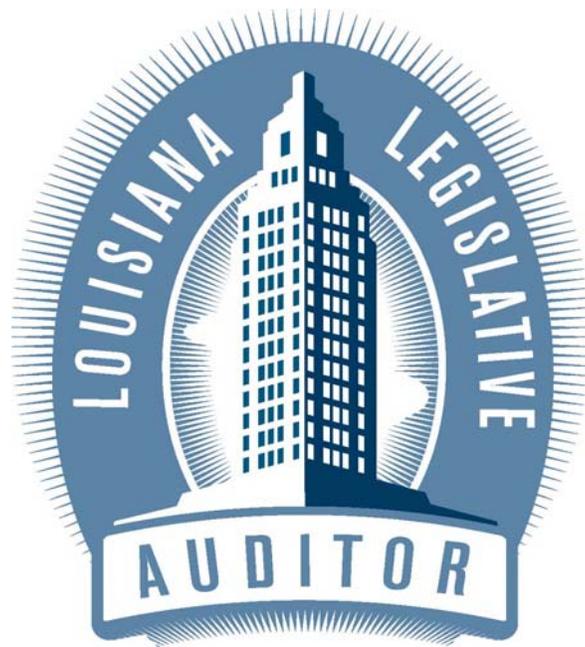


DEPARTMENT OF REVENUE
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED JUNE 9, 2010

**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 \$15.85. 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. 80090074 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, Administration Manager, at 225-339-3800.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 6, 2010

**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, 2009, 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, 2008, we reported a finding related to an inaccurate annual fiscal report. This finding 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 is also required to be reported by *Government Auditing Standards* and has been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

Inaccurate Annual Fiscal Report

For the third consecutive year, the Louisiana Department of Revenue (LDR) did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration. 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 the preparation of each agency's

AFR, which is then used in the compilation of 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. Our audit procedures disclosed that net refunds payable reported in note CC of the AFR for the fiscal year ended June 30, 2009, which was submitted to OSRAP on August 28, 2009, were overstated by \$25 million.

Although we noted that LDR had made significant improvements in the preparation and review of its financial statements and related note disclosures, LDR did not ensure that refunds payable information obtained by its Financial Services Division from other divisions was accurate. Failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR. Furthermore, misstatements from errors and/or fraud may occur and remain undetected. Management should strengthen its control procedures designed to ensure that its AFR is accurately prepared and adequately reviewed for errors.

Management concurred in part with the finding and recommendation and outlined a plan of corrective action. In its response, management stated that the finding suggests the entire AFR as submitted was inaccurate, and explained that the reported error was the result of a single transaction that was incorrectly recorded on a compilation worksheet, resulting in "a 7.8% overstatement of refunds due to taxpayers." (See Appendix A.)

Additional Comments: We agree that the error was limited to the overstatement of refunds due to taxpayers, which represented 7.8% of total refunds due. 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 the one identified above. Because this error was not detected by management's review of LDR's AFR, we believe that this is indicative of a significant control deficiency that could result in additional future misstatements if the controls over financial reporting are not improved.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying 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.

In addition, we have included Budgetary Comparison Schedules, which were prepared from the AFRs of the LDR and from additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. The schedules are presented as additional information but have not been subjected to auditing procedures.

This letter is intended solely for the information and use of the department and its management, others within the department, and the Louisiana 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 "Daryl G. Purpera".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

EMS:CGEW:BQD:THC:ja

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_____ BUDGETARY COMPARISON SCHEDULES (UNAUDITED)

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UNAUDITED

**DEPARTMENT OF REVENUE AND TAXATION
AGENCY 440 - OFFICE OF REVENUE**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$15,951,172		\$15,951,172	\$15,951,172	
Federal aid	394,000		394,000	394,000	
General fund - fees & self-generated	121,183,683		121,183,683	80,115,751	\$41,067,932
General fund - interagency transfer (IAT)	771,919		771,919	813,997	(42,078)
Tobacco regulation enforcement	756,710		756,710	998,308	(241,598)
Total Appropriated Revenues	\$139,057,484	NONE	\$139,057,484	\$98,273,228	\$40,784,256

APPROPRIATED EXPENDITURES:

	TAX COLLECTION	ALCOHOL AND TOBACCO CONTROL	OFFICE OF CHARITABLE GAMING	ACT 672 & HIRING FREEZE	TOTAL
Salaries	\$35,725,404	\$3,564,547	\$919,488		\$40,209,439
Other compensation	2,538,195	46,462	3,646		2,588,303
Related benefits	14,072,804	1,133,978	282,348		15,489,130
Travel & training	917,316	55,087	12,531		984,934
Operating services	7,843,684	785,056	190,377		8,819,117
Supplies	336,302	24,500	6,430		367,232
Professional services	3,885,733	152,028			4,037,761
Other charges	6,139,950	31,731			6,171,681
Capital outlay	2,743,781	317,858			3,061,639
Interagency transfers	9,241,198	115,837	65,911		9,422,946
Total appropriated expenditures before adjustments	83,444,367	6,227,084	1,480,731	NONE	91,152,182
System adjustments	(16,685)	(6,925)			(23,610)
Total Appropriated Expenditures	83,427,682	6,220,159	1,480,731	NONE	91,128,572
Revised Budget	89,650,264	6,879,665	1,523,190	\$220,109	98,273,228
Variance Favorable (Unfavorable)	\$6,222,582	\$659,506	\$42,459	\$220,109	\$7,144,656

Note: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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UNAUDITED

**DEPARTMENT OF REVENUE AND TAXATION
AGENCY 441 - LOUISIANA TAX COMMISSION**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$2,980,634		\$2,980,634	\$2,980,634	
General fund - interagency transfer (IAT)	1,214,325		1,214,325	\$1,214,325	
La tax comm - tax comm exp fund	864,610		864,610	\$868,161	(\$3,551)
2004 overcollection fund	77,385		77,385	\$77,385	
Total Appropriated Revenues	\$5,136,954	NONE	\$5,136,954	\$5,140,505	(\$3,551)

APPROPRIATED EXPENDITURES:

	PROPERTY TAXATION REG/OVERSGHT	SUPR & ASST TO LOCAL ASSESSORS	TOTAL
Salaries	\$2,258,404		\$2,258,404
Related benefits	809,236		809,236
Travel & training	173,492		173,492
Operating services	271,844		271,844
Supplies	20,624		20,624
Professional services	1,410,682		1,410,682
Other charges	26,430	\$49,900	76,330
Capital outlay	62,010		62,010
IAT	54,332		54,332
Total appropriated expenditures before adjustments	5,087,054	49,900	5,136,954
System adjustments	(330)		(330)
Total Appropriated Expenditures	5,086,724	49,900	5,136,624
Revised Budget	5,090,605	49,900	5,140,505
Variance Favorable (Unfavorable)	\$3,881	NONE	\$3,881

Note: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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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

January 28, 2010

Mr. Daryl G. Purpera, CPA
Temporary Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Inaccurate Annual Fiscal Report

Dear Mr. Purpera:

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 was overstated by \$25 million in Note CC of the Annual Financial Report (AFR) for fiscal year ending June 30, 2009. The overstatement was due to a single transaction that was recorded incorrectly on a worksheet used in compiling the data reported in the note contained in the AFR. We have strengthened our control, preparation and review procedures to avoid this and other errors in the future.

Our concurrence in part is due primarily to statements in the finding that suggest the entire AFR as submitted was inaccurate. Respectfully, we request that the finding be presented in the appropriate context in relation to the accumulation of data contained in the AFR. As mentioned, the inaccuracy reported in the finding was due to the incorrect recording of a single transaction on a worksheet. As a result, LDR overstated the amount recorded in Note CC – Refunds Payable in our AFR. The impact of the error resulted in a 7.8% overstatement of refunds due to taxpayers.

LDR management accepts full responsibility for all errors reported in its financial reports. We also review our compilation process and procedures periodically in an effort to avoid reporting errors in our financials. However, an error should also be presented in the proper perspective to ensure that the users of the data are not misled about the overall accuracy of the information being reported.

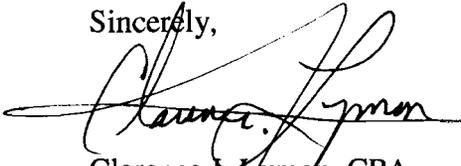
Contributing to a better quality of life.

Mr. Daryl G. Purpera
January 28, 2010
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As a result of your finding and our customary procedures, 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. We embrace and recognize the benefits associated with continuously improving our processes and are committed to this principle. We invite and encourage your staff to continue offering recommendations for improving our procedures.

The LDR staff member responsible for the corrective action mentioned above is Joyce Anderson, Director of Financial Services.

Sincerely,

A handwritten signature in black ink, appearing to read "Clarence J. Lyman". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Clarence J. Lyman, CPA
Undersecretary

CL/kb

c: Cynthia Bridges
Joyce Anderson
Phyllis Perry