

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Justice
State of Louisiana
Baton Rouge, Louisiana

December 16, 1997



Financial and Compliance Audit Division

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

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

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997
With Supplemental Information Schedules**

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 16, 1997

**DEPARTMENT OF JUSTICE
STATE OF LOUISIANA**

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997
With Supplemental Information Schedules**

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November 17, 1997

Independent Auditor's Report
on the Financial Statements

HONORABLE RICHARD P. IEYOUB
ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Department of Justice, a department within Louisiana state government, as of and for the year ended June 30, 1997, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Department of Justice. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 Justice. As such, they present the appropriated and non-appropriated activity of the department that are part of the accounts and fund structure of the funds and account groups of the State of Louisiana. The non-appropriated funds are individual funds of the State of Louisiana not subject to budgetary control. 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 act and other state laws and regulations.

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Department of Justice at June 30, 1997, and the transactions of the appropriated and non-appropriated funds for the year then ended, on the basis of accounting described in note 1-B.

LEGISLATIVE AUDITOR

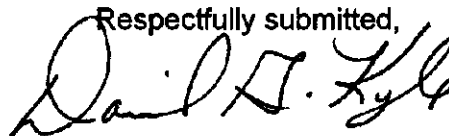
HONORABLE RICHARD P. IEYOUB
ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
Audit Report, June 30, 1997

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 17, 1997, on our test of the Department of Justice's compliance with laws and regulations and our consideration of its internal control over financial reporting.

Our audit was made for the purpose of forming an opinion on the accompanying special purpose financial statements of the Department of Justice. 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 of the Department of Justice. Such information has been subjected to the procedures applied in the audit of the special purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Louisiana Revised Statute 24:516, our report is intended for the information and use of the department and its management and should be used solely as intended by the foregoing statute. 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

KDC:LWM:dl

[JUSTICE]

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

Balance Sheet (Legal Basis), June 30, 1997

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- TRUST FUNDS		
		JUSTICES OF THE PEACE AND CONSTABLES TRAINING	FEDDERS SETTLEMENT	CONSUMER ENFORCEMENT
ASSETS				
Cash (note 1-C)	\$2,252,251	\$59,962	\$7,112	\$116,810
Due from fees and self-generated revenues	301,537			
Due from others (note 2)	838,813			
Due from inter/intra fund transfers	2,584,009			
Inventories of materials and supplies (note 1-D)	14,221			
TOTAL ASSETS	\$5,990,831	\$59,962	\$7,112	\$116,810
LIABILITIES AND FUND EQUITY				
Liabilities:				
Payables (note 3)	\$1,298,976			
Advance from state treasury (note 9)	4,550,000			
Due to others (note 2)	740,009			
Total Liabilities	6,588,985	NONE	NONE	NONE
Fund Equity - fund balances (deficit):				
Reserved for:				
Inventories of materials and supplies (note 1-D)	14,221			
Continuing operations (note 10)	51,282	\$59,962	\$7,112	\$116,810
Unreserved - undesignated (deficit) (note 11)	(663,657)			
Total Fund Equity	(598,154)	59,962	7,112	116,810
TOTAL LIABILITIES AND FUND EQUITY	\$5,990,831	\$59,962	\$7,112	\$116,810

The accompanying notes are an integral part of this statement.

Statement A

APPROPRIATED

AGENCY FUNDS							
COLLECTIONS OF DELINQUENT STUDENT LOANS	CONTINUING LEGAL EDUCATION	ESCROW SETTLEMENT	JUSTICES OF THE PEACE AND CONSTABLES ACTIVITY	NONPUBLIC SCHOOLS ESCROW	PAYROLL CLEARING	INCOME NOT AVAILABLE	TOTAL (MEMORANDUM ONLY)
\$107,601	\$6,213	\$25,482	\$21,145	\$11,815,018	\$335,243		\$14,746,837
							301,537
						\$22,487	861,300
							2,584,009
							14,221
<u>\$107,601</u>	<u>\$6,213</u>	<u>\$25,482</u>	<u>\$21,145</u>	<u>\$11,815,018</u>	<u>\$335,243</u>	<u>\$22,487</u>	<u>\$18,507,904</u>
					\$335,243		\$1,634,219
							4,550,000
\$107,601	\$6,213	\$25,482	\$21,145	\$11,815,018		\$22,487	12,737,955
107,601	6,213	25,482	21,145	11,815,018	335,243	22,487	18,922,174
							14,221
							235,166
							(663,657)
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>(414,270)</u>
<u>\$107,601</u>	<u>\$6,213</u>	<u>\$25,482</u>	<u>\$21,145</u>	<u>\$11,815,018</u>	<u>\$335,243</u>	<u>\$22,487</u>	<u>\$18,507,904</u>

**DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
APPROPRIATED AND NON-APPROPRIATED FUNDS**

**Statement of Revenues, Expenditures, and
Changes in Fund Balances (Legal Basis)
For the Year Ended June 30, 1997**

	GENERAL APPROPRIATION FUND	NON- APPROPRIATED TRUST FUNDS	TOTAL (MEMORANDUM ONLY)
REVENUES			
Appropriated by legislature:			
State General Fund	\$3,896,035		\$3,896,035
State General Fund by:			
Fees and self-generated revenues	9,260,222		9,260,222
Interagency transfers	4,114,650		4,114,650
Federal funds	1,158,653		1,158,653
Non-appropriated revenues		\$219,738	219,738
Total revenues	<u>18,429,560</u>	<u>219,738</u>	<u>18,649,298</u>
EXPENDITURES			
Appropriated expenditures:			
Administrative	2,502,375		2,502,375
Civil law	5,604,338		5,604,338
Criminal law and Medicaid fraud	3,780,339		3,780,339
Risk litigation	7,960,937		7,960,937
Gaming program	3,763,369		3,763,369
Non-appropriated expenditures		142,827	142,827
Total expenditures	<u>23,611,358</u>	<u>142,827</u>	<u>23,754,185</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES			
	<u>(5,181,798)</u>	<u>76,911</u>	<u>(5,104,887)</u>
OTHER APPROPRIATED FINANCING SOURCES (USES)			
Transfers in	5,547,134		5,547,134
Transfers out	(363,238)		(363,238)
Total other appropriated financing sources	<u>5,183,896</u>	<u>NONE</u>	<u>5,183,896</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES			
	2,098	76,911	79,009

(Continued)

The accompanying notes are an integral part of this statement.

DEPARTMENT OF JUSTICE
 STATE OF LOUISIANA
 APPROPRIATED AND NON-APPROPRIATED FUNDS
 Statement of Revenues, Expenditures, and
 Changes in Fund Balances (Legal Basis), 1997

	GENERAL APPROPRIATION FUND	NON- APPROPRIATED TRUST FUNDS	TOTAL (MEMORANDUM ONLY)
FUND BALANCES (Deficit) AT BEGINNING OF YEAR	(\$72,139)	\$106,973	\$34,834
INCREASE IN RESERVE FOR INVENTORY	2,469	NONE	2,469
ADJUSTMENTS (note 12)	<u>(530,582)</u>	<u>NONE</u>	<u>(530,582)</u>
FUND BALANCES (Deficit) AT END OF YEAR	<u><u>(\$598,154)</u></u>	<u><u>\$183,884</u></u>	<u><u>(\$414,270)</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

DEPARTMENT OF JUSTICE
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, 1997

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Appropriated by legislature:			
State General Fund	\$4,253,064	\$3,896,035	(\$357,029)
State General Fund by:			
Fees and self-generated revenues	9,889,287	9,097,638	(791,649)
Interagency transfers	4,324,350	4,030,958	(293,392)
Federal funds	1,305,205	1,231,266	(73,939)
Other fund sources:			
Riverboat Gaming Commission	691,740	574,779	(116,961)
Claims Recovery Fund	4,855,394	4,855,394	
Total appropriated revenues	<u>25,319,040</u>	<u>23,686,070</u>	<u>(1,632,970)</u>
EXPENDITURES			
Appropriated for:			
Administrative	2,527,952	2,481,279	46,673
Civil law	6,201,352	5,593,343	608,009
Criminal law and Medicaid fraud	4,017,218	3,764,934	252,284
Risk litigation	8,119,415	7,913,441	205,974
Gaming	4,453,103	3,748,618	704,485
Total appropriated expenditures	<u>25,319,040</u>	<u>23,501,615</u>	<u>1,817,425</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR			
	<u>NONE</u>	<u>\$184,455</u>	<u>\$184,455</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF JUSTICE
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 1997

INTRODUCTION

The Department of Justice is a department within the State of Louisiana reporting entity. The department was created in accordance with Title 36, Chapter 18 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. The department is charged with the authority to institute, prosecute, or intervene in any civil action or proceeding to assert or protect any right or interest of the State of Louisiana. The department provides a full range of legal services to various state agencies and officials. Assistance is also provided to local officials in both civil and criminal matters within the State of Louisiana. The Department of Justice consists of one general appropriation fund, three trust funds, and six agency funds. The department has 396 authorized full-time employees in the main office in Baton Rouge and the New Orleans, Shreveport, Alexandria, and Lake Charles divisions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local government. 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 Justice 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.

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

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

APPROPRIATED FUND - GENERAL
APPROPRIATION FUND

The General Appropriation Fund is the general operating fund of the Department of Justice. It administers and accounts for the legislative appropriation provided to fund the general administrative expenditures of the department and those expenditures not funded through other specific legislative appropriations or revenues.

NON-APPROPRIATED FUNDS

Justices of the Peace and Constables
Training Trust Fund

The department uses the Justices of the Peace and Constables Training Trust Fund to receive and disburse fees pertaining to training required by Louisiana Revised Statute (R.S.) 49:251.1 for Justices of the Peace and Constables.

Fedders Settlement Trust Fund

The department maintains the Fedders Settlement Trust Fund to account for administrative expenses associated with the implementation of the provisions of a consent judgment dated February 1, 1983. The consent judgment was issued by the United States District Court for the Middle District of Louisiana and resulted from a civil action brought against the Fedders Corporation by the State of Louisiana.

Consumer Enforcement Trust Fund

The department maintains the Consumer Enforcement Trust Fund for the purpose of funding consumer enforcement actions, including investigations and the costs of administering settlements in such matters pursuant to the consent judgment in the case of "State of Louisiana vs. AAMCO Transmissions, Incorporated," number 312409 Division "G" of the Nineteenth Judicial District Court dated February 18, 1987.

Collections of Delinquent Student
Loans Agency Fund

The Collections of Delinquent Student Loans Agency Fund accounts for collections of delinquent student loans by the department. Act 17 of 1976 and Act 261 of 1979 authorized the department to collect delinquent student loans for all Louisiana public colleges and universities, the Office of Student Financial

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

Assistance, the Charity Hospital School of Nursing, and the Louisiana Department of Education.

Continuing Legal Education Agency Fund

The department maintains the Continuing Legal Education Agency Fund to provide continuing legal education seminars to members of the Louisiana State Bar Association and public attorneys licensed to practice law in Louisiana and to keep them current on changes and developments in Louisiana Law.

Escrow Settlement Agency Fund

The Escrow Settlement Agency Fund is used by the department to receive funds provided by a settlement or a court order from individuals or other non-public entities and to disburse these funds to third parties.

**Justices of the Peace and Constables
Activity Agency Fund**

The department uses the Justices of the Peace and Constables Activity Agency Fund to receive and disburse fees pertaining to social activities for Justices of the Peace and Constables.

Nonpublic Schools Escrow Agency Fund

The Nonpublic Schools Escrow Agency Fund is maintained by the department to receive funds provided by a court order, which amount represents the appropriation authorized by the Louisiana Legislature for fiscal year 1996-97, as reimbursement for required services incurred in academic year 1995-96. Distribution of these funds may be made to any nonpublic school only upon order of the court.

Payroll Clearing Fund

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

Income Not Available

The department 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 on Schedule 1.

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

The non-appropriated funds relating to the Collections of Delinquent Student Loans, Continuing Legal Education, Escrow Settlement, Justices of the Peace and Constables Activity, Nonpublic Schools Escrow, Payroll Clearing Funds, and Income Not Available 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 are both measurable and available.
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, other fund sources, 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. Federal funds are recognized as revenue in the period in which they become susceptible to accrual or when the related expenditure is incurred, in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section G60.109. Self-generated revenues include commissions earned on the collection of delinquent student loans.

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

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, any 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 Appropriated Financing Sources (Uses)

Other appropriated financing sources are recognized under the modified accrual basis of accounting, to the extent that they are both measurable and available. Other financing uses are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Transfers in are recognized in the year the transfers are authorized, to the extent that they have been appropriated and earned. The Claims Recovery Fund receives revenues from court awarded judgments and settlements made on behalf of the State of Louisiana. These recoveries do not include tort litigation cases. The amount of this fund is appropriated annually by the legislature. When funds are received by the state treasurer, a transfer is made to the Department of Justice's means of financing up to the appropriated amount. The funds are used to support the operations of the department.

On May 1, 1996, the Louisiana Gaming Control Board assumed control of the affairs of the Louisiana Economic Development and Gaming Corporation. The attorney general is authorized by R.S. 27:19 to be reimbursed for legal, investigative, and administrative costs incurred in advising and representing the board, chairman, and state police relative to all gaming matters under the board's jurisdiction and in all legal proceedings.

C. CASH

Cash is composed of the following (book balances):

Under control of the department:	
Petty cash (on hand and in banks)	\$7,675
Cash in demand accounts	241,024
Cash on deposit with the state treasury	<u>14,498,138</u>
 Total	 <u>\$14,746,837</u>

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

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 \$394,232 at June 30, 1997, for which the department has control. These deposits are secured from risk by \$104,300 of federal deposit insurance (GASB Risk Category 1) and \$289,932 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GASB Risk Category 3).

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:

Appropriated funds:	
Means of finance	\$2,147,640
FACS operating	92,636
Non-appropriated funds	11,922,619
Payroll clearing	<u>335,243</u>
 Total	 <u><u>\$14,498,138</u></u>

D. INVENTORIES OF MATERIALS AND SUPPLIES

Inventories are valued at cost, which approximates market, and are recorded as expenditures at the time individual inventory items are purchased. The department uses a periodic inventory system and values its inventory using the first-in, first-out (FIFO) valuation method. Reported inventories 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.

E. FIXED ASSETS

At June 30, 1997, the department has stewardship responsibility for \$4,868,901 in governmental movable property, valued at historical cost at the time of acquisition. The movable property is not reflected in the accompanying special purpose financial statements. A summary of changes in general fixed assets follows:

	Balance July 1, 1996	Additions	Deletions	Balance June 30, 1997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Movable property	<u>\$4,767,710</u>	<u>\$810,768</u>	<u>\$709,577</u>	<u>\$4,868,901</u>

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

In accordance with R.S. 39:321-332, the Department of Justice has complied with movable property statutes of the State of Louisiana.

F. 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 lease commitments, judgments, compensated absences, or from any other source are not recognized in the accompanying special purpose financial statements.

G. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments relating to unperformed contracts for goods or services. The department employs encumbrance accounting during the year to assure compliance with the annual appropriation act. Encumbrances are not included in the accompanying financial statements because 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.

H. 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 Fund 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 transfers in and out and funds carried forward from the prior year are recognized as revenues on Statement C, while federal receivables attributable to the payroll accrual at fiscal year-end are not recognized as revenues on Statement C. In addition, salaries and related benefits are recognized when paid on Statement C. Revenues and expenditures, as shown on Statement B, are reconciled with the respective amounts shown on Statement C as follows:

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

Statement B revenues	\$18,429,560
Add:	
Prior-year federal funds payroll accrual	26,510
Other fund sources - transfers in	5,547,134
Federal funds carry forward from 1995-96	82,146
Less:	
Other fund uses - transfers out	(363,238)
Current-year federal funds payroll accrual	<u>(36,042)</u>
 Statement C revenues	 <u>\$23,686,070</u>
 Statement B expenditures	 \$23,611,358
Add - prior-year payroll accrual	649,745
Less - current-year payroll accrual	<u>(759,488)</u>
 Statement C expenditures	 <u>\$23,501,615</u>

2. The department is prohibited by statute from over expending the program levels established in the general appropriation 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	\$21,823,044
Increase for:	
Preamble adjustments	1,514,305
Prior-year carry forward	1,060,989
Federal funds	67,320
Supplement to Act 17	<u>853,382</u>
 Total budget amount	 <u>\$25,319,040</u>

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

I. 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

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

sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. The liability for unused annual leave payable at June 30, 1997, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is \$1,094,855. The leave payable is not recorded in the accompanying special purpose financial statements.

Certain employees of the department are eligible to earn compensatory time, as defined by the Department of Justice Policy Manual and the Fair Labor Standards Act. The employees can earn and accumulate one hour for each hour of overtime worked, depending on their job classification, and are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another. Upon termination, employees are compensated for unused compensatory leave depending upon their rate of pay. The liability for accrued compensatory leave at June 30, 1997, is \$39,093. The leave payable is not recorded in the accompanying special purpose financial statements.

J. TOTAL COLUMNS ON STATEMENTS

The total columns on the financial statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

2. DUE FROM/TO OTHERS

The following is a summary of amounts due from/to others at June 30, 1997:

	Non-Appropriated Funds						Income Not Available
	General Appropriation Fund	Collections of Delinquent Student Loans	Continuing Legal Education	Escrow Settlement	Justices of the Peace and Constables Activity	Nonpublic Schools Escrow	
Due from others:							
Other agencies - interagency transfers	\$167,322						
Federal government	613,724						\$22,487
Other	57,767						
Total	\$838,813	NONE	NONE	NONE	NONE	NONE	\$22,487

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

	Non-Appropriated Funds						Income Not Available
	General Appropriation Fund	Collections of Delinquent Student Loans	Continuing Legal Education	Escrow Settlement	Justices of the Peace and Constables Activity	Nonpublic Schools Escrow	
Due to others:							
State General Fund	\$603,306						\$22,487
Office of State Police	116,961						
Universities and court costs		\$107,601					
Plaintiffs				\$25,482		\$11,815,018	
Other	19,742		\$6,213		\$21,145		
Total	\$740,009	\$107,601	\$6,213	\$25,482	\$21,145	\$11,815,018	\$22,487

3. PAYABLES

The following is a summary of payables at June 30, 1997:

General appropriation:	
Accounts payable	\$531,617
Accrued payroll payable	767,359
Non-appropriated:	
Accrued employee benefits payable	191,582
Payroll deductions payable	143,661
Total	\$1,634,219

4. PENSION PLANS

Substantially all employees of the department are members of two statewide public employee retirement systems. Certain unclassified state employees are members of the Louisiana Teachers Retirement System and other unclassified state employees are members of the Louisiana State Employees Retirement System. Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Required disclosures for the plan for fiscal year 1996-97 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. 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

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

monthly premiums are paid jointly by the employee and by 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, 1997, the costs of retiree benefits totaled \$67,720.

6. 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.

7. LEASE OBLIGATIONS

Capital leases, which under generally accepted accounting principles would be an asset and liability of the department, are not reflected in the accompanying special purpose financial statements. The department has capital leases under which it is leasing vehicles. The discounted minimum lease payments were 90 percent or more of the fair market value of the vehicles. The following is a schedule, by years, of future minimum lease payments under these capital leases for the vehicles, together with the present value of the net minimum lease payments, as of June 30, 1997:

1997-98 net minimum lease payments	\$6,826
Less - amount representing interest	<u>(45)</u>
Present value of net minimum lease payments	<u>\$6,781</u>

In addition to capital leases, the department has noncancelable operating leases for rental of office space, office equipment, parking space, and security systems. The annual rental payments for the next five fiscal years are as follows:

<u>Fiscal Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
1997-98	\$1,034,164	\$76,847	\$24,276	\$1,135,287
1998-99	717,293			717,293
1999-2000	343,800			343,800
2000-01	198,102			198,102
2001-02	47,048			47,048
Total	<u>\$2,340,407</u>	<u>\$76,847</u>	<u>\$24,276</u>	<u>\$2,441,530</u>

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

Most 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. Rental and lease expenditures for fiscal year ended June 30, 1997, totaled \$1,435,987.

8. INSTALLMENT PURCHASES

Starting with the fiscal year ended June 30, 1997, the department entered into various installment purchase agreements with the Division of Administration under the Louisiana Equipment Acquisition Fund (LEAF) Program for the purchase of equipment. The following is a summary of installment purchases of the department for the year ended June 30, 1997:

Balance at June 30, 1996	\$285,696
Installment purchases	156,920
Installment payments in fiscal year 1997	<u>(301,344)</u>
Balance at June 30, 1997	<u>\$141,272</u>

The following is a summary of future minimum installment payments as of June 30, 1997:

Fiscal year:	
1997-98	\$72,403
1998-99	72,364
1999-2000	<u>4,740</u>
Net minimum installment payments	149,507
Less - amount representing interest	<u>(8,235)</u>
Total	<u>\$141,272</u>

9. ADVANCE FROM STATE TREASURY

The department has received advances from the state treasury for imprest fund operations and working capital totaling \$50,000 and \$4,500,000, respectively. The advances, as reflected in the accompanying statements, represent a liability to the department and must be repaid if not authorized annually.

10. RESERVED FOR CONTINUING OPERATIONS

As shown on Statement A, at June 30, 1997, the department has reserves for continuing operations totaling \$235,166, which may be retained for future expenditures as follows:

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

<u>Fund</u>	<u>Legal Authority</u>	<u>Restricted Balance</u>
General Appropriation Fund	Louisiana Revised Statute 39:82	\$51,282
Justices of the Peace and Constables		
Training Trust Fund	Louisiana Revised Statute 49:251.1	59,962
Fedders Settlement Trust Fund	Consent Judgment	7,112
Consumer Enforcement Trust Fund	Court Settlements	<u>116,810</u>
Total		<u>\$235,166</u>

These reserves relate to programs that are not subject to an annual appropriation, the lapsing provisions of the annual appropriation act, or to appropriations in which the legislature has authorized the department to retain the fund balance of the program for future operations of the program.

11. FUND DEFICIT

The General Appropriation Fund had a fund deficit of \$663,657 for the year ended June 30, 1997. The deficit was the result of the recognition of accrued salaries and related benefits that were required by the Office of the Governor, Division of Administration, but not included in the 1996-97 fiscal year budget. The department resolved the deficit by liquidating the liabilities with funds appropriated in the 1997-98 fiscal year. These obligations are included in the accompanying financial statements.

**12. ADJUSTMENTS TO FUND BALANCE
AT BEGINNING OF YEAR**

Adjustments to the beginning fund balance of the General Appropriation Fund, as shown on Statement B, are detailed as follows:

Surplus remitted to state General Fund	\$225,530
Adjustment of prior-year expenditures	73,385
Prior period audit adjustment	<u>231,667</u>
Total	<u>\$530,582</u>

13. DEFERRED COMPENSATION PLAN

Certain employees of the Department of Justice 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.

**DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 1997**

**SCHEDULE OF NON-APPROPRIATED REVENUES -
INCOME NOT AVAILABLE**

Schedule 1 reflects income not available collected by the department during the year that was not available to the department for expenditures.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NON-APPROPRIATED TRUST FUNDS**

Schedule 2 presents the revenues, expenditures, and changes in fund balances for the Justices of the Peace and Constables Training, Fedders Settlement, and Consumer Enforcement Trust funds for the year ended June 30, 1997.

SCHEDULE OF CHANGES IN BALANCES

Changes in balances for the Non-Appropriated - Payroll Clearing Fund and Agency Funds for the year ended June 30, 1997, are presented on Schedule 3.

DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
INCOME NOT AVAILABLE

Schedule of Non-Appropriated Revenues
For the Year Ended June 30, 1997

<u>NON-APPROPRIATED REVENUE FUND SOURCE</u>	<u>CASH RECEIPTS THROUGH JUNE 30, 1997</u>	<u>ACCOUNTS RECEIVABLE AT JUNE 30, 1997</u>	<u>TOTAL REVENUES</u>
Garnishments, fees, and suit settlements	\$1,053,162	\$1,752	\$1,054,914
Indirect cost - Medicare fraud	53,007	20,735	73,742
 Total Non-Appropriated Revenues	 <u>\$1,106,169</u>	 <u>\$22,487</u>	 <u>\$1,128,656</u>

DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
NON-APPROPRIATED TRUST FUNDS

Schedule of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended June 30, 1997

	JUSTICES OF THE PEACE AND CONSTABLES TRAINING	FEDDERS SETTLEMENT	CONSUMER ENFORCEMENT	TOTAL
REVENUES				
Registration fees	\$52,735			\$52,735
Court settlements			\$167,003	167,003
Total revenues	52,735	NONE	167,003	219,738
EXPENDITURES				
Hotel, food, and travel	35,107		95,476	130,583
Operating services	7,734		957	8,691
Supplies	630		1,053	1,683
Refunds	1,870			1,870
Total expenditures	45,341	NONE	97,486	142,827
EXCESS OF REVENUES OVER EXPENDITURES				
	7,394	NONE	69,517	76,911
FUND BALANCES AT BEGINNING OF YEAR				
	52,568	\$7,112	47,293	106,973
FUND BALANCES AT END OF YEAR				
	\$59,962	\$7,112	\$116,810	\$183,884

**DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
NON-APPROPRIATED AGENCY FUNDS**

**Schedule of Changes in Balances
For the Year Ended June 30, 1997**

	<u>COLLECTIONS OF DELINQUENT STUDENT LOAN</u>	<u>CONTINUING LEGAL EDUCATION</u>	<u>ESCROW SETTLEMENT</u>
BALANCES AT BEGINNING OF YEAR	<u>\$99,313</u>	<u>\$6,213</u>	<u>\$25,427</u>
ADDITIONS			
Transfers from general appropriation			
Activity fees			
Collections of student loans	3,729,802		
Receipts from defendants			3,601
Total additions	<u>3,729,802</u>	<u>NONE</u>	<u>3,601</u>
Total	<u>3,829,215</u>	<u>6,213</u>	<u>29,028</u>
DEDUCTIONS			
Payroll deductions and employee benefits			
Disbursements of collected student loans to lending institutions	2,808,115		
Commissions earned	770,496		
Court costs remitted	143,003		
Disbursed to plaintiffs			3,546
Refunds			
Other			
Total deductions	<u>3,721,614</u>	<u>NONE</u>	<u>3,546</u>
BALANCES AT END OF YEAR	<u>\$107,601</u>	<u>\$6,213</u>	<u>\$25,482</u>

<u>JUSTICES OF THE PEACE AND CONSTABLES ACTIVITY</u>	<u>NONPUBLIC SCHOOLS ESCROW</u>	<u>PAYROLL CLEARING</u>
<u>\$14,776</u>	<u>\$4,971,662</u>	<u>\$291,880</u>
		1,221,386
11,610		
<u>11,610</u>	<u>6,844,409</u>	<u>1,221,386</u>
<u>26,386</u>	<u>11,816,071</u>	<u>1,513,266</u>
		1,178,023
420		
<u>4,821</u>	<u>1,053</u>	
<u>5,241</u>	<u>1,053</u>	<u>1,178,023</u>
<u>\$21,145</u>	<u>\$11,815,018</u>	<u>\$335,243</u>

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal controls as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This 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
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November 17, 1997

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements
Performed in Accordance With Government Auditing Standards

HONORABLE RICHARD P. IEYOUB
ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Department of Justice, a department within Louisiana state government, as of and for the year ended June 30, 1997, and have issued our report thereon dated November 17, 1997. 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 Justice's 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 the following instance of noncompliance that, although not material to the financial statements, is required to be reported under *Government Auditing Standards*.

Inadequate Payroll Records

For the second consecutive year, the Department of Justice has not maintained complete payroll records including records to account for compensatory/administrative leave earned and/or taken by all employees. Executive Order MJF 96-79, dated December 30, 1996, requires that daily attendance and leave records shall be maintained for each unclassified employee who is eligible to accrue annual, sick, and/or compensatory leave. Office of Management and Budget (OMB), Attachment B, Section 11 (compensation for personnel services) and the Common Rule, Subpart C, Section 20, require proper time and attendance records. In addition, an adequate internal control structure should include policies and procedures to maintain time and attendance records for all employees including compensatory/administrative leave earned and taken.

EXHIBIT A

LEGISLATIVE AUDITOR

HONORABLE RICHARD P. IEYOUB
ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
Compliance and Internal Control Report
Page 2

We determined that directors, deputy directors, attorneys, and certain other employees do not submit adequate time and attendance records. These employees submit certifications at the end of each pay period stating they have averaged at least 40 hours per week including all authorized leave. However, the certifications do not indicate how many hours were worked nor do they indicate how much compensatory/administrative leave was earned and/or taken. Furthermore, these employees are allowed to take administrative leave if they work overtime. However, the amount of overtime worked and the amount of administrative leave taken is not recorded in the payroll records. For all other employees, the department maintains adequate time and attendance records and has a compensatory/administrative leave policy. Complete payroll records, including adequate time and attendance records, are necessary to support amounts paid to all employees as salary; to maintain accumulated annual, sick, and compensatory/administrative leave balances; and to reduce the risk that errors and/or fraud may occur and not be detected.

Each pay period, employees earning leave should be required to submit a signed time and attendance report that indicates the hours worked each day and how much compensatory/administrative leave was earned and/or taken to the appropriate supervisor who should certify the time and attendance report. If the employee is not earning leave, then, at a minimum, either the employee or the employee's supervisor, should submit documentation each pay period to support the payroll disbursement. In addition, the department should formally establish a compensatory/administrative leave policy for recording compensatory/administrative leave that covers all employees.

In a letter dated October 31, 1997, Attorney General Richard P. Ieyoub did not concur with the finding and recommendation. The Attorney General informed us that:

1. It is the department's legal opinion that implementation of the record keeping we suggested will subject the department and the State of Louisiana to the unnecessary payment of overtime pay for otherwise exempt employees.
2. He believes this would be fiscally irresponsible.
3. The department will monitor, track, and standardize its administrative leave program in accordance with the directions of the Legislative Audit Advisory Council.

Additional Comments: Under the current administrative leave policy, employees are allowed to take administrative leave if they work overtime; however, the amount of overtime worked during the pay period is not recorded in the payroll records for all

LEGISLATIVE AUDITOR

HONORABLE RICHARD P. IEYOUB
ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
STATE OF LOUISIANA
Compliance and Internal Control Report
Page 3

employees and the accumulated administrative/compensatory leave balance is not maintained. This information is necessary for the department to be in compliance with state and federal regulations. In addition, this information is necessary for a good internal control system over payroll expenditures. We believe our recommendations are clearly in the best interest of the Department of Justice and the State of Louisiana.

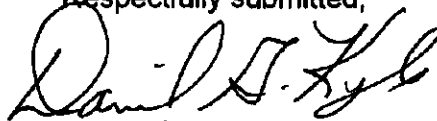
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Justice's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a 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 Justice's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition (Inadequate Payroll Records) is described in the compliance section of our report.

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. However, we believe that the reportable condition described previously is not a material weakness.

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

KDC:LWM:dl

[JUSTICE]

EXHIBIT A