

DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS,
PUBLIC SAFETY SERVICES

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 23, 2015

**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

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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.90. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3550 or Report ID No. 80150102 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Public Safety and Corrections,
Public Safety Services

December 2015

Audit Control # 80150102

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, 2015, 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 dated November 5, 2014. We determined that management has resolved the finding related to control weaknesses over information technology. The finding relating to misappropriation of funds by OMV employees has not been resolved and is addressed again in this letter.

Current-year Findings

Misappropriation of Funds by OMV Employees

During fiscal year 2015, two employees of the DPS Office of Motor Vehicles (OMV) were arrested for felony theft, injuring public records, and malfeasance in office. The employees are

alleged to have misappropriated at least \$211,459 in customer payments at OMV field offices and headquarters over a three-year period. The OMV employees provided receipts to customers for payments made but either did not post the transactions, modified the transactions in the computer system, or had the transactions voided. Upon investigation, OMV management determined that the OMV employees had diverted public funds for personal use and violated state laws. Both employees have been terminated.

OMV lacked adequate controls, including proper cash handling procedures and management oversight in field offices and headquarters, to prevent or timely detect the misappropriation of public funds. The lack of cash handling controls and proper oversight increases the risk that fraud could occur and not be detected in a timely manner, and leaves assets not properly safeguarded. This is the second consecutive year that we have reported misappropriations of funds by OMV employees.

OMV management should strengthen cash handling procedures and increase management oversight in the field offices and headquarters. In addition, management should seek restitution from the terminated employees. Management concurred with the finding and provided a plan of corrective action (see Appendix A, page 1).

Lack of Controls over Federal Cash Management

DPS failed to ensure federal funds were drawn according to federal regulations for the Alcohol Open Container Requirements and Minimum Penalties for Repeat 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 out of eight (38%) cash draw transactions tested, the time elapsing between the drawdown of federal funds and disbursement to subrecipients ranged from 20 to 41 days. For our consideration of timely disbursement, we judgmentally defined an acceptable timeframe as up to five days.
- For four of eight (50%) cash draw transactions tested, DPS paid subrecipients with state funds and delayed drawing federal funds for times ranging from 10 to 55 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 concurred in part with the finding and provided a corrective action plan (see Appendix A, pages 2-3).

Payments Inconsistent with Contract Provisions

The Louisiana Highway Safety Commission (LHSC) reimbursed claims submitted by the Department of Transportation and Development (DOTD) that were based on a sub-grantee's invoice date and DOTD's payment date, rather than being based on the date of service as required by contract provisions. The claims related to the Alcohol Open Container Requirements program and the Minimum Penalties for Repeat Offenders for Driving While Intoxicated program.

In federal fiscal year 2012, LHSC provided that it received verbal guidance from National Highway Traffic Safety Administration (NHTSA) personnel allowing payment based on an invoice date and payment date. However, contract language covering federal fiscal years 2014 and 2015 and recent guidance from NHTSA personnel contradict the verbal guidance. Contract language includes the following: "These reimbursement claims shall under no circumstance be submitted for work completed in a prior Federal Fiscal."

LHSC should work with both NHTSA and DOTD to resolve any issues to ensure program and contract requirements are met. Management concurred in part with the finding and provided a corrective action plan (see Appendix A, pages 4-5).

Comprehensive Annual Financial Report - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2015, 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 on the CAFR, we reported a finding related to misappropriation of funds by OMV employees. In addition, the revenue class 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, 2015, we performed internal control and compliance testing on the Alcohol Open Container Requirements (CFDA 20.607) and the

Minimum Penalties for Repeat Offenders for Driving While Intoxicated (CFDA 20.608) federal programs, as required by Office of Management and Budget Circular A-133. 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.

Based on the results of those procedures, we reported findings relating to the lack of controls over federal cash management and payments inconsistent with contract provisions that will also be included in the Single Audit for the year ended June 30, 2015.

Other Results of Our Procedures

DPS participates in the state of Louisiana's LaCarte Purchasing Card program and utilizes LaCarte cards to make small-dollar purchases. We performed procedures to ensure that LaCarte expenditure transactions were adequately supported, made for legitimate business needs, and complied with applicable state rules and regulations. Based on the results of our procedures, DPS had adequate controls in place to ensure that purchases were made for proper business purposes, sufficient documentation was maintained to support those purchases, and purchases were in compliance with applicable rules and regulations.

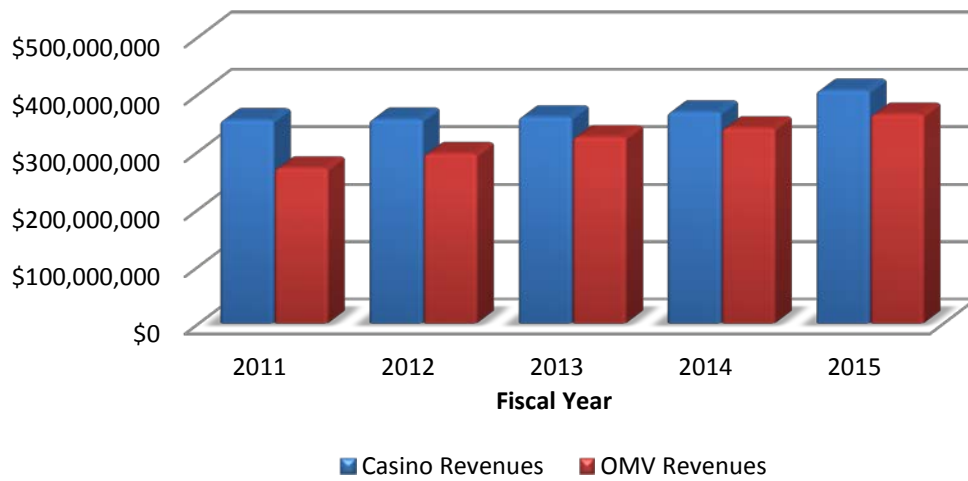
Trend Analysis

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 \$32.2 million in franchise and license fees from fiscal year 2014 to fiscal year 2015 was the effect of the first six months of operations of the Golden Nugget in Lake Charles. The continued increase in OMV state sales tax revenues is dependent on the number and value of cars sold.

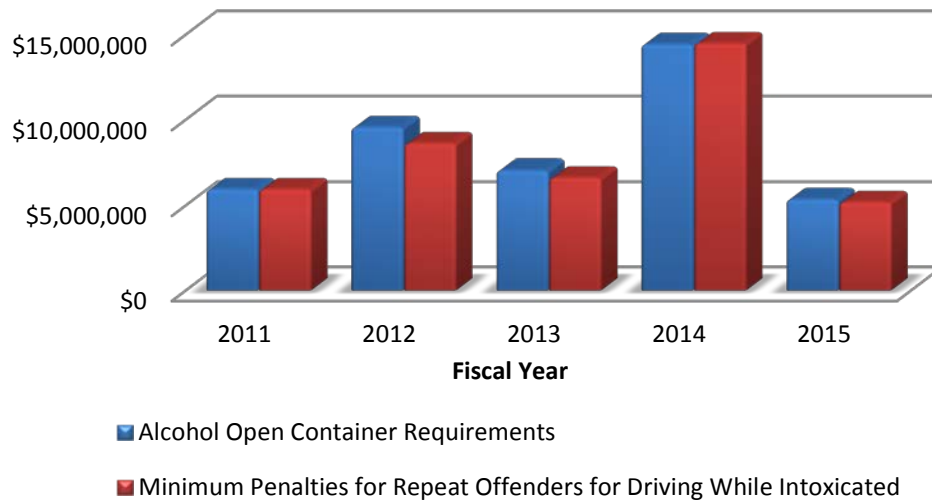
We also prepared a five-year trend analysis of the expenditure of federal funds in the Alcohol Open Container Requirements and the Minimum Penalties for Repeat Offenders for Driving While Intoxicated federal programs. As shown in Exhibit 2, expenditures for fiscal year 2014 increased for both federal programs due to the increase in reimbursements to DOTD for new contracts related to its hazard elimination programs.

Exhibit 1 Comparison of DPS Revenues



Source: Fiscal Year 2011-2015 DPS Annual Fiscal Reports

Exhibit 2 Federal Expenditures Five-Year Trend



Source: Fiscal Year 2011-2015 DPS Annual Fiscal Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DPS. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DPS 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,



Daryl G. Purpera,
Legislative Auditor, CPA, CFE

SB:NWM:WDG:EFS:aa

DPS 2015

APPENDIX A: MANAGEMENT'S RESPONSES

BOBBY JINDAL
GOVERNOR



JILL P. BOUDREAUX
UNDERSECRETARY

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

November 23, 2015
DPS-02-1772

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

RE: DPS Public Safety Services – Misappropriation of Funds by OMF Employees

Dear Mr. Pupera,

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

The finding specifically identifies the lack of adequate controls pertaining to cash handling and management oversight in field offices and headquarters at the Office of Motor Vehicles.

DPS concurs with the finding. As a result, the below corrective actions are being reviewed and proposed for increased controls over the handling of cash and management oversight:

- DPS proposes revision in policy whereby cash is no longer a viable tender for conducting transactions with the Office of Motor Vehicles. Only certified funds such as cashier's check or money order, credit or debit cards, or e-checks will be acceptable tender types in the future. This will eliminate all associated risks and inadequate controls concerning the handling of cash. Management will continue their review/audit of transactions by OMV employees to reveal any unauthorized or out of the ordinary transaction history.

Implementation of this corrective action measure is targeted for January 4, 2016. Any inquiries concerning this corrective action can be directed to Scott Erwin, Financial Services Director, 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 blue ink, appearing to read "Jill P. Boudreaux".

Jill P. Boudreaux
Undersecretary

"An Equal Opportunity Employer"

OFFICE OF MANAGEMENT & FINANCE, P.O. BOX 66614, BATON ROUGE, LOUISIANA 70896
(225) 925-6032



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

December 10, 2015
DPS-02-1775

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

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

Dear Mr. Pupera,

Please allow this response to serve as the official response related to the above mentioned reportable 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/LHSC concurs in part with this finding. Federal regulations do require the state to minimize the time between drawdown of federal funds and the disbursement for federal program purposes. However, we disagree that there was a lack of control over federal cash management. The extended time periods were due to issues largely outside of the agency's control.

Each year, LHSC requests seed money from the state to make payments as expenses are incurred, pending the receipt federal funds that have to be requested. The seed money request is kept at a minimum to reduce state liability. There have been issues with encumbrances and direct billed charges that have delayed the process of verifying these charges, which must be documented and verified before LHSC can submit a voucher requesting federal funds. Use of LaCarte cards and centralization of state services has made getting sufficient documentation to verify the appropriateness of costs difficult in some instances.

Also, since LHSC contracts/subgrants are based on the federal fiscal year, they cross two state fiscal years and all contracts had to be re-encumbered at the beginning of the new state fiscal year. There may be issues with encumbrances that cause a delay in reimbursements to contractors. Finally, state seed money is refunded back to the state in April/May of each year, which means the agency must voucher for funds before contractors can be paid. Payroll and other such costs are paid first from any available funds, sometimes causing contractors/subgrantees to wait for another voucher payment before reimbursement. This usually is the case between April and August of each year.

"An Equal Opportunity Employer"

OFFICE OF MANAGEMENT & FINANCE, P.O. BOX 66614, BATON ROUGE, LOUISIANA 70896
(225) 925-6032

Daryl Purpera
December 10, 2015
Page 2

Corrective action:

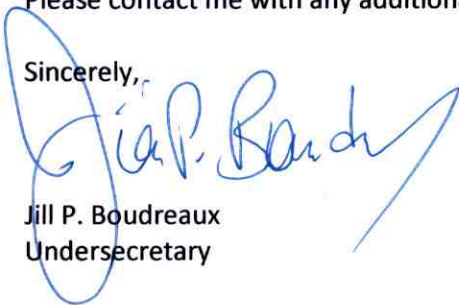
OMF Financial Services/LHSC: Explore ways to automate the vouchering/reimbursement process to allow for faster reimbursements of expenditures. Implementation of this corrective action measure is targeted for January 31, 2016. Any inquires can be directed to Linda Tillman, LHSC @ (225) 925-0802 or Crystal Redden, OMF @ (225) 925-1949.

LHSC: Consider using separate voucher requests when a funding source has been verified instead of condensing all costs into one voucher. Implementation of this corrective action measure is targeted for January 31, 2016. Any inquires can be directed to Linda Tillman, LHSC @ (225) 925-0802.

LHSC: Seek the addition of staff to handle the volume of activity the many new funding sources have generated. Implementation of this corrective action measure is targeted for September 1, 2016. Any inquires can be directed to Ken Trull, LHSC (225) 925-6994.

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

Sincerely,



Jill P. Boudreaux
Undersecretary



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

December 16, 2015
DPS-02-1776

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

RE: DPS Public Safety Services – Payments Inconsistent with Contract Provisions

Dear Mr. Pupera,

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

The finding specifically identifies payments made inconsistently with contract provisions.

DPS/LHSC concurs in part with this finding. The LHSC functions under guidance provided by the National Highway Traffic Safety Administration (NHTSA). The handling of these invoices was at the direction of NHTSA Region VI personnel. Since this issue has been raised by the Louisiana Legislative Auditor (LLA), LHSC has informed DOTD that NHTSA has further clarified and provided guidance to the LHSC requiring a change in the way that these grant types are managed with the sub-grantees. As such, DOTD has been notified by LHSC on how to handle reimbursements going forward. All claims within the current fiscal year will be for work completed within that year and both groups (LHSC and DOTD) will adjust requisite procedures and key documents as necessary. It should also be noted that all costs cited in this finding were eligible expenses and are not considered at risk. Additionally, LHSC is requesting approval from NHTSA to allow an adjusted final reimbursement from the previous fiscal year for all outstanding invoices.

Corrective Action:

DOTD: Submit invoices for work completed in the current fiscal year only. Implementation of this corrective action is targeted for December 31, 2015. Any inquiries can be directed Karla Courtade, DOTD Highway Safety (225) 379-1928.

LHSC: Review invoices for period of performance prior to approving for payment. Implementation of this corrective action is targeted for December 31, 2015 at which time DOTD will submit any remaining invoices to LHSC for FFY 2015 work. Any inquiries can be directed to Linda Tillman, LHSC (225) 922-0082 or Chuck Miller (225) 925-6991.

"An Equal Opportunity Employer"

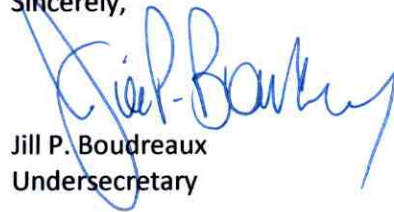
OFFICE OF MANAGEMENT & FINANCE, P.O. BOX 66614, BATON ROUGE, LOUISIANA 70896
(225) 925-6032

Daryl Purpera
December 16, 2015
Page 2

LHSC: Request NHTSA to research how the funds paid out of period of availability may be adjusted in the Grants Tracking System to resolve the issue. This has been accomplished and LHSC is awaiting a NHTSA response from Brian Jones (NHTSA). Any inquires can be directed to Ken Trull (225) 925-6991 or Linda Tillman (225) 922-0082.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Jill P. Boudreaux". The signature is stylized and written over the printed name and title.

Jill P. Boudreaux
Undersecretary

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, 2014, through June 30, 2015, 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, 2015.

- 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's revenue classes of transactions to support the opinion on the CAFR.
- We performed procedures on the Alcohol Open Container Requirements and Minimum Penalties for Repeat Offenders for Driving While Intoxicated programs for the year ended June 30, 2015, as a part of the 2015 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.

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.