

DEPARTMENT OF MILITARY AFFAIRS

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Management Letter
Issued April 11, 2024

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
BETH Q. DAVIS, CPA

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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Department of Military Affairs



April 2024

Audit Control # 80230047

Introduction

As a part of our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2023, we performed procedures at the Department of Military Affairs (LMD) to evaluate the effectiveness of LMD's internal controls over compliance and determine whether LMD complied with applicable laws and regulations.

In addition to the procedures noted above, we also performed certain other procedures for the period July 1, 2021, through June 30, 2023.

We also determined whether management has taken actions to correct the findings reported in the prior engagement.

Results of Our Procedures

Follow-up on Prior-engagement Findings

Our auditors reviewed the status of the prior-engagement findings reported in the LMD procedural report dated August 2, 2021. We determined that management has resolved the prior-engagement findings related to Failure to Certify and Approve Time and Attendance Records Timely and Theft of Cash Receipts.

Current-engagement Finding

Inadequate Accounting Records and Untimely Drawdowns of Federal Funds

LMD incorrectly reported Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG, Assistance Listing 14.228) expenditures totaling \$7,146,584 as National Guard Military Operations and Maintenance Projects (Assistance Listing 12.401) expenditures on the Schedule of Expenditures of Federal Awards (SEFA) information for the fiscal year ended June 30, 2023. LMD management indicated that CDBG was an uncommon federal award for the department, and expenditures were recorded in the accounting records during a time period when LMD was transitioning from ISIS to the LaGov accounting system. As a

result, the funding sources for CDBG were incorrectly set up in LaGov, which resulted in CDBG expenditures being recorded incorrectly.

In addition, LMD did not draw federal funds for the National Guard Military Operations and Maintenance Projects in a timely manner, resulting in delays in federal reimbursements and potential lost interest revenues. Our test of 44 voucher transactions requesting reimbursement of federal program expenditures disclosed that for 40 (91%) of the transactions tested, LMD delayed drawing federal funds for times ranging between 63 and 516 days after the expenditure was made, resulting in \$5,957,524 of untimely federal drawdowns. LMD did not ensure that controls were in place to timely and accurately draw federal funds for reimbursement. LMD allowed expenditures for projects to build up in bundles and did not prioritize making timely requests for federal reimbursement as expenditures were incurred.

Good internal controls over financial reporting should include adequate procedures to prepare, review, and transmit accurate and complete financial information for the Office of Statewide Reporting and Accounting Policy (OSRAP) to compile the state's SEFA. LMD's Policies and Procedures Manual, Chapter 5-11, requires that reimbursement requests be submitted monthly for authorized expenses and bi-weekly for payroll expenses.

Failure to properly compile and review the SEFA information before submitting it to OSRAP for inclusion in the state's Single Audit Report increases the likelihood that errors and omissions, either intentional or unintentional, may occur and remain undetected. Untimely reimbursement requests for federal program expenditures results in potential lost interest revenue for the State and increases the risk of errors.

Management should review and approve grant projects for accuracy to ensure proper setup in LMD's accounting system. In addition, management should strengthen controls over drawing federal funds for reimbursement of program expenditures to maximize the use of federal funds and avoid using state funds unnecessarily. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2023, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LMD's major federal program, National Guard Military Operations and Maintenance Projects (Assistance Listing 12.401).

Those tests included evaluating the effectiveness of LMD's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LMD complied with applicable program requirements. Based on

the results of these procedures, we reported a finding related to Inadequate Accounting Records and Untimely Drawdowns of Federal Funds.

Other Procedures

In addition to the Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing LMD's internal control and compliance with related laws and regulations over self-generated revenues, rental revenues, payroll expenditures, non-employee compensation, and equipment rentals. Based on the results of these procedures, we did not report any findings.

Trend Analysis

We compared the most current and prior-year financial activity using LMD's Annual Fiscal Reports and/or system-generated reports and obtained explanations from LMD's management for any significant variances.

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of LMD. The nature of the recommendation, its implementation costs, and its potential impact on the operations of LMD should be considered in reaching decisions on courses of action.

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

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MT:ETM:JPT:BQD:aa

LMD2023

APPENDIX A: MANAGEMENT'S RESPONSE



State of Louisiana

JEFF M. LANDRY
GOVERNOR

LOUISIANA NATIONAL GUARD
OFFICE OF THE ADJUTANT GENERAL
6400 St. Claude Avenue
Jackson Barracks
New Orleans, LA 70117

THOMAS C. FRILLOUX
BRIGADIER GENERAL
THE ADJUTANT GENERAL

March 26, 2024

Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack,

The Louisiana Military Department (LMD) concurs with the finding of untimely drawdowns of federal funds. LMD acknowledges that 44 tested vouchers took between 63 and 516 days before receipt of federal funds. Several internal and external factors contributed to the delayed receipt of federal funds. The Louisiana Military Department is focused on significantly reducing the time of receipt by addressing the internal factors under its control and communicating with federal partners to influence factors out of LMD's control, where feasible.

LMD has implemented the following improvements to reduce the time of funds receipt:

a. On April 6, 2023, LMD, United States Property & Fiscal Office (USPFO) LA, and federal program managers developed a process for the naming of Military Construction (MILCON) and Capital Outlay projects, which had previously caused issues with reimbursement processing.

b. On April 13, 2023, the USPFO LA and the LANG Construction and Facilities Maintenance Office (CFMO) developed a memorandum of agreement reducing the documentation requirements required for LMD to submit requests for reimbursement.

c. On March 26, 2024, LMD Fiscal and LMD Contracting & Purchasing conducted a meeting to discuss the LaGov grant module and established processes to ensure that all federal grants are marked as reimbursable. The payment will not show on the ZFI1680 report if this step is missed.

d. On March 26, 2024, LMD Fiscal reallocated internal positions to separate responsibility for revenues and reimbursements to provide greater management focus on the cooperative agreement reimbursement process.

e. LMD created and implemented the Contract & Agreements Grant Coordinator position to oversee the process and coordinate with the Louisiana United States Property & Fiscal Office.

f. LMD Fiscal expanded the Deputy Fiscal Director's role to oversee the Federal Cooperative Agreement process, including quarterly reconciliations with each program.

g. LMD Fiscal will generate ZF11680 reports on a biweekly instead of a monthly basis.

h. LMD Fiscal will implement reconciliations for all capital outlay grants.

LMD will continue to identify process improvements and coordinate with partner agencies to enhance system oversight to reduce the time of federal funds receipt.

Additionally, the Louisiana Military Department (LMD) concurs with the finding of inadequate accounting records. The CDBG grant was not typical to LMD; administratively, we erred in the application of funds to the wrong program. However, our control processes did ensure that Community Development Block Grant (CDBG) Office of Community Development (OCD) payments were applied only to the intended contracts approved by CDBG OCD.

LMD has implemented the following improvements to correct past coding and to prevent future occurrence:

a. Initiated Journal Vouchers to move what was paid against Grant C112011001.21 (National Guard Bureau Master Cooperative Agreement) to Grant C112022201.20 (Low to Moderate Income Housing) on March 15, 2024. Submitted request March 22, 2024 to LaGov for correction of past year payments.

b. Moved the remaining encumbered amount of \$776,126.24 on the Purchase Order to the correct Grant of C112022201.20 on March 15, 2024.

c. Modify the LMD Internal Contract Review Board (ICRB) to incorporate additional controls as follows:

(1) Verify the specific grant program funding the contract.

(2) Verify the specific LaGov funding assigned to each phase / purchase order of the contract.

(3) Provide training for the ICRB team members.

(4) Incorporate an LMD Internal Audit review schedule.

COL (LASG) Tim Chastain is the person responsible for corrective action at (504) 278-8071 or timothy.n.chastain.nfg@army.mil.



Michael M. Greer
Brigadier General, LA National Guard
Director, LA Military Department

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Military Affairs (LMD) for the period from July 1, 2022, through June 30, 2023, to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2023.

- We evaluated LMD’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 LMD.
- We performed procedures on the National Guard Military Operations and Maintenance Projects (Assistance Listing 12.401) for the year ended June 30, 2023, as a part of the 2023 Single Audit.
- We compared the most current and prior-year financial activity using LMD’s Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LMD’s management for significant variances.

In addition, we performed certain other procedures for the period from July 1, 2021, through June 30, 2023. Our objective was to evaluate certain controls LMD uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over self-generated revenues, rental revenues, payroll expenditures, non-employee compensation, and equipment rentals. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at LMD, and not to provide an opinion on the effectiveness of LMD’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 purposes.

We did not audit or review LMD’s Annual Fiscal Report, and accordingly, we do not express an opinion on that report. LMD’s accounts are an integral part of the State of Louisiana’s Annual Comprehensive Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.