

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of State
State of Louisiana
Baton Rouge, Louisiana

December 15, 1999



Financial and Compliance Audit Division

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

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LEGISLATIVE AUDITOR

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

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

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1999
With Supplemental Information Schedule**

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.

December 15, 1999

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1999
With Supplemental Information Schedule

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OFFICE OF
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December 8, 1999

Independent Auditor's Report
on the Financial Statements

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Department of State, a department within Louisiana state government, as of and for the year ended June 30, 1999, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Department of State. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, the accompanying special purpose financial statements present only the funds of the Department of State. As such, they present the appropriated and non-appropriated activity of the department that are part of the accounts and fund structure of the State of Louisiana. Furthermore, the financial statements have been prepared in accordance with accounting procedures prescribed by the Office of the Governor, Division of Administration, which is a comprehensive basis of accounting other than generally accepted accounting principles, the purpose of which is to reflect compliance with the annual appropriation acts and other state laws and regulations.

In our opinion, the accompanying special purpose financial statements referred to above present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Department of State at June 30, 1999, and the transactions of the General Appropriation Fund for the year then ended, on the basis of accounting described in note 1-B.

LEGISLATIVE AUDITOR

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA

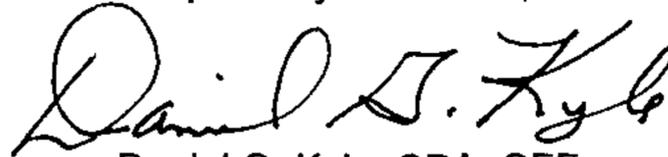
Audit Report, June 30, 1999

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 1999, on our consideration of the Department of State's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Our audit was performed for the purpose of forming an opinion on the special purpose financial statements of the Department of State taken as a whole. The accompanying supplemental information schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the special purpose financial statements. Such information has been subjected to the procedures applied in the audit of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Department of State 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

ALE:BJJ:PEP:dl

[DOS]

DEPARTMENT OF STATE
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 1999

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED - PAYROLL CLEARING	TOTAL (MEMORANDUM ONLY)
ASSETS			
Cash (note 1-D)	\$2,823,430	\$114,059	\$2,937,489
Receivables - fees and self-generated revenues	248,701		248,701
Due from others (note 8)	84,715		84,715
Inventories of materials and supplies (note 1-E)	276,285		276,285
TOTAL ASSETS	\$3,433,131	\$114,059	\$3,547,190
LIABILITIES AND FUND EQUITY			
Liabilities:			
Payables (note 5)	\$614,395	\$114,059	\$728,454
Advance from state treasury (note 3)	7,000		7,000
Due to state treasury (note 9)	2,833,364		2,833,364
Other liabilities	2,893		2,893
Total Liabilities	3,457,652	114,059	3,571,711
Fund Equity - fund balances:			
Reserved for inventories of materials and supplies (note 1-E)	276,285		276,285
Unreserved - undesignated (deficit) (note 2)	(300,806)		(300,806)
Total Fund Equity	(24,521)	NONE	(24,521)
TOTAL LIABILITIES AND FUND EQUITY	\$3,433,131	\$114,059	\$3,547,190

The accompanying notes are an integral part of this statement.

DEPARTMENT OF STATE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 1999

REVENUES

Appropriated by legislature:

State General Fund \$3,267,763

State General Fund by:

Fees and self-generated revenues 9,295,047

Interagency transfers 326,757

Total revenues 12,889,567

EXPENDITURES

Administrative 2,701,941

Elections 1,847,489

Archives and records 2,236,500

Museum and other operations 1,113,251

Commercial 2,191,330

Total expenditures 10,090,511

EXCESS OF REVENUES OVER EXPENDITURES 2,799,056

OTHER FINANCING USES - transfers to state treasury (note 9) (2,833,364)

**EXCESS OF EXPENDITURES AND OTHER
USES OVER REVENUES** (34,308)

FUND BALANCE AT BEGINNING OF YEAR 30,826

DECREASE IN RESERVE FOR INVENTORY (21,039)

FUND BALANCE (Deficit) AT END OF YEAR (\$24,521)

The accompanying notes are an integral part of this statement.

DEPARTMENT OF STATE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and
Unexpended Appropriation - Budget
Comparison of Current-Year Appropriation -
Budget (Legal Basis) and Actual
For the Year Ended June 30, 1999

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature:			
State General Fund	\$3,267,763	\$3,267,763	
State General Fund by:			
Fees and self-generated revenues	7,765,171	9,295,047	\$1,529,876
Interagency transfers	377,097	326,757	(50,340)
Total appropriated revenues	<u>11,410,031</u>	<u>12,889,567</u>	<u>1,479,536</u>
EXPENDITURES			
Appropriated for:			
Administrative	2,772,890	2,693,419	79,471
Elections	2,566,117	1,847,755	718,362
Archives and records	2,533,316	2,223,055	310,261
Museum and other operations	1,295,470	1,108,762	186,708
Commercial	2,242,238	2,183,212	59,026
Total appropriated expenditures	<u>11,410,031</u>	<u>10,056,203</u>	<u>1,353,828</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR	<u>NONE</u>	<u>\$2,833,364</u>	<u>\$2,833,364</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 1999

INTRODUCTION

The Department of State is a department within the State of Louisiana reporting entity. The department was created in accordance with Title 36, Chapter 26 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. As provided by Article IV, Section 7 of the Louisiana Constitution of 1974, the secretary of state certifies all official documents of the Louisiana Legislature, governor, commissions, et cetera; administers the state corporation laws; compiles and promulgates the official returns of elections for statewide offices; and prints and distributes certain official publications of the state. The Archives and Records Division serves as the official depository of the records and documents of various state agencies, departments, and political subdivisions. The following museums are under the jurisdiction of the secretary of state: the Old State Capitol, Louisiana State Exhibit Museum, Louisiana State Cotton Museum, Edward Douglass White Historic Site, Old Arsenal Museum, Pentagon Barracks, the Shop at the Top of the State Capitol, and the Caddo Pine Island Oil and Historical Museum. The department's 178 full-time employees serve the public from its offices in Baton Rouge, a commercial division office in New Orleans, and the museums located throughout the state.

The following advisory boards and commissions under the jurisdiction of the Department of State are not appropriated and are not included in the accompanying financial statements. These boards and commissions are established by state law or order of the secretary of state.

	<u>Louisiana Revised Statute</u>
Advisory Board of the Old State Capitol	25:373
Regional Museum Governing Board of the Louisiana State Exhibit Museum	25:379.1
Governing Board of the Louisiana State Cotton Museum	25:380.1
Governing Board of Edward Douglass White Historic Site	25:380.11
Governing Board of the Caddo Pine Island Oil and Historical Museum	25:380.22
State Board of Election Supervisors	18:23
First Stop Shop Coordinating Council	49:229.1

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

	<u>Secretary of State Order</u>
Secretary of State's Commission on Corporations	WFM 88-1
Secretary of State's Commission on Archives	WFM 88-2
Secretary of State's Commission on the Louisiana Old State Capitol	WFM 91-1
Secretary of State's Commission on the Louisiana Museum of Antique and Classic Automobiles	WFM 93-1

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local governments. These principles are found in the Codification of Governmental Accounting and Financial Reporting Standards, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from generally accepted accounting principles as explained in the following notes.

The State of Louisiana has been determined to be the reporting entity under generally accepted accounting principles. The accompanying financial statements represent activity of a department of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements.

A. FUND ACCOUNTING

The Department of State uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position and results of operations of its non-appropriated funds. This differs from the fund accounting of generally accepted accounting principles where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of generally accepted accounting principles. The funds do not include any noncurrent assets or liabilities. Noncurrent assets, general fixed assets, and long-term liabilities are reflected in the State of Louisiana's general purpose financial statements.

The funds presented in the special purpose financial statements are described as follows:

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

GENERAL APPROPRIATION FUND

The General Appropriation Fund accounts for all appropriated revenues, operating expenditures, and minor capital acquisitions of the department.

NON-APPROPRIATED FUNDS

Income Not Available

The Department of State collects funds specifically identified by the Division of Administration, State Budget Office, as income not available that are remitted to the state treasury. These amounts are not available to the department for expenditure and, therefore, are not included on Statement B but are detailed in note 10.

Payroll Clearing Fund

The Payroll Clearing Fund accounts for payroll deductions and accrued benefits.

The non-appropriated funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the department. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

2. Expenditures are recognized to the extent that appropriation authority has been extended to the department and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the department uses the following practices in recognizing revenues and expenditures:

Revenues

State General Fund appropriations are recognized in the amounts appropriated, to the extent withdrawn from the state treasury. Fees and self-generated revenues, interagency transfers, and non-appropriated revenues are recognized in the amounts earned, to the extent that they will be collected within 45 days of the close of the fiscal year.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recorded as expenditures when paid. Furthermore, expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

Other Financing Uses

Transfers made to the state treasury are recognized in the year the department makes the transfer, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

C. BUDGET PRACTICES

The appropriation made for the general operations of the department is an annual lapsing appropriation and is recorded in the General Appropriation Fund.

1. The budget process for the general appropriation is an annual appropriation valid for one year. Revenues and expenditures for budget purposes are recognized on the same basis of accounting as described in note 1-B, except that salaries and related benefits are recognized when paid on Statement C. The expenditures of the department, as shown on Statement B, are reconciled with the respective amounts shown on Statement C as follows:

DEPARTMENT OF STATE
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Statement B expenditures	\$10,090,511
Add - prior-year payroll accrual	266,498
Less - current-year payroll accrual	<u>(300,806)</u>
Statement C expenditures	<u>\$10,056,203</u>

2. The department is prohibited by statute from over expending the program levels established in the general appropriations act.
3. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation plus subsequent amendments as follows:

Original approved budget - Act 19 of 1998	\$11,050,605
Preamble adjustment	(1,754)
Increase in fees and self-generated revenues	<u>361,180</u>
Total	<u>\$11,410,031</u>

4. The non-appropriated funds are not subject to budgetary control.

D. CASH

Cash is composed of the following:

Under control of the department - petty cash (on hand and in banks)	\$9,893
Cash on deposit with the state treasury	<u>2,927,596</u>
Total	<u>\$2,937,489</u>

Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The department has deposit balances (collected bank balances) of \$8,748 at June 30, 1999, for which the department has control. These deposits are fully secured from risk by federal deposit insurance (GASB Risk Category 1).

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by generally accepted accounting principles are included within the state's general purpose financial statements. The following is a summary of cash in the state treasury:

Means of finance	\$1,496,913
ISIS operating	1,316,624
Payroll clearing	<u>114,059</u>
Total	<u>\$2,927,596</u>

E. INVENTORIES OF MATERIALS AND SUPPLIES

Inventories, consisting of office supplies stored at the Archives Building and election supplies and materials stored and maintained on the premises of an outside vendor, are valued at cost and are recorded as expenditures at the time individual inventory items are purchased. The department and the vendor use periodic inventory systems and employ the first-in, first-out valuation method using the most recent cost of the inventory items, which approximates market. Reported inventories of \$276,285 are equally offset by fund balance reserves that indicate they do not constitute available spendable resources even though they are components of net current assets.

F. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments relating to unperformed contracts for goods or services. The department employs encumbrance accounting during the year to ensure compliance with the annual appropriation act. Encumbrances are not included in the accompanying financial statements because Louisiana Revised Statute (R.S.) 39:82 and the annual appropriation act do not allow the department to charge encumbrances at year-end against its current-year appropriation, the basis upon which the accompanying financial statements have been prepared. The department did not have any encumbrances at June 30, 1999.

G. GENERAL FIXED ASSETS

At June 30, 1999, the department has stewardship responsibility for \$3,993,516 in governmental movable property, valued at historical cost at the time of acquisition. The movable property is not reflected within the accompanying special purpose financial statements. A summary of changes in movable property follows:

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Balance July 1, 1998	Adjustment to Beginning Balance	Restated Balance at July 1, 1998	Additions	Deletions	Balance June 30, 1999
<u>\$4,201,814</u>	<u>\$5,107</u>	<u>\$4,206,921</u>	<u>\$243,708</u>	<u>(\$457,113)</u>	<u>\$3,993,516</u>

The beginning balance for movable property was adjusted by \$5,107 for prior-year acquisitions. The department has complied with R.S. 39:321-332 relating to movable property.

H. LEAVE BENEFITS

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused annual and sick leave payable at June 30, 1999, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$493,690. The leave payable is not recorded in the accompanying financial statements.

Certain employees of the department are eligible to earn compensatory time, as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hours for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another. All unused compensatory leave earned at the one and one-half hours for each hour of overtime worked rate shall be paid to the employee upon separation or transfer. All unused compensatory leave earned hour for hour may be paid to the employee upon separation or transfer. The liability for accrued compensatory leave at June 30, 1999, computed in accordance with GASB Codification Section C60.105, is estimated to be \$9,805. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

I. LONG-TERM OBLIGATIONS

The department is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the department arising from installment purchases, judgments, compensated absences, or any other source are not recognized in the accompanying special purpose financial statements.

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

J. DEFERRED COMPENSATION PLAN

Certain employees of the department participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are available in the financial statements of the State of Louisiana.

K. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position. Neither is such data comparable to a consolidation.

2. FUND DEFICIT

The General Appropriation Fund had a fund deficit of \$300,806 for the year ended June 30, 1999. The deficit was the result of accrual of payroll payables that were required by the Office of the Governor, Division of Administration, but not included in the 1998-99 fiscal year budget. The department will resolve the deficit by liquidating the liabilities with funds appropriated in the 1999-2000 fiscal year. These obligations are included in the accompanying financial statements.

3. ADVANCE FROM STATE TREASURY

The department has received an advance from the state treasury for petty cash imprest fund operations totaling \$7,000. The advance, as reflected in the accompanying statements, represents a liability to the department and must be repaid if not annually authorized.

4. PENSION PLAN

Substantially all employees of the department are members of the Louisiana State Employees Retirement System, a multiple-employer, defined benefit pension plan. Required disclosures for the plan for fiscal year 1999 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

5. PAYABLES

The following is a summary of payables at June 30, 1999:

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

	<u>Accounts Payable</u>	<u>Payroll Deductions Payable</u>	<u>Accrued Employee Benefits</u>	<u>Accrued Payroll</u>	<u>Total</u>
General appropriation	\$313,589			\$300,806	\$614,395
Non-appropriated - payroll clearing		\$52,133	\$61,926		114,059
Total	<u>\$313,589</u>	<u>\$52,133</u>	<u>\$61,926</u>	<u>\$300,806</u>	<u>\$728,454</u>

6. LEASE AND RENTAL OBLIGATIONS

The department has several operating leases for rental of land, equipment, and office space. The annual operating lease payments for the next five fiscal years are presented as follows:

<u>Fiscal Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
1999-2000	\$21,022	\$40,513	\$38,880	\$100,415
2000-2001		40,513	36,000	76,513
2001-2002		40,513	36,000	76,513
2002-2003		40,513	24,000	64,513
2003-2004		40,513		40,513
Total	<u>\$21,022</u>	<u>\$202,565</u>	<u>\$134,880</u>	<u>\$358,467</u>

The lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Operating lease expenditures for the fiscal year ended June 30, 1999, totaled \$100,415.

7. INSTALLMENT PURCHASES

During 1999, the department participated in a number of installment purchase agreements with various vendors for the purchase of equipment. The following is a summary of installment purchases of the department for the year ended June 30, 1999:

DEPARTMENT OF STATE
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Balance at July 1, 1998	\$2,236
Installment purchases in 1999	NONE
Installment payments in 1999	<u>(2,236)</u>
Installment purchases payable at June 30, 1999	<u><u>NONE</u></u>

All installment purchase agreements have non-appropriation exculpatory clauses that allow for cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. The liability for installment purchases is not recorded in the accompanying financial statements.

8. DUE FROM OTHERS

The following is a summary of amounts due from others for the General Appropriation Fund at June 30, 1999:

Due from other agencies - interagency transfers:	
Children's Special Health	\$308
Department of Agriculture and Forestry	959
Department of Labor	32,449
Department of Education	75
Division of Administration	679
Earl K. Long Hospital	36,022
Louisiana State Employees Retirement System	634
LSU Accounting Service	138
Notarial Archives	464
Office of Community Services	4,208
Office of Community Services - State Office	4,681
Teachers' Retirement System	4,050
Other	<u>48</u>
Total	<u><u>\$84,715</u></u>

9. DUE TO STATE TREASURY

As shown on Statements A and B, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, the following balances and transfers were reported for fiscal year 1999:

DEPARTMENT OF STATE
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Unexpended General Fund appropriation	\$568,362
Unexpended self-generated appropriation	735,126
Self-generated revenues collected in excess of amount budgeted	1,580,216
Interagency transfer revenue budgeted in excess of amount collected	<u>(50,340)</u>
Total due to state treasury	<u><u>\$2,833,364</u></u>

10. INCOME NOT AVAILABLE

During 1999, the department collected \$130,188 identified by the Division of Administration, State Budget Office, as income not available that was remitted to the state treasury:

Central registry	\$515
Elections	61,505
Microfilm	45,195
Uniform commercial code	22,923
Miscellaneous	<u>50</u>
Total	<u><u>\$130,188</u></u>

**11. JUDGMENTS, CLAIMS, AND
SIMILAR CONTINGENCIES**

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

12. NONPROFIT CORPORATIONS

The accompanying financial statements do not include the accounts of the following nonprofit corporations affiliated with the museums under the jurisdiction of the Department of State: the Louisiana State Cotton Museum Foundation, Inc.; Friends of the Cotton Museum, Inc.; Friends of Louisiana State Exhibit Museum, Inc.; Old State Capitol Foundation, Inc.; Old State Capitol Cooperative Endeavors, Inc.; Caddo Pine Island Oil and Historical Foundation, Inc.; and The Friends of Edward Douglass White State Commemorative Area, Inc. These corporations are subject to audit by independent certified public accountants. By agreement with the Department of State, the Old State Capitol Foundation, Inc., operates a gift shop in the Old

**DEPARTMENT OF STATE
STATE OF LOUISIANA**
Notes to the Financial Statements (Concluded)

State Capitol. The foundation is responsible for the gift shop's staffing and inventory and uses the proceeds for promotion, beautification, improvement, and development of the facilities, grounds, and exhibits of the Louisiana Old State Capitol.

13. MUSEUM HOLDINGS

The Department of State has policies and procedures concerning accessions, deaccessions, and loans of holdings in the museums under its jurisdiction. A catalog of the holdings is maintained at each museum. The museums' buildings, holdings, and items on loan are insured by the Office of Risk Management.

**14. POSTRETIREMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The department provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the department's employees become eligible for these benefits if they reach normal retirement age while working for the department. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the department. The department's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 1999, the cost of retiree benefits totaled \$88,767.

**DEPARTMENT OF STATE
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULE
For the Year Ended June 30, 1999**

SCHEDULE OF CHANGES IN BALANCE

Changes in balance for the Non-Appropriated - Payroll Clearing Fund for the year ended June 30, 1999, are presented on Schedule 1.

Schedule 1

**DEPARTMENT OF STATE
STATE OF LOUISIANA
NON-APPROPRIATED - PAYROLL CLEARING FUND**

**Schedule of Changes in Balance
For the Year Ended June 30, 1999**

BALANCE AT BEGINNING OF YEAR	\$105,060
ADDITIONS	
Payroll deduction deposits	<u>2,596,311</u>
Total	2,701,371
DEDUCTIONS	
Payroll deduction disbursements	<u>2,587,312</u>
BALANCE AT END OF YEAR	<u><u>\$114,059</u></u>

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain our report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



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

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

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December 8, 1999

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Special Purpose Financial Statements

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Department of State, a department within Louisiana state government, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 8, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department of State's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of State's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department of State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the following paragraphs:

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
Compliance and Internal Control Report
December 8, 1999
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**Inadequate Controls Over Property
Resulting in a Theft**

The Department of State failed to maintain adequate internal control over property (documents, artifacts, movable property, and supplies) stored by the archives department. Good internal controls require that adequate procedures be in place to ensure that the acquisition and disposition of property is accurately reflected in department records, and property is properly protected and safeguarded against loss and that any thefts and/or fraud are detected in a timely manner. An audit of property stored in the archives department disclosed the following:

1. A database of items has been established for the items maintained by the archives department. However, periodic inventories are not conducted to ensure that the database is current and any discrepancies are explained.
2. Areas of the second and third floors of the archives building are used by the archives department for storage. The storage area on the second floor is a locked, but unattended, area. Keys to this area have been provided to 15 employees (9 in Archives, 3 in Building Operations, 1 in Executive, 1 in Human Resources, and 1 at the Old State Capitol). These keys can be duplicated. The third floor is an unlocked and unattended area, which is accessible by anyone using either the public or freight elevator.
3. Within the storage areas on both floors, there is a vault and a vault within a vault. On the second floor, these vaults store the most valuable items of the archive collection. The combination to the vaults has been provided to five employees (two in Archives and three in Building Operations). However, when individuals are allowed access in the vault by one of these employees, their actions are generally not monitored.
4. Removal of items from the storage areas is generally under the honor system. A log book is maintained only in the second floor storage area. The log book records the individual removing the item, the removal date and time, the description of the item being removed, the reason for removal, and the location of the item before removal. The log book also records the return date of the item and the initials of the individual returning the item. The log book is infrequently reviewed by archive department staff to determine whether the item has been returned.

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
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Because controls were inadequate, the Department of State had a theft by an employee from both the general storage area and the vaults. The employee admitted to taking computer equipment with a value of \$5,257, a semi-automatic pistol with a value of \$1,500, a foot officer's sword with a value of \$5,000, and two flintlock rifles with a value of \$4,450, as well as several valuable documents. The Department of State cannot verify that these were all the items that were taken. In addition, the extent of the theft was not realized until an investigation was conducted by the State Police following the report of theft of one of the computers. After investigation by the State Police, the department was able to recover the computer equipment, sword, and documents but not the other property. In addition, the Department of State failed to disclose this theft to the Office of Legislative Auditor in the Annual Financial and Compliance Representation Letter.

Failure to maintain adequate internal control over property increases the risk that a future theft of property could occur and remain undetected.

The Department of State should develop and implement adequate procedures to ensure that the acquisition and disposition of property is accurately reflected in department records, that property is properly protected and safeguarded against loss, and that any thefts and/or fraud are detected in a timely manner. In addition, any incidents involving theft and/or fraud should be reported to the Office of Legislative Auditor and should be disclosed in the Financial and Compliance Representation Letter. Management partially concurred with the finding and described corrective action taken (see Appendix A, page 1).

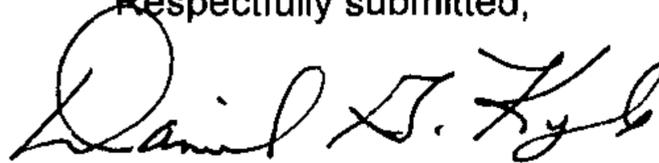
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The reportable condition described above is not considered a material weakness.

LEGISLATIVE AUDITOR

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
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Compliance and Internal Control Report
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This report is intended solely for the information and use of the Department of State 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

ALE:BJJ:PEP:dl

{POS}

EXHIBIT A

Appendix A

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



JANE T. JONES
UNDERSECRETARY

W. FOX MCKEITHEN
SECRETARY OF STATE
STATE OF LOUISIANA

P. O. Box 94125
BATON ROUGE, LOUISIANA 70804-9125
(504) 922-1211
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November 29, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

The following is the Department of State's official response to the reportable audit finding, **"Inadequate Controls Over Property Resulting in a Theft."**

The Department of State concurs in part with this finding. The State Archives currently maintains more than 30,000 cubic feet of archival records and artifacts. This represents a repository of millions of documents. The State Archives, like most archival institutions, catalogues its repository by records series. It would be impractical to undertake creation of a database of individual documents because of staffing and time restrictions. Our inventories provide basic information relative to our individual collections such as size of collection, location of collection, subject matter, date received and catalogued, whether collection is public or non-public, inclusive dates, and origins of donor. This is standard archival procedure. Accordingly, it is impossible for the State Archives, given the volume of records within its repository, to conduct a document by document audit. We realize this situation creates certain risks for our archival program. Archival repositories throughout the United States face this same dilemma.

Though we cannot execute a document by document audit of our archival holdings, the Department of State can conduct a "box by box" inventory to determine whether any boxes are missing or improperly filed. We considered conducting such an audit in the past, but such an undertaking would have adversely affected patron service. However, in light of the aforementioned audit finding, I have instructed Archivist Supervisor Troy Hayes to begin immediately a "box by box" audit of our archival repository. All non-boxed items such as artifacts, oversized maps, architectural plans, and paintings will be included in this audit. We anticipate concluding this audit by March 15, 2000. We plan to conduct this audit annually during the fourth quarter of each fiscal year beginning in 2001. In addition, the State Archives will also

conduct three "spot audits" each fiscal year to further ensure the integrity of our archival repository has not been compromised.

Dominick Dinecola, State Archives building manager, has been instructed to change the locks on the doors leading to the second floor archival stacks by no later than December 15, 1999. Keys to the second floor stacks will be issued only to employees assigned to the archives' acquisitions staff, to our building manager and his assistant, to the Department of State's security director, to the State Archives' security supervisor and her assistant, and one each to the Archives Administrator and his assistant. All keys will be stamped "**Do Not Duplicate**" as an added security precaution. Furthermore, employees and non-employees, excepting those assigned to the State Archives' acquisitions section, will henceforth be required to notify the acquisitions section supervisor prior to gaining access to the second floor stacks for any reason. Furthermore, these individuals, while in the stacks, will be accompanied by an employee of the acquisitions staff. Beginning December 1, 1999, all individuals accessing the second floor stacks will be instructed to sign a log prior to entering this area. On this log they will indicate their reason for being in the stacks, the time they entered the stacks, and the time they left. This log will be maintained by the acquisitions staff and reviewed daily. A similar log will be placed outside the freight elevator on the third floor to monitor persons conducting business in that area. That log too will be maintained by the acquisitions staff and likewise will be reviewed daily.

To further enhance security on the second and third floors, the Department of State recently installed cameras on those floors to monitor the activities of persons utilizing these areas. These cameras also provide surveillance for the vaults located on each of these floors. A state-of-the art 360-degree exterior security camera has also been installed to allow us to monitor activities in our two parking lots. We are further upgrading our security by ordering security key locks for our passenger and freight elevators. This system will allow us to limit access to the second, third, and fourth floors. Keys to these elevators will be assigned only to essential personnel. Persons not assigned keys will have to contact our security staff prior to gaining admission to any restricted area. Finally, as an additional security measure, I have instructed our security staff to increase the number of their daily patrols of the State Archives building and parking lot.

I should say the Department of State has always been cognizant of the importance of security. More than once we have sought budgetary assistance to purchase additional surveillance cameras for the State Archives building. Funding for these cameras was not granted until this past year. In addition, the agency will be using existing funds to install security key locks on the State Archives' two elevators.

Relative to the matter of unsupervised access to our vaults, employees assigned to the acquisitions section have always been allowed unmonitored access to the second floor vault. The person responsible for the aforementioned property theft was assigned to this section and therefore had access but not the combination to this vault. The only other State Archives employee provided unattended access to the vault was our document conservator who required infrequent access to check temperature and humidity levels and other environmental conditions. All other employees and non-employees (contractors, visitors, etc.) have always been accompanied while in

employees and non-employees (contractors, visitors, etc.) have always been accompanied while in the vault by an acquisitions section employee, a member of our security staff, or by the building manager or his assistant.

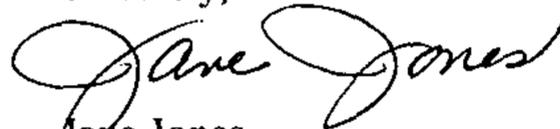
In light of this audit finding, beginning December 1, 1999, anyone seeking admission to the second and third floor vaults must be accompanied by a second person while in these areas. This includes employees assigned to the acquisitions section and our exhibits program. A log book will also be maintained inside both vaults that individuals must sign upon entering and leaving these areas. These individuals must also state their purpose for being in the vaults.

I should add we have upgraded our security for the second and third floor vaults by installing a security camera to monitor those accessing those vaults. The elevator security system that will be installed will also help restrict access to these vaults by unauthorized persons. Our security staff will periodically check to assure these vaults are secure when not being accessed.

The nature of the work performed by the State Archives requires we express a certain degree of trust in our individuals. Employees are often required to work independently of direct supervision. Unfortunately, the former employee responsible for the aforementioned property theft betrayed that trust we extended him. That incident has caused us tremendous embarrassment and grief. However, the perverse activities of one employee should not reflect negatively upon the many dedicated individuals within our agency. Every employee of the Department of State shares in a common grief because of his actions.

Thank you for the opportunity to respond to the aforementioned finding of your audit report. Please do not hesitate to call upon me at your convenience if I can provide additional information that may help clarify questions raised by your audit team. The Department of State is committed to providing the highest level of service to its patrons, and the agency appreciates any suggestions and comments that may enable us to become more efficient in the execution of our mandated duties.

Sincerely,



Jane Jones
Undersecretary