

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Executive Department  
State of Louisiana  
Baton Rouge, Louisiana

January 14, 1998



***Financial and Compliance Audit Division***

---

---

***Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor***

**LEGISLATIVE AUDIT ADVISORY COUNCIL**

**MEMBERS**

**Senator Ronald C. Bean, Chairman**  
**Representative Francis C. Thompson, Vice Chairman**

**Senator Robert J. Barham**  
**Senator Wilson E. Fields**  
**Senator Thomas A. Greene**  
**Senator Craig F. Romero**  
**Representative F. Charles McMains, Jr.**  
**Representative Edwin R. Murray**  
**Representative Warren J. Triche, Jr.**  
**Representative David Vitter**

**LEGISLATIVE AUDITOR**

**Daniel G. Kyle, Ph.D., CPA, CFE**

**DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

**EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

**Management Letter  
Dated December 17, 1997**

**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.**

**January 14, 1998**





DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

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

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (504) 339-3800  
FACSIMILE: (504) 339-3870

December 17, 1997

**HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR**  
**EXECUTIVE DEPARTMENT**  
**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, 1997, we conducted certain procedures at the Executive Department. Our procedures included (1) a review of the department's internal control structure; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

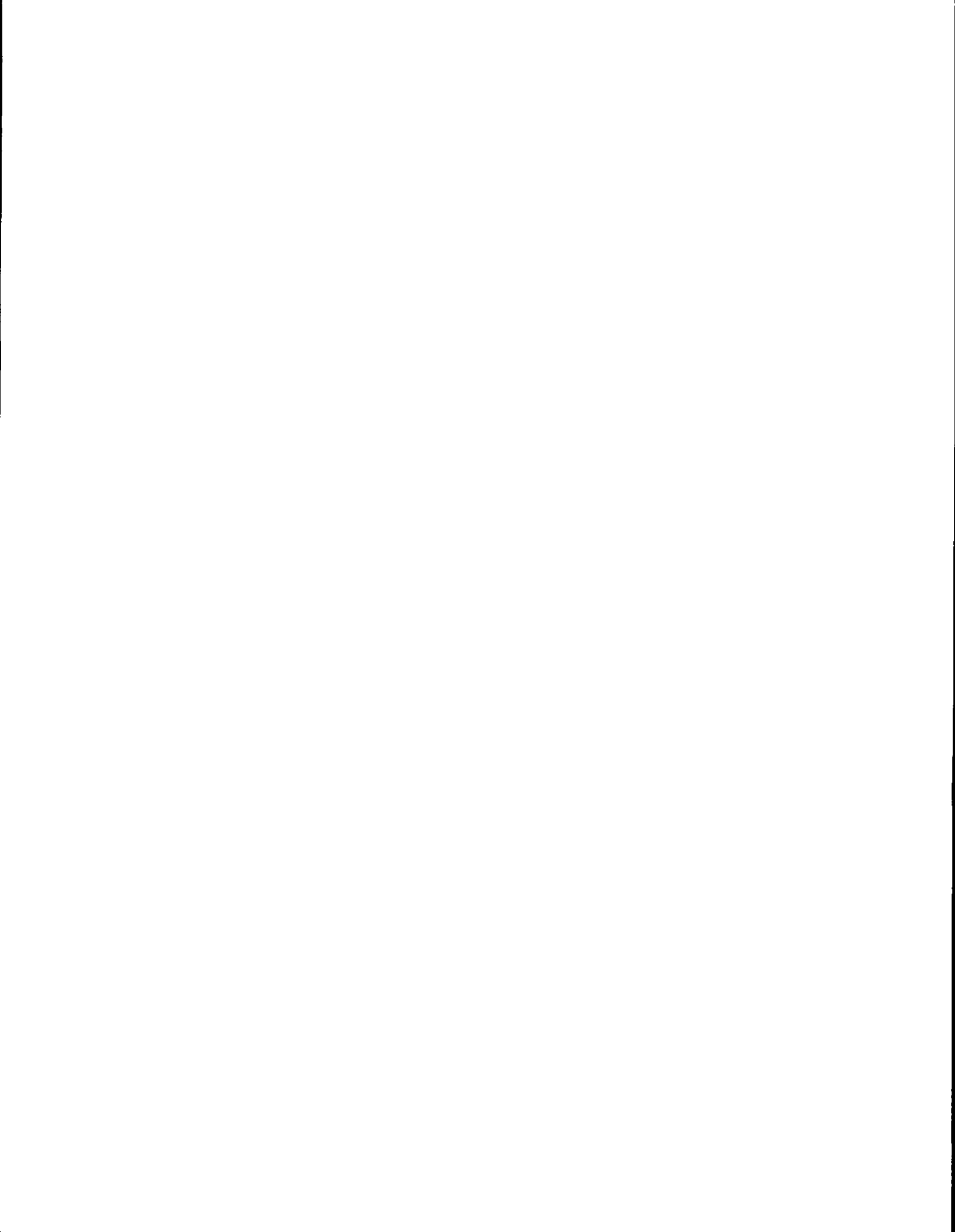
The June 30, 1997, Annual Fiscal Report of the Executive Department was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior management letter dated February 3, 1997, we reported several findings relating to the department's internal control structure and compliance with laws and regulations. The findings relating to the internal audit function, fund balance requirements - Patients' Compensation Fund, and inadequate internal controls over grant administration - Office of Urban Affairs and Development have not been resolved and are addressed again in this report. The remaining findings addressed in our prior year management letter were resolved by management. Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

**Internal Audit Function**

For the sixth consecutive year, the Executive Department does not have an effective internal audit function to examine, evaluate, and report on its internal control structure, including data processing, and to evaluate its compliance with the policies and procedures of the control system.



**LEGISLATIVE AUDITOR**

**EXECUTIVE DEPARTMENT**

**STATE OF LOUISIANA**

Management Letter, Dated December 17, 1997

Page 2

Considering the department's reported assets (approximately \$85 million) and its operating revenues (approximately \$232 million), we believe that an effective internal audit function is needed to ensure that the state's assets are safeguarded and that state policies and procedures are uniformly applied. Furthermore, the Appropriation Act (Act 17, Section 6C) of the 1996 Regular Session of the Louisiana Legislature states that the budget request of any agency with an appropriation level of \$30 million or more must include within its existing table of organization the position of internal auditor. Although the Executive Department established three positions, these positions were not filled during the year.

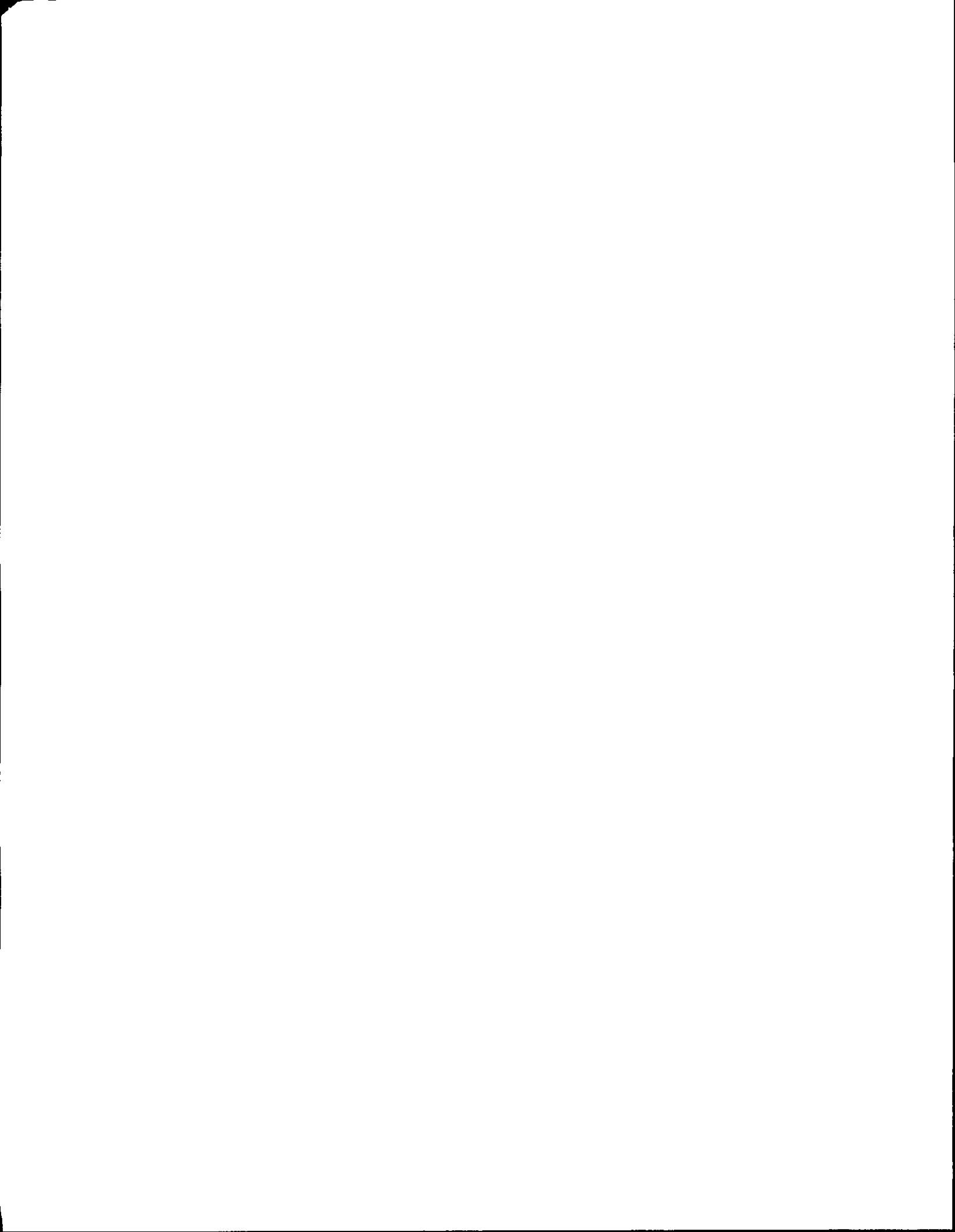
The Executive Department should take the necessary steps to establish an effective internal audit function. In a letter dated August 22, 1997, Mr. Mark C. Drennen, Commissioner of Administration, concurred with the finding. However, he stated that several issues have prevented implementation within the agency, including inadequate pay grade allocations and a determination of how the internal audit function is to be managed.

**Inadequate Fund Balance -  
Patients' Compensation Fund**

For the sixth consecutive year, the Executive Department, Patients' Compensation Fund Oversight Board did not maintain an adequate surplus in the Patients' Compensation Fund as required by Louisiana law. Louisiana Revised Statute 40:1299.44(A)(6)(a) requires that a surplus of 50 percent of the annual surcharge premiums, reserves established for individual claims, reserves established for incurred but not reported claims, and expenses be maintained in the fund.

For the fiscal year ended June 30, 1997, the accumulated balance of surcharges, reserves, and expenses is estimated to be approximately \$465 million, which under Louisiana law would require a fund balance of approximately \$233 million. As of June 30, 1997, the actual fund balance was approximately \$70 million, resulting in a shortfall of \$163 million. This shortfall resulted from practices in effect before the Patients' Compensation Fund Oversight Board was created, whereby rates for medical malpractice premiums were not set based on experience ratings, including historical losses, interest payments, and future medical amounts.

The board should maintain an adequate rate level to achieve the 50 percent surplus requirement over a reasonable period of time. In a letter dated September 22, 1997, Mr. Mike Walsh, Executive Director, concurred with the finding and recommendations. However, he stated that the board believes that its pace to increase cash reserves has been as rapid as it could have been and another \$5 to \$10 million will be added this year.





**LEGISLATIVE AUDITOR**

**EXECUTIVE DEPARTMENT**

**STATE OF LOUISIANA**

Management Letter, Dated December 17, 1997

Page 3

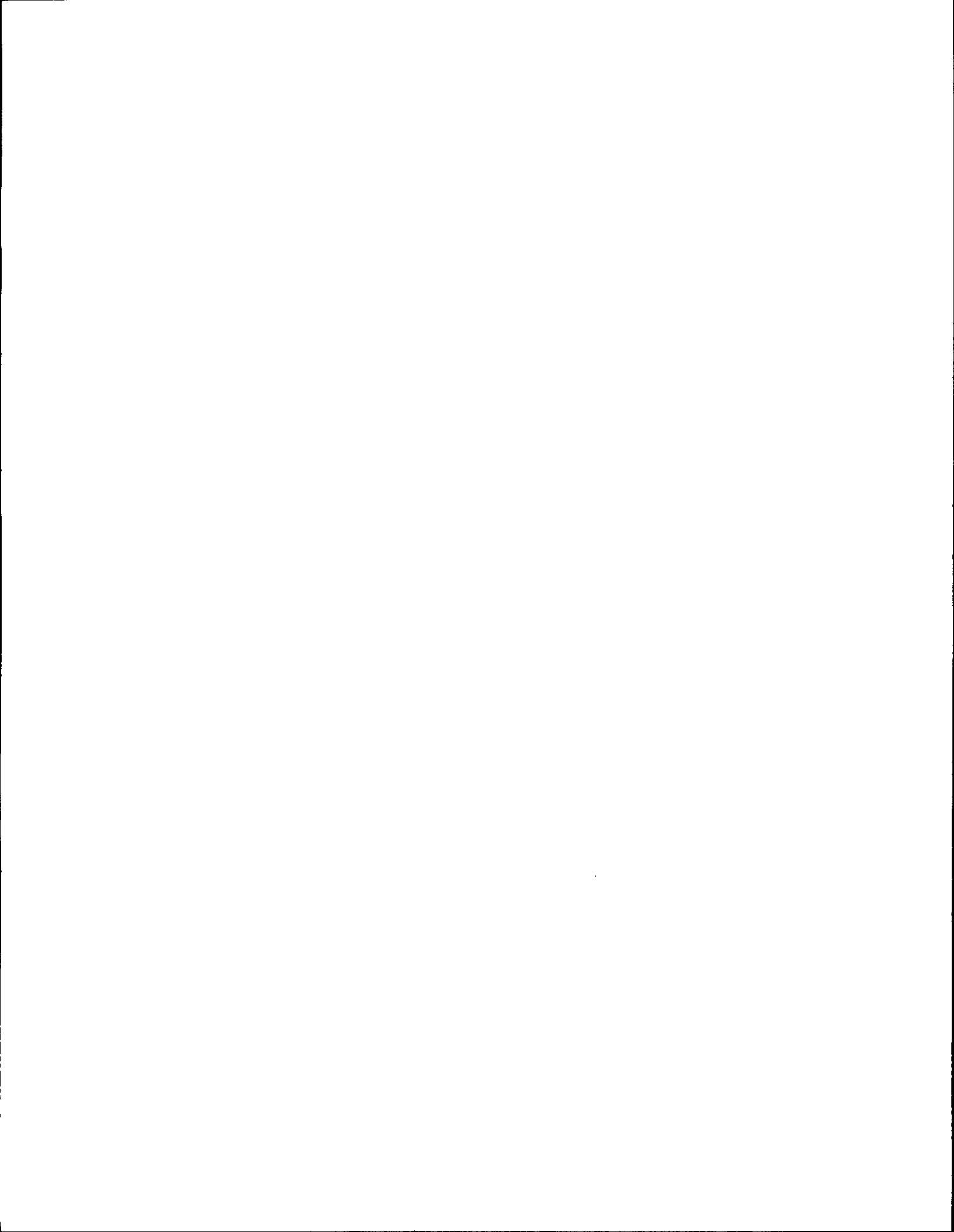
**Office of Urban Affairs and Development -  
Lack of Controls for Grant Administration**

For the second consecutive year, the Executive Department, Office of Urban Affairs and Development (Office) has not established and maintained adequate internal controls for the administration of Urban Development grants. For the fiscal year ended June 30, 1997, the Office disbursed \$8,290,163 to 88 organizations. Good internal controls require written policies and procedures for awarding and monitoring grants, including detailed eligibility requirements to be used in the evaluation process, guidelines for disbursing grants, and guidelines for reviewing compliance with grant terms. In our consideration of internal controls, the following weaknesses were noted in the administration of the Urban Development grants:

- The Office does not have formal policies and procedures for awarding and monitoring grants.
- The Office does not use a formula or any other formal criteria for determining the level of funding or the areas of the state to be funded.
- Grant funds are disbursed in lump sum in the beginning of the year or grant term.

Because these conditions continue to exist, program objectives may not be met; improper grant awards may be made; grant expenditures may not be cost beneficial; and remaining grant funds may not be returned to the Office of Urban Affairs and Development.

The Executive Department, Office of Urban Affairs and Development should establish formal policies and procedures for awarding, disbursing, and monitoring grants. In a letter dated August 7, 1997, Dr. Jerry Cole, Jr., Deputy Director, concurred in part with the findings and recommendations. He concurred that there were no formal criteria for determining the level of funding, but a proposed distribution formula has now been developed. He stated that the Office has policies and procedures in place for monitoring grants; however, an objective application is being developed for the awarding of grants. He stated that, while funds were disbursed in lump sum last year, they have instituted a change in procedure as of July 1, 1997, whereby 50 percent of the funds are disbursed with the submission of an approved budget, and 50 percent after receipt of an acceptable audit and a site visit by staff members.



**LEGISLATIVE AUDITOR**

**EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA**

Management Letter, Dated December 17, 1997

Page 4

**Inadequate Uniform Payroll System Controls**

The Executive Office did not ensure that its timekeeping units complied with existing internal control procedures or legal requirements relating to payroll transactions input to the Uniform Payroll System (UPS). Adequate controls require a review of transactions to ensure data are accurate and errors and irregularities are detected timely. Adequate controls also require that employees and supervisors certify the hours of attendance or absence from duty on time and attendance records. UPS user regulations established by the Division of Administration, Office of State Uniform Payroll require the timekeeper to maintain daily attendance documents, signed and approved leave slips, overtime/compensatory approval forms, time adjustment forms, and a validated Time Entry Listing for each pay period. Executive Order MJF 96-79 requires that daily attendance and leave records be maintained for unclassified employees eligible to accrue leave.

In our test of 85 unclassified employees in three timekeeping units for two pay periods, we noted the following exceptions:

- Four employees had no records of time and attendance.
- Three employees had no supervisory approval on their time and attendance sheets.
- Six employees had compensatory/overtime forms or leave slips missing from their time and attendance sheets.
- Four employees had no supervisory approval on their compensatory/overtime forms.
- Five employees had discrepancies between the hours of leave taken according to the leave slips, hours worked according to the time sheets, and hours recorded on the Fixed Time Entry Listing.
- There was no evidence that the timekeeper reconciled the Fixed Time Entry Listing to leave records and time and attendance sheets for the two pay periods tested.

Management's lack of emphasis on compliance with existing internal control procedures increases the risk that errors and/or irregularities could occur and not be detected timely.



LEGISLATIVE AUDITOR

EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA

Management Letter, Dated December 17, 1997

Page 5

Management should comply with existing internal control procedures and Executive Order MJF 96-79 by ensuring that time and attendance records are properly maintained for each employee and are reconciled each pay period to the Fixed Time Entry Listing. In a letter dated November 5, 1997, Ms. Susan B. Hoffman, Director of Administrative Affairs for the Office of the Governor, concurred in part with the findings and recommendations. She stated that:

- Some employees did not have time and attendance sheets, but an automated time accounting system has been purchased to keep better accuracy of time for each employee.
- Findings related to supervisory approval on time and attendance sheets and compensatory forms and leave discrepancies have been corrected.
- The timekeeper reconciled the Fixed Time Entry Listing, but failed to send the corrections to the payroll office.
- The office is making the necessary corrections to ensure that the time and attendance records are properly maintained according to Executive Order MJF 96-79 and anticipate having all corrections made by the first of the year.

The recommendations in this report 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. The findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended for the information and use of the department and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

BMc:WMB:dl

[EXEC]

