

DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS
PUBLIC SAFETY SERVICES
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 21, 2016

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Public Safety and Corrections -
Public Safety Services

December 2016



Audit Control # 80160096

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016, we performed procedures at the Department of Public Safety and Corrections - Public Safety Services (DPS) to provide assurances on financial information that is significant to the CAFR; evaluate the effectiveness of DPS's internal controls over financial reporting and compliance; and determine whether DPS complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

DPS is an agency within the Louisiana Department of Public Safety and Corrections, which is a component of the State of Louisiana created within the executive branch of state government. DPS's mission is to provide safety services to both the citizens and visitors of the State of Louisiana by upholding and enforcing the laws, administering regulatory programs, managing records, educating the public, and managing emergencies, both directly and through interaction with other agencies.

Results of Our Procedures

Follow-up on Prior Year Findings

Our auditors reviewed the status of the prior-year findings reported in the DPS management letter issued December 23, 2015. We determined that management has resolved the finding related to misappropriation of funds by OMV employees. The finding relating to lack of controls over federal cash management has not been resolved and is addressed again in this letter.

Current-year Findings

Lack of Controls over Federal Cash Management

For the second consecutive year, DPS failed to ensure federal funds were drawn according to federal regulations for the Alcohol Open Container Requirements and the Minimum Penalties for

Repeated Offenders for Driving While Intoxicated federal programs. Federal regulations require the state to minimize the time between the drawdown of federal funds and the disbursement for federal program purposes. Failure to disburse federal funds to subrecipients timely places DPS in noncompliance with federal cash management requirements. Overdrawn grants put the state at risk of federal disallowances for which the state may be liable, while underdrawn grants indicate that the state funded expenditures using state General Fund when federal funds could have been used instead.

Our test of cash management practices at DPS revealed the following:

- For three of sixteen (19%) cash draw transactions tested, time elapsing between the drawdown of federal funds and disbursement to subrecipients ranged from 23 and 51 days. For our consideration of timely disbursement, we judgmentally defined an acceptable timeframe as up to five days. In one instance, the delay resulted in a claim for \$504,109 mistakenly being drawn twice.
- For three of sixteen (19%) cash draw transactions tested, DPS paid subrecipients with state funds and delayed drawing federal funds for times ranging from 35 to 41 days.

DPS did not have adequate controls in place to manage the drawdown of federal funds to minimize the time between the federal draw and disbursement and maximize the use of federal funds to avoid using state funds when appropriate.

DPS management should ensure controls are in place to minimize the time between the federal draw and disbursement to subrecipients and maximize the use of federal funds to avoid using state funds unnecessarily. Management did not concur with the finding. However, management is considering alternative measures to alleviate concerns related to federal cash reimbursement timelines (see Appendix A, pages 1-2).

Additional Comments: The three cash draw transactions where the time elapsing between the drawdown of federal funds and the disbursement to subrecipients ranged from 23 to 51 days were advances to a subrecipient. For these transactions, management suggested that five to 10 days might be more reasonable for timely disbursement. The noted transactions still significantly exceeded that timeframe.

Management noted that some of its delay was due to a delay in availability of deposits for classification in the state's accounting system. However, our calculation of the number of days elapsing was determined based on the date deposits were made available for classification.

In the three instances where DPS payments to subrecipients were made with state funds and the subsequent draw down of federal funds were delayed from 35 to 41 days, other similar program vouchers were prepared and drawn timely. The three draws noted in the finding could have similarly been drawn more timely had adequate controls been in place.

Inadequate Internal Audit Function

For fiscal year 2016, DPS did not have an adequate internal audit function to examine, evaluate, and report on internal controls and to evaluate compliance with policies and procedures. In addition, DPS did not adhere to the *International Standards for the Professional Practice of Internal Auditing*. DPS's internal audit function was responsible for performing audits on DPS, the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP), and the Office of Juvenile Justice (OJJ). DPS did not allocate sufficient staffing to meet the requirements of an adequate internal audit function for DPS's various agencies, GOHSEP, and OJJ. The following weaknesses were identified:

- DPS did not perform audits on DPS's Office of Motor Vehicles (OMV) and GOHSEP as included in the original audit plan based on risk assessments performed for fiscal year 2016. DPS revised the audit plan at mid-year to add an additional 2,000 hours for a DPS special project. The revised plan resulted in a reduction of resources and hours allotted to other audits in the plan, including the three audits planned for DPS OMV and the two audits planned for GOHSEP.
- DPS did not have a quality assurance and improvement program that includes internal and external assessments.
- DPS did not have a follow-up process to monitor and ensure management's actions have been effectively implemented.

During the 2015 Regular Session, the Louisiana Legislature passed Act 314 that requires that any agency with an appropriation of \$30 million or greater have an internal audit function. Additionally, the act requires that the internal audit function adhere to the *Institute of Internal Auditors (IIA)*, *International Standards for the Professional Practice of Internal Auditing*.

Considering DPS's, GOHSEP's, and OJJ's reported revenues of approximately \$1.8 billion, \$829 million, and \$108 million, respectively, an adequate internal audit function is a critical part of internal control that serves to safeguard assets and ensure management's policies and procedures are consistently applied. DPS's management should take the necessary steps to ensure an adequate internal audit function is in place and adheres to IIA Standards. Management did not concur with the finding and noted that internal audits were completed for GOHSEP and OMV. Additionally, DPS management asserts that because Act 314 was enacted in 2015, they are still within the IIA's five-year time requirement for an external review. Management stated they will institute corrective action that requires follow-up on internal audit findings (see Appendix A, pages 3-4).

Additional Comments: Although two of the three GOHSEP audits mentioned by management were issued during fiscal year 2016, neither audit included an examination of internal controls or transactions occurring during the period under our audit. The Operations audit, issued in September 2015, covered the period of July 1, 2013, through June 30, 2014 (fiscal year 2014). The LaCarte Program audit, which was issued in July 2015, covered the period of August 2014 through February 2015 (fiscal year 2015). While the Payroll audit covered fiscal year 2016

transactions, it was limited to payroll activities of one pay period for approximately 10 employees.

The OMV International Registration Plan (IRP) audits mentioned by management are required audits for commercial truck registrants. The audits assess the accuracy of the registrants' reporting and record keeping. The IRP audits do not examine or evaluate the internal controls, transactions, and/or operations of the department's various OMV offices.

While the state requirement for internal audit functions to adhere to IIA Standards was newly enacted, DPS's Internal Audit Charter was signed in 2008 and, according to DPS, was still current during the fiscal year under audit. The charter states that IIA Standards shall constitute the operating procedures for the division. It further states that it is the responsibility of Internal Audit to serve the department in a manner consistent with IIA Standards. The IIA's external assessment standard has been in effect since 2002.

Comprehensive Annual Financial Report – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2016, we considered internal control over financial reporting and examined evidence supporting DPS's franchise and license fee revenues from riverboat casino operations and OMV state sales tax revenues, including critical information systems and related user access controls. Our audit included tests of DPS's compliance with laws and regulations that could have a direct and material effect on the CAFR, as required by *Government Auditing Standards*.

Based on the results of these procedures, the revenue classes of transactions tested were materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2016, 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 DPS's major federal programs, Alcohol Open Container Requirements (CFDA 20.607) and Minimum Penalties for Repeat Offenders for Driving While Intoxicated (CFDA 20.608).

Those tests included evaluating the effectiveness of DPS's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether DPS complied with applicable program requirements. In addition, we performed procedures on information submitted by DPS to the Division of Administration's Office of Statewide Reporting and Accounting Policy on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported a repeat finding relating to lack of controls over federal cash management that will also be included in the Single Audit for the year ended June 30, 2016. DPS's information submitted for the preparation of the state's Summary Schedule of Prior Federal Audit Findings, as adjusted, was materially correct.

Other Procedures

In addition to the financial statement and federal compliance work noted above, we performed certain procedures that included obtaining, documenting, and reviewing DPS's internal control and compliance with certain new laws over debt recovery and internal audit function, and existing regulations over movable property.

We interviewed agency personnel and reviewed supporting documentation to obtain an understanding of the requirements and the procedures implemented by DPS to ensure compliance with certain state laws. We reviewed Louisiana Revised Statute (R.S.) 36:8.2, that requires certain state departments to establish an effective internal audit function that adheres to the *Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing*. We reported a finding for noncompliance related to an inadequate internal audit function as reported previously.

We also reviewed R.S. 47:1676 regarding the procedures state agencies are required to follow for referring delinquent debt to the Office of Debt Recovery for collection. We determined that DPS has complied with state laws related to the referral of delinquent debt to the Office of Debt Recovery.

For state moveable property regulations, we obtained and reviewed the Certifications of Annual Property Inventory totaling approximately \$214 million for DPS's various agencies to determine if annual inventories were timely submitted to the Louisiana Property Assistance Agency and the amounts of reported unlocated property were not significant. Our procedures determined that DPS submitted its annual inventories timely and did not have excessive amounts of unlocated property.

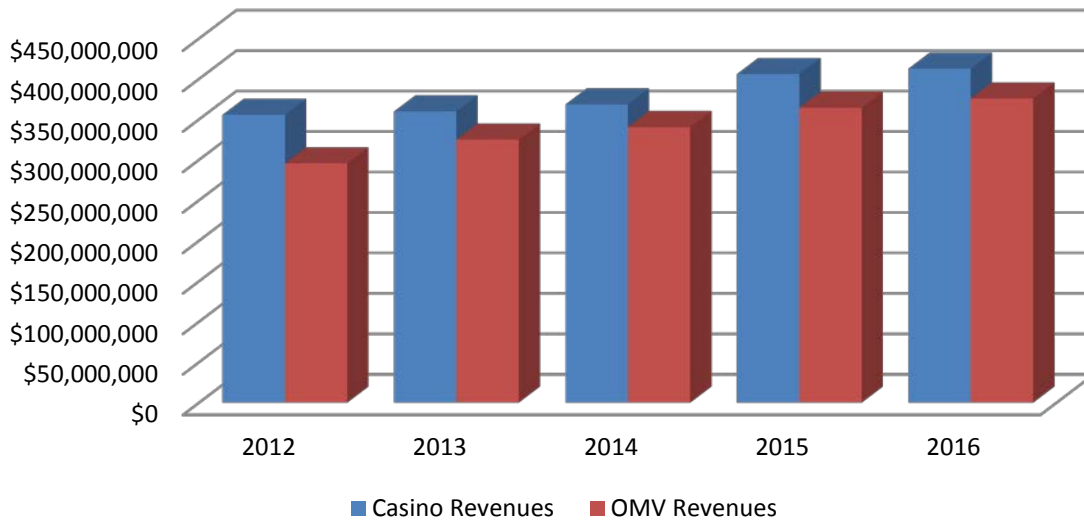
Trend Analysis

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

We prepared an analysis of riverboat franchise and license fees and OMV state sales tax revenues over the last five fiscal years. As shown in Exhibit 1, both riverboat franchise and license fees and OMV state sales tax revenues experienced a steady increase. The increase of approximately \$6.6 million in franchise and license fees from fiscal year 2015 to fiscal year 2016 was the effect of the first full year of operations of the Golden Nugget in Lake Charles. The

increase of approximately \$11.4 million in OMV state sales tax revenues from fiscal year 2015 to fiscal year 2016 was the effect of the increase in state sales tax rate effective April 2016.

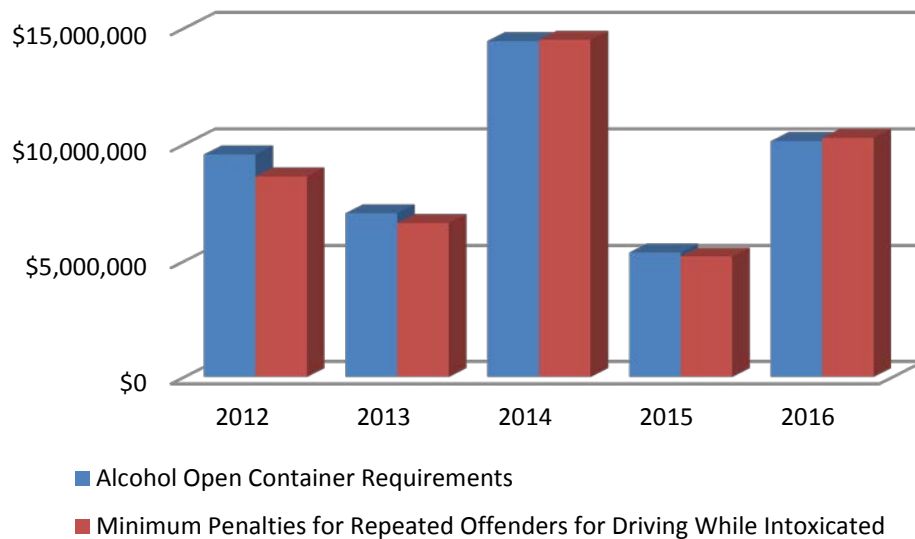
Exhibit 1
Comparison of DPS Revenues, by Fiscal Year



Source: Fiscal Years 2012 – 2016 DPS Annual Fiscal Reports

We also prepared a five-year trend analysis of the expenditures of federal funds in the Alcohol Open Container Requirements and the Minimum Penalties for Repeat Offenders for Driving While Intoxicated federal programs. As shown in Exhibit 2, expenditures for both federal programs may vary depending on the reimbursements made to the Department of Transportation and Development for contracts related to its hazard elimination programs.

Exhibit 2
Federal Expenditures Five-Year Trend



Source: Fiscal Years 2012-2016 DPS Annual Fiscal Reports

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

Respectfully submitted,

Daryl G. Purpera,
Legislative Auditor, CPA, CFE

SB:NWM:WDG:EFS:ch

DPSC-PSS 2016

APPENDIX A: MANAGEMENT'S RESPONSES



JOHN BEL EDWARDS
GOVERNOR

MICHAEL D. EDMONSON, COLONEL
DEPUTY SECRETARY

State of Louisiana
Department of Public Safety and Corrections
Public Safety Service

November 15, 2016
DPS-02-1810-JS

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

RE: DPS Public Safety Services – LHSC – Lack of Controls over Federal Cash Management

Dear Mr. Pupera,

Please allow this letter serve as the official response for the above mentioned audit finding for DPS - Public Safety Services.

The finding specifically identifies the lack of adequate controls to ensure federal funds were drawn according to federal regulations.

DPS does not concur with the finding. The extended time period between the expenditure and vouchering of some of the claims were the result of issues that were outside of the agency's control. These issues include the delay in availability of deposits at State Treasury for agency classification, the bi-weekly limitations of OSRAP check issuance, and negative cash impact related to mandatory expenditures such as payroll, OTS billings, and LaCarte.

The finding refers to "acceptable timeframe as up to five days for timely disbursement". This is not reasonable due to the items mentioned above causing negative cash whereby payment cannot be made until more federal funds are received. This requires an additional voucher be prepared for the mandatory expenditures that used federal cash but were not included in the draw, which itself can take more than 5 days. Additionally, the review process of the claims received by DPS associated with the federal draw can take more than 5 days depending on the number of claims in the draw. Most federal draws contain more than 100 disbursement requests.

The finding also refers to "The Code of Federal Regulation (Title 31, Chapter II, Subchapter A, Part 205, Subpart b) which requires states to minimize the time between the drawdown of federal funds and their disbursement for federal program purposes. DPS believes this is subjective and we are in fact minimizing this timeframe for all processes that are within our control.

Additional oversight in the vouchering process at LHSC will enhance the accuracy of any federal cash draws. In order to alleviate the concerns related to federal cash reimbursement timelines, the following alternatives are being vetted by DPS Office of Management & Finance and LHSC:

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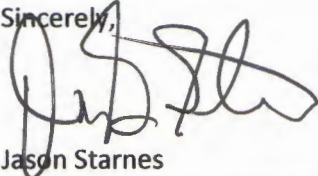
P.O. BOX 66614, BATON ROUGE, LOUISIANA 70896

- DPS Financial Services is in the process of exploring options and seeking approval to allow federal expenditures to be processed despite federal cash availability. This request must be approved by OSRAP, whereby the negative cash indicator is removed so that expending can occur prior to receipt of the reimbursed federal cash. If approved, this change will allow LHSC to complete the federal funds vouchers according to the expenditures that were coded in the system, thus reducing the time period between the expenditure and the federal funds voucher and reducing the possibility of claim errors.
- LHSC is in the process of hiring an additional accountant that will have as one of its duties the function of pier reviewing the federal funds vouchers to ensure accuracy.

Implementation of these alternative measures is targeted for February 28, 2017. Any inquiries concerning these actions can be directed to Scott Erwin, Director of Financial Services, at (225)925-6279 or scott.erwin@la.gov.

Please contact me with any additional concerns or if more information is required at (225) 925-6032.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Starnes', written over a horizontal line.

Jason Starnes

LSP Deputy Superintendent – Chief Administrative Officer



JOHN BEL EDWARDS
GOVERNOR

MICHAEL D. EDMONSON, COLONEL
DEPUTY SECRETARY

State of Louisiana
Department of Public Safety and Corrections
Public Safety Service

December 6, 2016
DPS-02-1813-JS

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

RE: Response to LLA Finding of Inadequate Internal Audit Function

Dear Mr. Pupera,

Please allow this letter serve as the official response for the above mentioned audit finding for DPS - Public Safety Services.

DPS does not concur with this finding. DPS maintains an internal audit function charged with examining, evaluating, and reporting on internal controls and evaluating compliance with policies and procedures for DPS, OJJ, and GOHSEP. As indicated in a recent, duplicative finding for GOHSEP and as stated in the FY 2016 annual audit plan, "The selection of internal audits was based on this fiscal year's Risk Assessment Analysis and requests from the Department's Management, and may be amended to include additional requests during the fiscal year." We amended the audit plan to include an additional management request determined to be a high risk area and in management's opinion required immediate action.

To balance the resources allotted to all three Departments, internal audit is committing more resource hours to GOHSEP for FY 2017 to ensure adequate internal audit coverage of GOHSEP. The audit finding suggests that no audits were performed for GOHSEP and OMV in Fiscal Year 2015-2016. The department disagrees as the following audits for GOHSEP were completed during this time period: LaCarte Program, Payroll and Operations. In addition, OMV has been highly covered by DPS internal audit throughout the history of DPS internal audit, and continues to be covered by internal audit under the IRP audits.

Management understands the magnitude of OMV and GOHSEP and ensuring adequate monitoring of assets and appropriate application of policies and procedures. Based on risk assessments all departments submitted to the Internal Audit Division (IAD) for Fiscal Year 2016-2017, the current audit plan includes audits of GOHSEP's Disaster Recovery Closeout, Disaster Recovery Public Assistance Grants, LaCarte, and Travel. Management also appreciates

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the value of an effective internal audit function and is working to dedicate additional resources to the internal audit function.

The DPS internal auditors strive for compliance with the International Standards for the Professional Practice of internal Auditing. For each audit, the internal audit manager and the director conduct internal quality assurance reviews. These reviews are documented on workpapers to provide evidence that they reviewed all audit assignments, audit work, and workpapers. IAD is currently conducting the Quality Review Self-Assessment and plans to complete it by June 30, 2017.

DPS has only been required to have an external assessment of the internal audit since the passage of Act 314 of the 2015 Louisiana Legislative Regular Session. Therefore, DPS internal audit still within the International Standards for the Professional Practice of internal Auditing 5 year requirement for an external review.

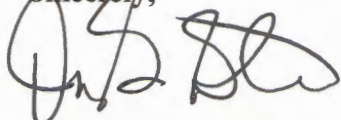
The DPS internal audit function has included follow-up monitoring in the FY 2017 annual audit plan and is in the process of conducting follow-up procedures to ensure management has taken corrective action on findings.

Person(s) responsible for corrective action: Jason Starnes, Chief Administrative Officer

Corrective action planned: Internal audit has instituted an on-going monitoring program that requires follow-up on internal audit findings to ensure management has taken corrective action on findings.

Anticipated completion date: June 30, 2017 and on-going.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Starnes', is written over the word 'Sincerely,'.

LTC Jason Starnes

LSP Deputy Superintendent – Chief Administrative Officer

cc: Colonel Michael Edmonson

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Public Safety and Corrections - Public Safety Services (DPS) for the period from July 1, 2015, through June 30, 2016, to provide assurances on financial information significant to the State of Louisiana and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016.

- We evaluated DPS'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 DPS.
- Based on the documentation of DPS's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain DPS revenue classes of transactions to support the opinion on the CAFR.
- We performed planned procedures on the Alcohol Open Container Requirements and the Minimum Penalties for Repeat Offenders for Driving While Intoxicated federal programs and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2016, to support the 2016 Single Audit.
- We compared the most current and prior-year financial activity using DPS's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from DPS management for significant variances.

In addition, we performed procedures that included reviewing DPS's internal control and compliance with certain new laws over debt recovery and internal audit function, and existing regulations over movable property. 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 DPS and not to provide an opinion on the effectiveness of DPS'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 DPS's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. DPS's accounts are an integral part of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.