSRAP) to compile the state of Louisiana's Annual Comprehensive Financial Report (ACFR). Sales, corporate, and individual tax modified revenues were understated by \$39.5 million and modified receivables were understated by \$32.2 million due to the omission of \$7.3 million of hotel/motel sales tax revenues and \$32.2 million of pending sales, corporate, and individual tax receivables.

LDR reviewed the information and provides its response below.

Inadequate Preparation of the AFR	
Description	\$7.3 million of hotel/motel sales tax revenues and \$32.2 million of pending sales, corporate, and individual tax receivables were omitted from the AFR.
LLA's Recommendation	Management should perform a thorough review of the AFR, including supplementary schedules, to identify and correct preparation errors and omissions before submitting the reports to OSRAP.

While LDR agrees with the LLA's mathematical calculations and the effect(s) of an omission, LDR determined the \$7.3 million reported omission of hotel/motel sales tax revenues (from February 2022-March 2022) make up only .17% of the total amount allocated to the State General Fund. Moreover, the reported \$32.2 million of omitted agency account receivables (from July 1, 2022-August 14, 2022) involve only .27% of the total allocated to various funds. In short, the small percentage these amounts represent show minor financial miscalculations occurred rather than a pervasive issue of fraud, or intentional falsification or misrepresentation of LDR's FYE '22 AFR.

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With that said, LDR recognizes and strongly agrees a thorough review of LDR's AFR, including supplementary schedules, should be performed to identify and correct preparation errors and omissions before submission of LDR's AFR to OSRAP. As a result, LDR will implement additional procedures during and after the completion of its AFR to mitigate the issues identified in the LLA's aforementioned audit. More specifically, by the issuance of the AFR for fiscal year 2022-23, LDR will:

1. Assign a dedicated analytical resource in the Office of Management and Finance to facilitate the evaluation of all AFR system reports.
2. Retest and validate each AFR system report to minimize manual adjustments of the system-generated numbers.
3. Confirm Office of Technology Services (OTS) programming resources have been shifted to manage designated priorities on AFR report fixes where needed, and recurring working sessions are in place to define those changes.
4. Monitor on a weekly basis any new system intervention occurrences.

In closing, LDR believes its proposed actions will resolve any current issues related to these findings and also prevent further substantially similar issues from developing in the future. Should you have any questions or require additional information, please feel free to contact me.

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
Stewart Zachery, Accountant Administrator 4, Financial Services Division, Louisiana Department of Revenue
Benjamin Spears, Revenue Tax Director, Internal Audit Division, Louisiana Department of Revenue
Shone Pierre, General Counsel, Louisiana Department of Revenue
Redmond Saunier, Deputy Undersecretary, Louisiana Department of Revenue
Laura Lapeze, Undersecretary, Louisiana Department of Revenue
Luke Morris, Deputy Secretary, Louisiana Department of Revenue

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State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor



KEVIN J. RICHARD, CPA
Secretary

December 2, 2022

Via Email Only, to: Ethronton@lla.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 18, 2022, the office of the Louisiana Legislative Auditor (LLA) notified LDR of the results of your office's audit of the LAGOV system and LDR's related payroll certification process. LDR reviewed the information and provides its responses below. For your convenience, these responses are presented in the order each issue was listed in the LLA's letter.

Inadequate Controls Over Payroll Certification Process	
Description	LDR did not maintain adequate controls over: (a) payroll processing and (b) pre-input procedures when making changes to human resources' (HR) master data.
LLA's Recommendation	LDR management should ensure employees comply with existing policies and procedures, including properly certifying and approving time sheets in a timely manner and review and approval of HR changes.

During the audit, your office recognized that LDR's current policy requires its employees to certify and supervisors to approve time sheets in the time and attendance application, Cross Application Time Sheet (CATS), and it requires time keepers to monitor the e-certification process. It was also recognized that LDR's HR change entry procedures require supervisor review and approval of changes to HR master data. These policies are embodied in LDR's time keeper manual, which outlines frequently used payroll procedures and practices, and is used by LDR's timekeepers to perform the various payroll duties that are assigned to them. Considering these recognized facts, LDR believes a more concise summary of its cited error is that, its current time keeper manual does not specifically list procedures to specifically address situations that prevent employees and/or supervisors ("LDR employees") from timely certifying payroll and/or amending time entries (though LDR does have practical procedures in place to handle these situations).

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For clarity, situations that may impact a LDR employee's ability to timely certify payroll and/or amend time entries include but are not limited to:

- 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.

To address the situations highlighted above (including other unforeseen situations) and to ensure LDR prevents potential occurrences of payroll fraud, LDR has and will complete and/or implement a two pronged approach.

The first prong involves shoring up LDR's processes that are at issue. To do so, LDR, in March 2022, 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, beginning on December 26, 2022 with Pay Period 1 (which includes the dates of 12/26/2022-1/8/2023), HR employees will run a report during a specific week of each pay period that will check the status of time certifications and list any outstanding certifications and/or approvals. HR will then share the report with management to enable additional certification and/or approval email reminders to be sent. Meanwhile, the second prong is an update of LDR's time keeper manual with the process updates discussed in the first prong. This update will be completed by December 31, 2022.

In closing, LDR believes its upcoming actions will: (a) ensure LDR has written information (not just an unwritten practice) in place, (b) minimize any opportunity or potential for fraud via the payroll certification process, (c) resolve any current issues related to these findings and (d) prevent further substantially similar issues from developing in the future. Should you have any questions or require additional information, please feel free to contact me.

Sincerely,



Kevin Richard
Secretary
Louisiana Department of Revenue

Letter to: Mike Waguespack, CPA
Re: LDR Response-Lack of Adequate Controls
Over Payroll Certification Process
December 2, 2022
Page 3 of 3

cc: Elizabeth Thronton, 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, 2021, through June 30, 2022, 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 (Single Audit) for the year ended June 30, 2022.

- 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.