

LEGISLATIVE AUDITOR
STATE OF LOUISIANA



EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED JANUARY 5, 2005

**LEGISLATIVE AUDITOR
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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.

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December 13, 2004

HONORABLE KATHLEEN BABINEAUX BLANCO
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, 2004, we considered the Executive Department's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; 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 and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Executive Department are not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. 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 Executive Department for the year ended June 30, 2003, we reported findings relating to the internal audit function and the inadequate fund balance for the Patients' Compensation Fund. The finding related to inadequate fund balance - Patients' Compensation Fund has been resolved. The finding related to the internal audit function has not been resolved by management and is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. 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.

Ineffective Internal Audit Function

For the thirteenth consecutive year, the Executive Department does not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise controls. Act 14 of the 2003 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of \$30 million to use existing program resources and the table of organization to establish an internal auditor position.

LEGISLATIVE AUDITOR

**HONORABLE KATHLEEN BABINEAUX BLANCO
GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA**

Management Letter, Dated December 13, 2004

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Considering the size of the department's reported assets (\$627,893,976) and revenues (\$583,196,251), an effective internal audit function is important to ensure the department's assets are safeguarded and the department's policies and procedures are uniformly applied.

The Executive Department should establish an internal audit function to provide assurance that assets are safeguarded and to ensure that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

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,



Steve J. Theriot, CPA
Legislative Auditor

FP:BQD:THC:ss

[EXEC04]

Appendix A

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



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

Kathleen Babineaux Blanco
GOVERNOR

Jerry Luke LeBlanc
COMMISSIONER OF ADMINISTRATION

November 15, 2004

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

Re: October 27, 2004 Audit Comment-Lack of Internal Audit Function in the Executive Department

We concur with the finding on the lack of an internal audit function within the Executive Department. This department did submit a request for funding in the prior years for this purpose which were not approved. We have again requested funding for this activity in our Fiscal Year 2005-2006 budget submission.

While funding has been an issue, two other issues remain which have prevented implementation of an internal audit function within this agency. Although Civil Service positions have been established, it remains our opinion, that the pay grade allocations provided are inadequate to attract the level of personnel with the qualifications to perform this function. Filling positions with personnel not having the experience and qualifications to perform the internal audit function is not a practical resolution.

Additionally, the recent death of Inspector General Lynch has caused the Governor's Office to review the scope and charter of the Inspector General's office to ascertain if the current model (which is inclusive of an internal audit component) will be retained or if another model is more appropriate. Once that decision has been made the resolution of whether or not additional resources are to be provided for an internal audit function within the Executive Department-Division of Administration will be considered.

Sincerely,

Jerry Luke LeBlanc
Commissioner of Administration

JLL/wjk