

LOUISIANA DEPARTMENT OF JUSTICE
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED NOVEMBER 16, 2016

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ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana Department of Justice



November 2016

Audit Control # 80160042

Introduction

The primary purpose of our procedures at the Louisiana Department of Justice (DOJ) was to evaluate certain internal controls DOJ uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds for the period of July 1, 2014, through June 30, 2016.

The mission of DOJ is to protect the people and resources of the state of Louisiana by providing superior legal representation and interpretation, professional and effective law enforcement, and public education programs.

Results of Our Procedures

We evaluated DOJ's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of applicable laws and regulations. Based on the documentation of DOJ's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to LaCarte, travel, and Fueltrac card expenditures; payroll expenditures; professional service contracts; and other nonpayroll expenditures.

Current-year Findings

Lack of Controls over Escrow Fund

DOJ did not establish policies and procedures over the Escrow Fund, resulting in an increased risk that errors could occur and remain undetected causing inaccurate financial reporting and noncompliance with laws and regulations. The Escrow Fund was established to record the proceeds recovered from court judgements, settlements, fines, fees, forfeitures, and penalties.

As of June 30, 2016, the Escrow Fund balance was \$23.8 million with the Consumer Enforcement Account (Account) comprising \$22.6 million, or 95%, of the Escrow Fund. The Account was established to deposit funds collected for the settlement of unfair trade practice and consumer enforcement actions. A review of the Account as of June 4, 2016, disclosed the following:

- In a review of 23 inflow transactions totaling \$18.7 million, the following deficiencies were noted:
 - For three (13%) of 23 transactions, DOJ could not provide records to support recorded inflows.
 - For nine (45%) of 20 transactions, DOJ provided records that were incomplete.
 - For two (10%) of 20 transactions, DOJ did not provide records that were adequate to justify the appropriateness of the inflow recorded in the Account.
- In a review of 28 outflow transactions totaling \$24.7 million, the following deficiencies were noted:
 - For 26 (93%) of 28 transactions, DOJ could not provide records to support recorded outflows.
 - For the remaining two transactions, DOJ provided records that were incomplete and could not explain the process to justify the appropriateness of the payments/transfers from the Escrow Fund.
- In a review of deposits, the following deficiencies were noted:
 - Five (36%) of 14 deposits were not deposited by DOJ until five to 20 days after the date of receipt. Also, seven (50%) did not indicate the date of receipt, and one (7%) did not include complete deposit documentation to determine the timeliness of the deposit.
 - Eighteen (86%) of 21 deposits were untimely classified by DOJ, ranging from 16 to 286 days after the date of deposit in the accounting system.

DOJ management attributed the deficiencies to changes in key accounting and administrative personnel during our engagement.

DOJ management should obtain a comprehensive understanding and conduct an analysis of the Escrow Fund balance to ensure accurate financial reporting and compliance with laws and regulations. DOJ management should also develop written policies and procedures and implement controls over the Escrow Fund that includes periodic reconciliations of the accounting system to supporting records. In addition, management should establish and implement procedures to ensure accurate notations of receipt dates and the timeliness of deposits and classifications. Management's response indicated concurrence with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Ineffective Internal Audit Function

DOJ did not have an effective internal audit function and did not adhere to the Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing (IIA Standards) during fiscal year 2016, increasing the risk that DOJ internal control processes will not be effective or efficient.

The following deficiencies were noted:

- The internal auditor completed three engagements during fiscal years 2015 and 2016, none of which were identified in the internal audit plan. In addition, management was unable to provide sufficient engagement records to support the conclusions and engagements results. These engagements were not sufficient to constitute an effective internal audit function.
- Management was unable to provide continuing professional development documentation for the former internal auditor, written internal audit policies and procedures, and a risk assessment.
- The internal audit charter and internal audit plan were not approved by the Attorney General.
- For fiscal year 2016, the DOJ internal audit does not have a quality assurance and improvement program and has not obtained an external quality assurance assessment as required by IIA Standards.

An agency with an appropriation level of \$30 million or more is required by Act 15 of the 2014 Regular Session of the Louisiana Legislature to have an internal audit function. Effective fiscal year 2016, an agency with an appropriation level of \$30 million or more is required by Act 314 of the 2015 Regular Session of the Louisiana Legislature to have an internal audit function and establish an office of the chief audit executive who shall be responsible for ensuring the internal audit function adheres to IIA Standards. Considering DOJ received appropriations of more than \$68 million during fiscal years 2015 and 2016, an effective internal audit function is important to ensure that DOJ's assets are safeguarded and that management's policies and procedures are uniformly applied. DOJ management attributed the deficiencies to the resignation of its sole part-time internal auditor during the middle of fiscal year 2016 and the new internal auditor not assuming duties until the end of fiscal year 2016.

Management should ensure that internal audit activities are performed in accordance with IIA Standards and contribute to the effectiveness and efficiency of DOJ operations, including internal control processes. Management concurred in part with the finding and provided a corrective action plan (see Appendix A, page 3).

Other Results of Our Procedures

LaCarte, Travel, and Fueltrac Card Expenditures

DOJ participates in the state of Louisiana's LaCarte purchasing card program for general office supplies and administrative expenses; the travel card program for most travel expenses; and the Fueltrac card program for fuel purchases and minor vehicle repairs and maintenance. Due to the inherent risks that exist with these cards, we obtained an understanding of DOJ's controls over use of cards.

We analyzed LaCarte, travel, and Fueltrac card transaction listings to identify any unusual or risky transactions. We reviewed the selected transactions and determined that DOJ had adequate controls to ensure that purchases were approved and made for proper business purposes; sufficient documentation was maintained to support purchases; and purchases were properly reconciled to invoices and receipts.

Payroll Expenditures

DOJ has approximately 501 employees, and payroll expenditures are the department's largest expenditure. We obtained an understanding of DOJ's controls over payroll processing and documentation in accordance with standards established by Department of State Civil Service and DOJ policies. We performed inquiries of DOJ's personnel, selected transactions for testing, and examined support for pay rates, leave taken, and payroll deductions for a selected sample of employees. Based on the results of our procedures, no exceptions were identified.

Professional Service Contracts

We obtained an understanding of controls over professional service contracts and examined contracts for compliance with state law. Based on the results of our procedures, DOJ had adequate controls in place to ensure that professional service contracts were properly authorized and administered in accordance with state law.

Based on the significance of certain professional service contract amounts, we performed procedures to determine whether payments were made in accordance with applicable procurement laws and regulations. Based on our procedures, DOJ had adequate controls in place to ensure that payments for professional service contracts were properly supported, accurately recorded, and in accordance with contract terms and applicable laws and regulations.

Other Nonpayroll Expenditures

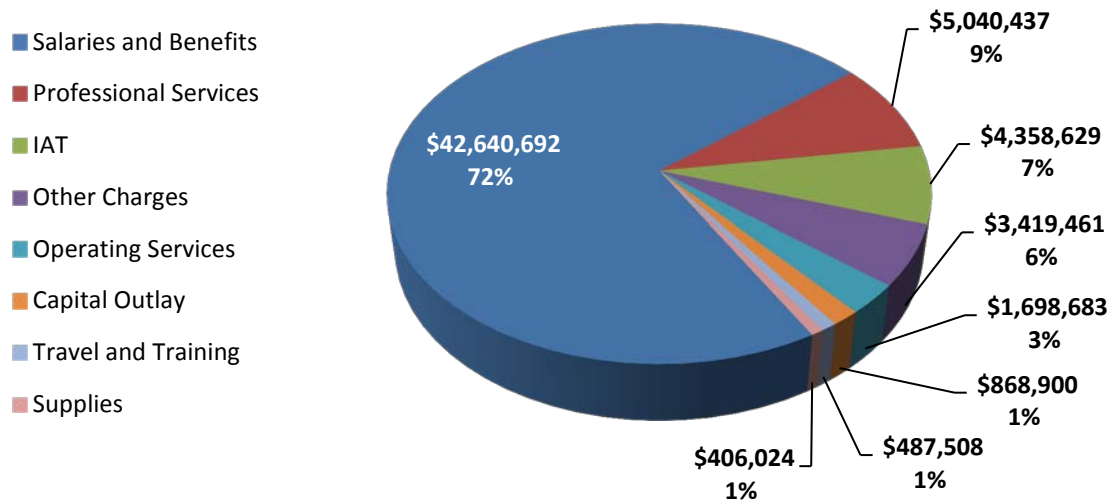
We obtained an understanding of controls over other nonpayroll expenditures. Our procedures determined that DOJ had adequate controls to ensure that purchases were properly authorized, accurately recorded, adequately supported, and in compliance with applicable laws and regulations.

Trend Analysis

We compared the most current and prior-year financial activity using DOJ's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from management for significant variances that could potentially indicate areas of risk. DOJ management provided reasonable explanations for all significant variances.

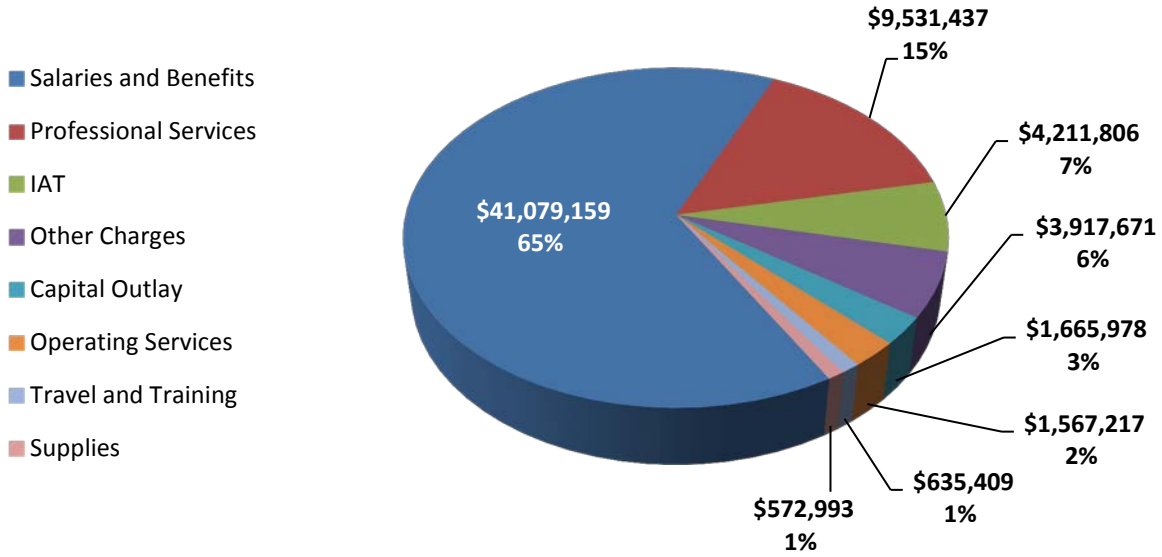
In a review of expenditures for fiscal years 2015 and 2016, we noted a 6.7% decrease in total expenditures. The majority of the decrease is from the cancellation of existing professional service contracts by the current administration resulting in a \$4.5 million decrease in expenditures for professional services.

Exhibit 1
Fiscal Year 2016 Expenditures, as of June 30, 2016
(\$58,920,334)



Source: Business Objects Financial Reports

Exhibit 2
Fiscal Year 2015 Expenditures, as of June 30, 2015
(\$63,181,670)



Source: Business Objects Financial Reports

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Thomas H. Cole, CPA
First Assistant Legislative Auditor

JBM:KLD:CLL:BQD:EFS:aa

DOJ 2016

APPENDIX A: MANAGEMENT'S RESPONSES



Jeff Landry
Attorney General

State of Louisiana
DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL
P.O. BOX 94005
BATON ROUGE
70804-9005

November 2, 2016

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Legislative audit during fiscal years 2015 and 2016

Dear Mr. Purpera:

My office has reviewed the deficiencies you found regarding the Department of Justice Escrow Fund. While the scope of this audit covered a period of time prior to my administration, I appreciate your findings – especially in light of the attention the Escrow Fund received during this year’s Special, Regular, and Second Special Sessions.

It is important to note that the inflow and outflow transaction issues were due to records from my predecessor being non-producible. I cannot speak for the previous administration, but I will assure you that we take this very seriously – putting into place controls and procedures to maintain adequate documentation of all transactions.

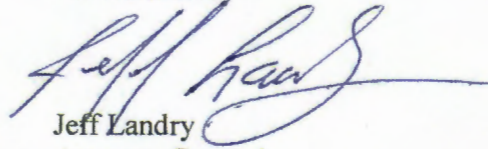
Recently, we performed a reconciliation of the Escrow Fund. This process involved utilizing the amounts of each fund type as of 8/14/15 found on the Agency’s Annual Financial Report 2015 (AFR) Schedule 6-1-B, and maintaining an updated spreadsheet of all transactions that involved the Escrow Fund. This spreadsheet was compared to the balance of each fund in ISIS-On-Line General Ledger (OLGL) screen. A final reconciliation for FYE 2016 was completed in order to prepare the AFR for FYE2016 and the journal vouchers to carryforward each fund type into FY 2017. Our Internal Auditor is reviewing the Escrow Fund to ensure accurate financial reporting and compliance are met.

While I again cannot comment for the previous administration’s handling of deposits, I will inform you that – upon reorganization of our Fiscal Section – we reviewed office policy related to timely classification of deposits. Classification of deposits is completed by the Fiscal Section by utilizing the ISIS-ODIT screen to track any unclassified deposits for the Agency. The Fiscal Section has reassigned duties for timely deposits with the Section. Our Internal Auditor is reviewing the controls, procedures, and classifications for deposits to ensure accurate financial reporting and compliance are met.

Finally, I have instructed my Director of Administration (Mr. Michael Larisey) to implement a corrective action plan to ensure the compliance of this office. This plan will include an annual internal audit and also include the proper documentation of records.

Thank you for your attention to these issues and your work on behalf of the taxpayers.

For Louisiana,

A handwritten signature in blue ink, appearing to read "Jeff Landry", with a long horizontal flourish extending to the right.

Jeff Landry
Attorney General

JL/ML



Jeff Landry
Attorney General

State of Louisiana
DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL
P.O. BOX 94005
BATON ROUGE
70804-9005

October 25, 2016

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Legislative audit during fiscal years 2015 and 2016

Dear Mr. Purpera:

My office has reviewed the deficiencies noted regarding the Department of Justice Internal Audit Functions. It should be noted that the scope of this audit covered a period of time prior to my administration. In part, I concur with some of your findings.

It is my opinion that if the Internal Auditor is to be truly independent, then he or she must be allowed to perform engagements beyond the scope of what is identified in the annual internal audit plan.

As to the issue "unable to provide sufficient engagement records", again we were participating to the best of our ability during transition and were unable to produce some records from the previous administration.

Your staff noted that management was unable to provide professional documentation. We cannot respond on behalf of the previous Attorney General; however our new Internal Auditor has a written professional development plan in place.

As to the internal audit charter and internal audit plan not being signed by the previous Attorney General, we cannot respond. However, moving forward, this Attorney General will sign all related documents.

As to the issue of the DOJ not having obtained an external quality assurance assessment, we submit that this is provided for all agencies through the Legislative Auditor's Office.

I have instructed my Director of Administration, Mr. Michael Larisey, to implement a corrective action plan to ensure the compliance of this office. This plan includes an annual internal audit plan submitted by the Internal Auditor to Management, amended as needed. It will also include the proper storage of engagement records related to all audits. The audit plan will contain the audits identified by the Internal Auditor to be conducted throughout the fiscal year. The implementation of these audits and the remediation of the above referenced discrepancies have already begun.

Thank you for your attention to these issues and your work on behalf of the taxpayers.

For Louisiana,

Jeff Landry
Attorney General

JL/ML

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Justice (DOJ) for the period from July 1, 2014, through June 30, 2016. Our objective was to evaluate certain internal controls DOJ uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We did not audit or review DOJ's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. DOJ's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions. We performed the following procedures:

- We evaluated DOJ's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DOJ.
- Based on the documentation of DOJ's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to LaCarte, travel, and Fueltrac card expenditures; payroll expenditures; professional service contracts; and other nonpayroll expenditures.
- We compared the most current and prior-year financial activity using DOJ's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from DOJ management for significant variances.

The purpose of this report is solely to describe the scope of our work at DOJ and not to provide an opinion on the effectiveness of DOJ's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be and should not be used for any other purpose.