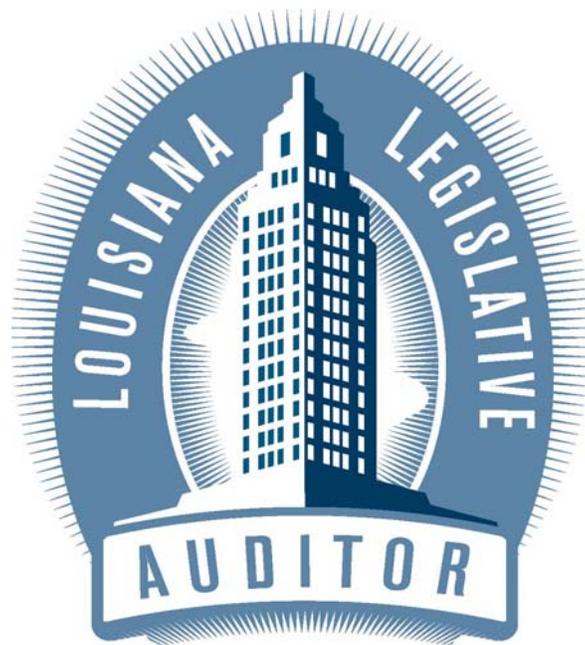


DEPARTMENT OF REVENUE
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 22, 2009

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

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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 has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$13.80. 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 Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3359 or Report ID No. 80080027 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 Wayne “Skip” Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 17, 2009

**DEPARTMENT OF REVENUE
STATE OF LOUISIANA**

Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2008, we considered the Department of Revenue's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements as required by *Government Auditing Standards*.

The Annual Fiscal Report of the Department of Revenue is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Revenue for the year ended June 30, 2007, we reported findings relating to an inaccurate annual fiscal report, deficiency in the disaster recovery/business continuity plan, and inadequate controls over tax allocations to the Sports Facility Assistance Fund. The findings related to the deficiency in the disaster recovery/business continuity plan and the inadequate controls over tax allocations to the Sports Facility Assistance Fund have been resolved by management. The finding related to an inaccurate annual fiscal report has not been resolved by management and is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. The finding included in this management letter that is required to be reported by *Government Auditing Standards* has also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

Inaccurate Annual Fiscal Report

For the second consecutive year, the Louisiana Department of Revenue (LDR) did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration for the year ended June 30, 2008. As authorized by Louisiana Revised Statute 39:79, the

commissioner of administration, through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP), prescribes the content and format for preparing each agency's AFR, which is then used in compiling the state's Comprehensive Annual Financial Report (CAFR). Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, LDR's AFR submitted to OSRAP on August 29, 2008, included the following errors:

- Net receivables per Schedule 14 were understated by \$28 million.
- Net refunds payable per note BB were overstated by \$32 million.
- Net revenues were understated by \$60 million.

LDR management has not ensured that reports from its claims processing system that support the amounts in the AFR are properly designed, and management has not ensured that its AFR was properly prepared and reviewed for errors. Failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR. Furthermore, misstatements from errors or fraud may occur and remain undetected.

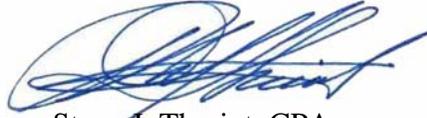
LDR management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP. Management concurred in part with the finding and recommendations and outlined a plan of corrective action and stated, "The impact of the understatement of Net Revenues on the financial report was approximately six-tenths-of-one-percent of the \$9.1 billion dollars in cash deposits accounted for by the Department of Revenue. Rarely are miscalculations of this nature ever considered material enough to warrant any type of notification to the user of the financial data."

Additional Comment: We agree that the understatement of net revenues is approximately 0.65% of cash deposits for LDR. However, the overstatement of net refunds payable and the understatement of net receivables represented 20.1% of total long-term refunds payable and 3.9% of net receivables, respectively, reported in the note disclosures in LDR's AFR. Management of LDR is responsible for ensuring that adequate internal controls over the preparation and review of its AFR are in place and operating effectively, enabling management to identify and correct errors such as those identified above. However, those errors were not detected by management's review of LDR's AFR, and we believe that this deficiency in internal control results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended solely for the information and use of the department and its management, others within the department, and the Louisiana State Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Steve J. Theriot", is written over a horizontal line.

Steve J. Theriot, CPA
Legislative Auditor

EMS:CGEW:BQD:THC:sr

REVENUE08

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Management's Corrective Action
Plan and Response to the
Finding and Recommendations

BOBBY JINDAL
Governor



CYNTHIA BRIDGES
Secretary

State of Louisiana
Department of Revenue

February 20, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Inaccurate Annual Fiscal Report

Dear Mr. Theriot:

The Louisiana Department of Revenue concurs in part with your finding that the agency submitted an "Inaccurate Annual Fiscal Report." Basically, we agree with your finding in that Net Refunds Payable were overstated by \$32 million; Net Receivables were understated by \$28 million; and Net Revenues were understated by \$60 million. Our concurrence in part is due primarily to statements in the finding suggesting that "management has not ensured that reports from its claims processing system that support the amounts in the AFR are properly designed, and management has not ensured that its AFR was properly prepared and reviewed for errors."

LDR management accepts full responsibility for all errors reported in its financial reports. However, when unintentional errors occur (similar to those identified in the finding), they should be presented in the appropriate perspective. The inaccuracies noted in the finding are primarily the result of errors in calculation and/or oversight during compilation. As it relates to the overstatement of Net Refunds and understatement of Net Receivables, the amounts reported in the financials are the result of several computations and data from a number of reports. These errors are inadvertent and occurred as a result of an oversight by our Financial Services' staff. The impact of the understatement of Net Revenues on the financial report was approximately six-tenths-of-one-percent of the \$9.1 billion dollars in cash deposits accounted for by the Department of Revenue. Rarely are miscalculations of this nature ever considered material enough to warrant any type of notification to the user of the financial data.

As a result of your finding, however, we have reviewed our compilation and review processes. Specifically, procedures have been added to reduce, and hopefully eliminate, errors like those noted in your finding. LDR management believes that reports from our claims system are

Contributing to a better quality of life.

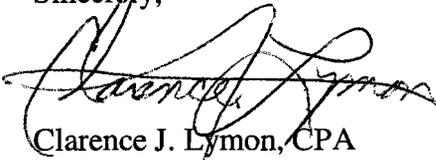
Mr. Steve J. Theriot
February 20, 2009
Page 2

accurately designed. Nevertheless, we recognize the benefits associated with continuously evaluating and improving our processes and systems and are committed to this principle.

As is customary, consideration will also be given to the findings' specific recommendations as we review the process for possible improvements. We invite and encourage your staff to offer any recommendations they may have for improving our procedures.

The LDR staff member responsible for the improvements mentioned above is Joyce Anderson, Controller.

Sincerely,

A handwritten signature in black ink, appearing to read "Clarence J. Lymon". The signature is fluid and cursive, written over a horizontal line.

Clarence J. Lymon, CPA
Undersecretary

CL/kb

c: Cynthia Bridges
Joyce Anderson
Mark Ott
Phyllis Perry