

DEPARTMENT OF REVENUE
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 6, 2005

**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. Three copies of this public document were produced at an approximate cost of \$7.44. 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.state.la.us. When contacting the office, you may refer to Agency ID No. 3359 or Report ID No. 04802642 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.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

March 17, 2005

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, 2004, 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, 2003, we reported nine findings. The current year status of these findings is listed below.

Resolved by Management

- Lack of Control Within On-line Error Resolution (OLER) System
- Weaknesses in Controls Over Protested Tax Balances
- Insufficient Collection Effort for Taxes Owed
- Insufficient Control Over Refund Approval Process
- Tax Collections Not Deposited Timely
- Incorrect Deposit of Monies Into the Sports Facility Assistance Fund

Not Resolved by Management

- Weaknesses in GenTax System
- Information Systems Control Weaknesses
- Financial Statement Information Not Properly Prepared

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2004.

Weaknesses in the GenTax System

For the second consecutive year, the Department of Revenue does not have sufficient internal control over the tax accounting system (GenTax) functions, which could affect the integrity of processing, financial data, and financial reporting. Good internal control requires that the system has adequate written policies and procedures, adequate written system documentation, and adequate input, processing, and output controls. Furthermore, good information system (IS) general and application controls are necessary to preserve the integrity of the system, to provide reliance on the results produced by the system, and to ensure that the processing of transactions is performed in accordance with laws and regulations and with management's design and intent. For the fiscal year ended June 30, 2004, GenTax processed over \$2 billion of tax collections, as well as other transactions.

During a review of the GenTax system for the fiscal year ended June 30, 2004, the following control deficiencies were noted:

- The department does not have formal written policies and procedures to control changes made to the GenTax system. These policies and procedures are necessary to ensure that system modifications made by department and third-party IS personnel are adequately designed, documented, tested, approved, and migrated into the system. The department's lack of policies and procedures caused programming errors in system-generated financial data reports that caused net taxes receivable in the department's Annual Fiscal Report to be misstated by \$85.8 million.
- The department does not have adequate, written documentation in a user-friendly format that clearly explains business requirements, system controls, data flow, system reports, and the results of tests performed during the implementation of the GenTax system. The lack of adequate system documentation limits the ability to independently verify that GenTax is processing tax transactions in accordance with laws and regulations and is producing accurate financial data and reports.

- The department has not established sufficient controls over handling a suspense account in the GenTax system. The Operations Division created a dummy taxpayer account to function as a suspense account to hold payments and returns that cannot be posted immediately to the correct taxpayer accounts. A total of over \$5 million has been processed through this dummy taxpayer account. Without sufficient controls, this account could be manipulated by the Director of Operations or numerous other employees who have access to taxpayer accounts.

These conditions occurred because the department is implementing the GenTax system in phases over a three-year period and has not placed sufficient emphasis on documentation and controls. As a result, there is a risk that GenTax programs and data could be accessed and modified without proper authorization, review, and approval and that errors or fraud could occur and not be detected.

Management should establish adequate controls over the GenTax System and processes to ensure the integrity of programs, processing, and data. Management concurred, in part, with the finding and outlined a corrective action plan. See Appendix A, pages 1-3.

Information System Control Weaknesses

The Department of Revenue has internal control weaknesses relating to the access and monitoring of its information systems (IS). Good internal control ensures that access to hardware, software, and data be limited to the business need of employees; authorized users are assigned individual user IDs; system logs are effectively monitored; and security policies, procedures, and controls are subject to a periodic audit.

During a review of the department's IS security for the fiscal year ended June 30, 2004, the following control deficiencies were noted:

- IS programming personnel have access to production software and hardware within the department's Data Control center and at the department's offsite operations at the Department of Public Safety.
- One database administrator is also an authorized system administrator. This combination of access rights grants to one individual the power to alter virtually anything in the GenTax system.
- A single user ID for the structured query language (SQL) server used for all GenTax database servers is shared among several database administrators.
- A single user ID and password for providing access to the firewall is shared by more than one administrator.

- Procedures have not been established for the review of security and system logs to detect security violations and/or inappropriate systems activity.
- The department does not have an effective IS audit function. An adequate system of internal control should include periodic reviews of the IS general and application controls by an IS auditor.

These conditions occurred because the department is in the process of restructuring its Information Technology Division. Control deficiencies could affect the integrity of programs, processing, and data. As a result, risk exists that IS programs and data could be accessed and modified without proper authorization, review, and approval and that errors or fraud could occur and not be detected.

Management should establish adequate IS security policies, procedures, and controls and an effective IS audit function to ensure the integrity of programs, processing, and data. In addition, management should evaluate and consider using system monitoring software that would allow the security administrator to effectively monitor system logs and activity. Management concurred, in part, with the finding and outlined a corrective action plan. See Appendix A, pages 4-6.

Annual Fiscal Report Not Properly Prepared

For the third consecutive year, the Department of Revenue did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration by the prescribed due date. Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format for reporting each agency's financial information. The Office of Statewide Reporting and Accounting Policy (OSRAP) designed an AFR to obtain this information and requires a signed affidavit from each agency that the financial statements present fairly the financial information of the agency. OSRAP uses the department's AFR during its compilation of the state's annual financial report. The completed AFR was due to OSRAP on August 30, 2004. Good internal control requires adequate procedures to accurately and completely record, process, and summarize financial data needed to prepare accurate and timely financial statements.

The department's AFR that was submitted on August 30, 2004, and revised and resubmitted on October 26, 2004, included the following errors:

- Net receivables reported on the AFR's Exhibit E-1 (GASB 34 Proposed Assessments Receivable) were understated by \$24.6 million while net receivables reported on Exhibit E-2 (GASB 34 Qualified Accounts Receivable) were overstated by \$112.9 million. Furthermore, gross receivables, the allowance for uncollectible receivables, net collectible receivables, and noncurrent receivables reported on Schedule 14 (GASB 34 Revenue Accruals) were overstated by \$112.6 million, \$24.3 million, \$88.3 million, and \$100.3 million, respectively. These misstatements occurred because of inaccurate GenTax reports, inaccurate side-system

reports, compilation errors, and inadequate instructions regarding reporting procedures for accounts receivables greater than \$100,000.

- The AFR's Refunds Payable note was not completed initially. The revised note reported \$280 million of refunds payable, which was understated by \$8.3 million because of incomplete information from side-systems, inaccurate GenTax reports, and compilation errors.
- The AFR's Schedule 4 (Schedule of Non-Appropriated Funds - Major State Revenue and Income Not Available) and the Collection of Major State Revenues note were overstated by \$4.4 million because of a calculation error.
- Additions and receivables reported on the AFR's Exhibit C (Schedule of Agency Funds) were overstated by \$2.4 million because of an inadequate review of the completed exhibit and its supporting documentation.
- The AFR's Protested Taxes note was understated by \$1.6 million for sales tax accounts that had not been included in the computation of protested taxes.
- The AFR's Prepaid Expenses note reported prepaid expenses totaling \$2.2 million, which was overstated by \$1.1 million because of a calculation error.
- The AFR's Schedule 8 (Schedule of Expenditures of Federal Awards) did not include expenditures of \$73,968. In addition, the expenditures for two separate grants were reported under one award number. These errors occurred because of an insufficient review of the completed schedule and supporting documentation.

Management has not placed sufficient emphasis on ensuring that the AFR is properly prepared and reviewed for errors or omissions and ensuring that system-generated reports used for preparing the AFR are complete and accurate. Failure to submit an accurate and timely AFR to OSRAP could delay the compilation and issuance of the state's Comprehensive Annual Financial Report (CAFR) and result in a misstatement of the state's CAFR.

Management should develop procedures to include written instructions and high-level supervisory review of financial information and note disclosures to detect and correct errors before submitting information to OSRAP. Management basically concurred with the finding and outlined a corrective action plan. See Appendix A, pages 7-9.

Lack of a Disaster Recovery/Business Continuity Plan

For the second consecutive year, the Department of Revenue does not have a written, comprehensive disaster recovery/business continuity plan. The state Office of Information Technology Policy No. 11 requires each state agency to develop, test, and maintain a disaster recovery/business continuity plan that is designed to ensure the availability of mission-critical services and functions in the event of a disaster or other event that would impact the agency's information technology and telecommunications systems.

An adequate disaster recovery plan should include, at a minimum, the following:

- A written functional plan that will allow for continued operation of critical information technology (IT) services in the event of an unexpected interruption
- Routinely backing up data files, computer programs, and critical documents and storing this information offsite at a remote facility
- Access to a remote facility that has the same operating systems as the department so that data can be processed and operations can continue with minimal disruption of services
- Training for staff and other users of the system to ensure that they understand their responsibilities in case of emergencies
- Testing of the plan to ensure that the plan works as intended

Although the department has taken steps to ensure that its data files and computer programs are backed up and stored at an offsite facility, current policies and procedures do not include a written, comprehensive plan related to disaster recovery/business continuity. Failure to develop, implement, and test a comprehensive disaster recovery plan increases the risk that in the case of a disaster, there may be excessive delays in collecting taxes owed to the state and in the processing of critical data needed to ensure the accurate collection of taxes.


Management of the department should take the necessary measures to develop and implement a written, comprehensive disaster recovery/business continuity plan to allow critical operations to be reestablished within an acceptable time frame should a disaster or other event occur. Management concurred with the finding and outlined a corrective action plan. See Appendix A, page 10.

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.

This letter is intended for the information and use of the department and its management 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 black ink, appearing to read "Steve J. Theriot", written over a horizontal line.

Steve J. Theriot, CPA
Legislative Auditor

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DOR04

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Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



Kathleen Babineaux Blanco
Governor

Cynthia Bridges
Secretary

February 11, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Weaknesses in GenTax System

Dear Mr. Theriot:

The Louisiana Department of Revenue (LDR) began its project for an integrated tax system in May 2002. This system's main component is the GenTax software package created by Fast Enterprises, LLC. The customized version of GenTax being developed for the twenty (20) largest revenue-producing taxes in Louisiana is called DELTA: "Defining Excellence in Louisiana Tax Administration." This effort represents a major undertaking as LDR upgrades from a mainframe-based Legacy system to a Windows-based software package (GenTax) for tax administration. Equally as overwhelming was this agency's acceptance of the challenge to implement 20 taxes in the span of three years. To date, this project has remained on schedule and within budget. The final phase of this project (Roll-out 5) will be completed in May 2005.

We concur that the Department does not have formal written policies and procedures to control changes made to the GenTax System. However, because the DELTA Project is being implemented in phases, a development environment and a production environment are being simultaneously maintained. Within the production environment, change control guidelines are now in effect. These guidelines will be formalized into written policies and procedures before the end of the fiscal year. Currently, these procedures or a variation of them are being adhered to in the development environment in an effort to greatly reduce or eliminate the possibility of errors. This issue has been discussed with the LDR, Fast Enterprises, and independent project managers who have accepted responsibility and provided the necessary assurances that procedures are in place providing the necessary guidance to DELTA Project development staff.

We concur in part that "the department does not have adequate, written documentation in a user-friendly format . . ." However, management has recognized the need for comprehensive

Mr. Steve J. Theriot
February 11, 2005
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documentation of the system. As a result, a voluminous amount of documentation has been created in response to the DELTA Project's adoption of the *Technical Knowledge Transfer and Documentation Plan*, published and accepted on August 30, 2003. Initiatives are underway to improve this documentation in the following areas:

- Cataloging GenTax reports and providing details on the purpose and the description of the data for each report.
- Technical documentation including data entity relationships, data flows and process flows.
- Application documentation including developer guidelines, developer programming tools and change control guidelines.

An LDR IT manager and technician have been assigned the task of organizing and archiving all DELTA Project technical documentation. The software vendor, Fast Enterprises, has also committed an employee to this initiative.

As the project nears completion, a review of all documentation will be conducted to identify inherent inadequacies. Opportunities for improved presentation will also be examined and incorporated to facilitate ease of use for everyone requiring access to the documentation.

Though I agree with your general concern as it relates to the inadequacy and lack of user-friendly format of the documentation as a whole, exception is taken to your statement that: "The lack of adequate system documentation limits the ability to independently verify that GenTax is processing tax transactions in accordance with the laws and regulations and producing accurate financial data and reports." I respectfully submit that a lack of comprehensive and user-friendly documentation may have resulted in a change in auditing procedures utilized to verify the effectiveness of the tax processing system. However, I disagree that this documentation limited your ability to verify whether the system is processing tax transactions in accordance with the laws and regulations and producing accurate financial data and reports.

We concur in part that the Department has not established sufficient controls over handling a suspense account in the GenTax system. This particular account, the "Operations Account", was created as a mechanism to correct processing issues that occurred after the deposit and classification of funds. A special account number was assigned to the Operations Division Director. All GenTax indicators were set to stop any activity on the account that would generate refunds, billings and any outgoing mail or correspondence. The account is commonly used in circumstances where funds were classified to an incorrect tax type, deposited where no account existed, and received by LDR in error. When one of the aforementioned situations occurred, the transaction is posted to the Operations Account and the appropriate corrections are made. By using this account, the monies are always accounted for in the automated system and an audit trail is created to memorialize the actions taken. Creating the account in this manner dramatically

Mr. Steve J. Theriot
February 11, 2005
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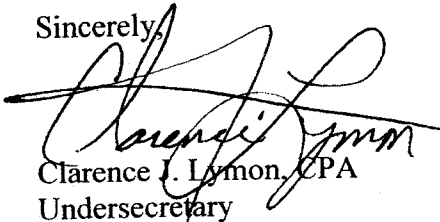
reduces the potential for processing transactions inappropriately. However, we do recognize the need for placing additional restrictions on the account to further reduce and potentially eliminate the risk of fraud. To address these concerns, the following actions have been taken:

- To secure access to this account, we are establishing this account as a VIP account, with access limited to few individuals. The need and use statement to accomplish this was submitted for approval.
- We have in production a query that is run daily by the Research Section's supervisor to monitor the access by departmental employees.
- This account is worked on a daily basis to correct any outstanding issues.

We believe by implementing the additional restrictions and monitoring procedures, sufficient controls have been placed on the Operations Account to prevent manipulation and potential fraud. We are certainly amenable to any recommendations the Legislative Auditor would like to suggest.

LDR's management is committed to ensuring that appropriate procedures are established and adhered to in order to discourage, detect, reduce and eliminate fraud. This is and will always be a top priority for our agency. LDR's staff is also actively engaged in learning the details of the GenTax System and documenting these details as they relate to Louisiana. Rules and procedures of the past are also being scrutinized and revised when necessary. As the project moves closer to completion, LDR remains on schedule to successfully update its tax processing system in an effective and secure manner which will significantly benefit the State in its revenue collection efforts.

Sincerely,



Clarence J. Lyman, CPA
Undersecretary

C: Cynthia Bridges
Greg Montagnino
Phyllis Perry



Kathleen Babineaux Blanco
Governor

Cynthia Bridges
Secretary

February 21, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Information System Security Weaknesses

Dear Mr. Theriot:

The Louisiana Department of Revenue concurs in part to the existence of internal control weaknesses relating to the access and monitoring of its information systems. Our current procedures for allowing access to data, hardware and software are restricted based upon the business need of the employees. The agency allows access to system administrator functions to only minimal staff. Physical access to production software and hardware is restricted. Current policies, procedures and controls are subject to continual review and improvement.

LDR management recognizes the need to continually review and update control procedures to minimize the potential for improperly accessing data. We are also aware of the fact that our implementation of a new tax processing system, over the last two-and-a-half years, has made this an even more challenging task. The fast pace of our development efforts to upgrade from a mainframe-based Legacy system to a Windows-based software application has sometimes forced us to utilize resources in a manner that might be considered to deviate somewhat from best-practices as prescribed for quintessential internal controls. We have continually evaluated risks in this area and weighed them against speed and quality of development. Evaluations of these risks have increasingly become more detailed and comprehensive as we have progressed toward the conclusion of this three-year project.

Below are our responses to the specific issues denoted in your report:

- Procedures are being reviewed to determine the most effective and secure means of making the data available for processing by the responsible personnel. In this instance, employees required access to the separate systems in question in order to retrieve electronic data used to update taxpayer accounts. We expect that the ongoing consolidation and reorganization of IT resources will allow for a more acceptable separation of duties.

- As it relates to a single employee's role as a database administrator and an authorized system administrator, this employee's status as a system administrator will be revoked.
- Current procedures do allow for the use of a single password by two administrators for the SQL server. We are exploring how to best address this issue while ensuring that immediate access to information is maintained. Plans are to explore using a backup administrator with a separate password or institute some other form of limited access and/or monitoring process. Concerns have been expressed related to providing access to the firewall and our procedures are being evaluated as mentioned herein.
- We concur in part with your assessment that procedures have not been established for the review of security and system logs. The issue as we view it centers on the absence of a tool to sort and select for monitoring those items that are suspicious in nature warranting further evaluation and/or scrutiny. The Internal Audit Division and Information Technology (IT) Division will partner in an effort to identify and obtain a software application that will facilitate the monitoring, logging and review necessary to maintain control over LDR's IT systems. We believe that the acquisition of this tool will allow for an adequate system of internal control over IT general and application controls as well.

Additional efforts to enhance our information technology security policies, procedures and controls are in progress or planned. Some of the things that we believe are relevant to the focus of this particular finding are:

- An action is in progress to conduct a third party vulnerability assessment in conjunction with the State's Office of Information Technology (OIT). OIT has received approval for federal grant funding for this exercise and an RFP for this activity is pending authorization to proceed.
- A restructuring of the agency's IT resources and services is underway as a result of a study by a third party to determine the best placement of those resources and services in the organization. Changes as a result of this initiative will result in less duplication of efforts and more formalized separation of duties. As an interim step, effective December 6, 2004, the Department consolidated all IT functions into the Information Technology Division (formerly the Information Services Division). Included in this consolidation were the MIS Division, IT resources from the Operations Division and IT resources from the Organizational Learning/Training Division.


- During the remainder of this fiscal year, additional IT reorganization is planned with further review of functions involving system access, administrator access, and IT security audit review. Duties from the IT groups mentioned above will be further integrated into the IT Division's organizational structure. The new IT structure will emphasize a more formal business alignment of IT resources and more formal governance of IT resources based on strategic business need.
- A system intrusion analysis/test is also planned. Funding and time frame have not yet been established.

Of particular note to this topic is the fact that the Internal Revenue Service, as recently as January 2005, completed a site audit for both physical security and IT security. The IRS has developed its own tool to evaluate the security settings on servers, routers, and switches. They will be sending us a copy of those tools for our use and we will be able to test our own systems and accomplish a more comprehensive self-assessment on an ongoing basis. Based on the comments made at the closing conference, the IRS indicated that our system could be fine-tuned in certain specific IT security areas; but also noted that LDR was more secure than most of the states that they had reviewed.

LDR management is committed to establishing adequate IT security policies, procedures and controls as well as an effective IT audit function. We believe that the actions planned or currently underway will further strengthen this area. Consideration will also be given to the findings' specific recommendations during this continuous improvement process.

The contact person responsible for corrective action is Greg Montagnino, Information Technology Division Director

Sincerely,



Clarence J. Lymon, CPA
Undersecretary

C: Cynthia Bridges
Gary Matherne
Greg Montagnino
Phyllis Perry



Kathleen Babineaux Blanco
Governor

Cynthia Bridges
Secretary

February 11, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Annual Fiscal Report Not Properly Prepared

Dear Mr. Theriot:

Basically we concur with your statement that LDR initially submitted an inaccurate and incomplete Annual Fiscal Report (AFR) to OSRAP. Due to unforeseen and uncontrollable circumstances during the compilation period, a revised AFR was submitted to OSRAP on October 26, 2004. The concerns raised in your audit finding are discussed below:

- **Proposed Assessments Receivable**

The net receivables reported in the AFR were incorrectly reported as a result of a computer programming change made in GenTax. The GenTax receivable reports that were needed to compile the AFR were tested, utilizing May 2004 receivable data, and found to be accurate. The testing was performed in June 2004 as a prelude to the preparation of the AFR. However, the program that generates these receivable reports was subsequently changed (after testing was completed) and not retested which resulted in erroneous classifications of the accounts receivable and proposed assessments receivable amounts on the AFR. The reports were not retested because the information technology (IT) personnel responsible for the changes failed to notify the Controller Division that a change had been made to the program, which generates the report. In addition, receivable balances greater than \$100,000 were not accurately reviewed to identify erroneous amounts that needed to be adjusted for the AFR.

- **Refunds Payable Note**

The note was delayed because the payables reports for taxes on GenTax were not accurate when the AFR was due. The adjustments to the amount that was

617 North Third Street
P.O. Box 66258

Baton Rouge, Louisiana 70896

Phone: 225-219-2700 Fax: 225-219-2708

TDD: 225-219-2114 www.revenue.louisiana.gov

reported were due to errors in the information provided to the Controller by other divisions and the auditor's disagreement with our classification of information. Examples of adjustments made were changes in interest calculations on refunds made by the Legislative Auditors; additional information received by the Legislative Auditors from the other LDR divisions; and a lack of specific communication between the Controller Division and the divisions submitting information.

- **Schedule 4**

This adjustment was due to an error in preparing the spreadsheet that was not caught in proofreading. One line was not extended through the last three columns of the spreadsheet.

- **Exhibit C**

The Controller Division revised Exhibit C to reflect the revised total of consolidated receivables. In error, that revision was not submitted to OSRAP and the Legislative Auditors. The Controller Division had already determined using the original Exhibit C, the adjustments made by the auditors.

- **Protested Taxes – Estimated Receivables Note**

The information provided by the Legal Division for this note included an indication that a sales tax escrow case for \$1.6 million had been settled and should not be included in the amount due to the general fund. Although this case had been settled in FY 2003, the money had not been moved to the general fund. Therefore, the amount was a receivable at 6/30/04. The Controller Division had not been notified that the case had been resolved; therefore, the funds were not moved from escrow to the general fund.

- **Prepaid Expenses Note**

The error in prepaid expenses was due to classification errors of a regional office's postage and tobacco stamp inventory by Support Services when compiling the material and supplies inventory information for inclusion in the AFR.

- **Schedule 8 – Schedule of Expenditures of Federal Awards**

The expenditures on Schedule 8 were originally reported on the accrual basis instead of the cash basis, as required. The \$73,968 was paid during the 45-day accrual period for FY 2003, but was not included in the cash expenditures for the period 7/1/03 – 6/30/04. The classification of expenditures by award number was based on the information received from the Alcohol and Tobacco Commission. These adjustments were reflected in the revised Schedule 8 that was submitted on 10/26/04.

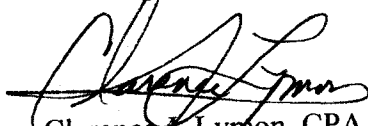
Mr. Steve J. Theriot
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Corrective Action Planned

As it relates to errors caused by computer software programming changes, we have established a process that requires the IT Division to notify the Controller Division of any changes to programs that impact reports used for financial purposes. This procedure is being adhered to in both the development and production environments of the DELTA Project. As a result, more detailed written procedures for compiling the AFR will be developed under the GenTax system than we have maintained in the past. We will implement additional analytical procedures that should help to detect and correct errors in reports submitted by the various LDR divisions that directly affect the receivable and payable reports used to compile the AFR. The Controller Division will provide detailed requests and offer training to the various divisions in an effort to ensure that information received for the purpose of compiling the AFR is accurate.

The persons responsible for such corrective action are Dale LeJeune, Dianne Morris and Margaret Roubique of the Controller Division.

Sincerely,


Clarence J. Lynon, CPA
Undersecretary

C: Cynthia Bridges
Dale LeJeune
Phyllis Perry



Kathleen Babineaux Blanco
Governor

Cynthia Bridges
Secretary

February 11, 2005

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Lack of a Disaster Recovery/Business Continuity Plan

Dear Mr. Theriot:

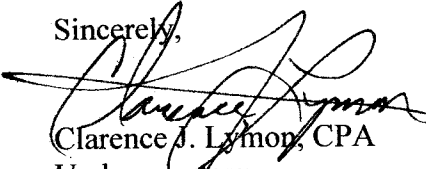
The Louisiana Department of Revenue recognizes and concurs with the need for an agency Disaster Recovery/Business Continuity Plan.

The Department received funding for this initiative in fiscal year 2004-05. The project is in progress with a Request for Proposals scheduled to be issued the first quarter of calendar year 2005. It is anticipated that a vendor will be selected and work will begin before the end of this fiscal year. The results of this effort will comply with the State's Office of Information Technology Policy No. 11. We are certain that the minimum requirements enumerated in your audit finding will be fulfilled.

In addition, the agency is creating a Continuity of Operations Plan in conjunction with the State's Office of Homeland Security and Emergency Preparedness. This plan will be submitted by the end of March 2005. While not specifically an information technology (IT) plan, this effort will incorporate IT functions as they relate to the agency's overall business functions.

The contact person for appropriate corrective actions is Greg Montagnino, Information Technology Division Director.

Sincerely,



Clarence J. Lyman, CPA
Undersecretary

C: Cynthia Bridges
Gary Matherne
Greg Montagnino
Phyllis Perry