

DEPARTMENT OF MILITARY AFFAIRS
EXECUTIVE DEPARTMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED AUGUST 2, 2021

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Legislative Auditor

Michael J. “Mike” Waguespack, CPA



August 2021

Audit Control # 80210034

Introduction

The primary purpose of our procedures at the Department of Military Affairs (LMD) was to evaluate certain controls the LMD uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. In addition, we determined whether management has taken action to correct the findings reported in the prior report.

Results of Our Procedures

We evaluated the LMD’s operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of the LMD’s controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to self-generated revenues, fuel card expenditures, payroll and personnel, contracts, and Louisiana National Guard travel expenditures.

Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in the LMD’s management letter dated December 16, 2019. We determined that management has resolved the prior-report findings related to Inadequate Controls over Fueltrac Purchases and Inadequate Controls over Salary Adjustments.

Current-report Findings

Failure to Certify and Approve Time and Attendance Records Timely

LMD employees did not timely certify and approve time and attendance records for LMD employees who utilize electronic time statements in the Cross-Application Time Sheet (CATS) system. A limited review by LMD internal audit, issued August 6, 2020, over CATS certifications and approval by employees, covering the period of July 1, 2019, to May 3, 2020, identified nine of 319 (2.8%) time statements were not certified on time, and 154 of 319 (48.3%) time statements

were not approved on time. Using system reports, we performed an analysis that included all employees in the CATS system for the period between July 1, 2019, through February 7, 2021, and identified the following:

- 127 (3.4%) of 3,787 time statements were not certified by the employee.
- 140 (3.7%) of 3,787 time statements were certified between one and 176 days (or an average of eight days) after the payroll posting date.
- 715 (18.9%) of 3,787 time statements were not approved by the employees' supervisor.
- 577 (15.2%) of 3,787 time statements were approved by the employees' supervisor between one and 314 days (or an average of 17 days) after the payroll posting date.

The LMD payroll policy requires employees to certify their electronic time statements by the Tuesday following the end of the pay period. Supervisors are responsible for monitoring the status of staff electronic time statement submissions and reviewing certified time statements for accuracy. In addition, LMD timekeepers and human resources are required to run specified system reports to identify instances where a time statement has not been certified or approved and communicate any identified issues to the appropriate supervisor. LMD's policy stipulates that action should be taken on time statements no later than 10:00 a.m. on Wednesday following the close of the pay period.

LMD employees did not adhere to controls over payroll to certify and approve time and attendance records timely. In addition, management did not take appropriate action to remediate issues identified in LMD internal audit's report. Failure to adhere to controls over time and attendance records increases the risk that errors and/or fraud could occur and not be detected in a timely manner.

Management should ensure employees comply with existing policies and procedures, including properly certifying and approving time statements in a timely manner. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 1).

Theft of Cash Receipts

LMD management identified that cash receipts from the Camp Minden installation for Morale, Welfare, and Recreations (MWR) self-generated revenues were unaccounted for during fiscal year 2020. A review by LMD internal audit of the activity from July 1, 2019, through June 7, 2020, determined that the difference was caused by theft of cash receipts by a former Camp Minden MWR manager, and specifically noted the following:

- \$28,629 of MWR self-generated revenues, or 38 of the 61 possible revenue deposits, were unaccounted for based on review of point-of-sale reports and other documentation.

- Nineteen of the 61 possible revenue deposits were submitted to LMD-Fiscal for deposit; of which, only two were received by LMD Fiscal Department in a timely manner. Seventeen were received between 38 to 254 days, or an average of 127 days, after the end of the sales period. The remaining four revenue deposits were recovered from the Camp Minden safe during internal audit's review.
- When Camp Minden installation management inquired about the missing cash revenues, the Camp Minden MWR Manager stated that funds were used for installation purchases; however, no evidence of substantial items purchased and no receipts exist to support these claims.

A formal complaint to report theft of funds due to misappropriation of sales funds was filed with the Webster Parish Sheriff's Office on June 24, 2020. Court-ordered restitution was paid in the amount of \$28,629 by the former Camp Minden MWR Manager in December 2020.

Self-generated MWR revenues include revenues earned from exchanges, clubs, events, rentals, and recreation. LMD policies and procedures over MWR revenue deposits required weekly cash sales to be remitted to the LMD Fiscal Department no less than twice monthly with an accompanying revenue deposit form. The form is prepared by the installation MWR manager and approved by the LMD MWR Manager. In addition, installation leadership was encouraged to conduct periodic evaluations to ensure accurate fiscal accountability was being maintained. However, deposits were not made timely in accordance with policy and controls did not detect the missing receipts timely.

Failure to establish clear benchmarks for performance and enforce existing LMD policies and procedures created the opportunity for theft or misappropriation of funds to occur and not be detected timely. Effective July 14, 2020, LMD implemented new controls that included specific deadlines for the preparation of MWR revenue deposit forms and defined supervisory responsibilities over the monitoring of deposits to the LMD Fiscal Department by installation leadership and the LMD MWR Manager. We recommend that LMD continue to consistently perform the newly established controls. Management concurred with the finding and described corrective action that has been taken (see Appendix A, page 2).

Self-Generated Revenues

The primary source of revenues from MWR activities are those generated from exchanges and clubs and LMD uses point-of-sale systems to record and track daily sales. For LMD's three installations with exchanges and/or clubs, we agreed the revenue collected per the point-of-sale system to the cash submitted to LMD's Fiscal Department to ensure the appropriate amounts were remitted timely and in the correct amount. Based on the results of our procedures, except as noted in the Current-report Finding section, LMD had adequate controls in place to ensure that revenue collections were timely deposited and properly recorded.

In addition, LMD contracts with lumber companies for the harvesting of timber on state lands. We obtained an understanding of the LMD's procedures over the awarding of contracts and monitoring

of the regeneration of harvested lands. In addition, we agreed the revenue collected per system reports and revenue deposit forms to selected contracts to ensure the appropriate amounts were collected in accordance with the contract terms. Based on the results of our procedures, LMD had adequate controls in place over the awarding of contracts and the monitoring of the regeneration of state lands, to ensure that revenue collections were properly recorded, and to ensure lumber companies paid LMD in accordance with contract terms.

Fuel Card Expenditures

LMD participates in the state of Louisiana's Fueltrac Card program for purchases of fuel and auto maintenance. We obtained an understanding of the LMD's controls over access to and use of these cards.

We analyzed fuel card transaction listings for the period of October 1, 2019, through January 31, 2021, and reviewed selected transactions and supporting documents, including receipts and vehicle logs. Based on the results of our procedures, LMD had adequate controls to ensure that purchases were for proper business purposes; sufficient documentation was maintained to support purchases; and purchases were properly documented and approved on vehicle logs.

Payroll and Personnel

Salaries and related benefits comprise approximately 50.1% and 40.9% of LMD's expenditures in fiscal years 2020 and 2021. We obtained an understanding of LMD's controls over electronic time sheet in the CATS system, market adjustments, and paid overtime. Based on the results of our procedures, LMD had adequate controls in place to ensure market adjustments were accurately calculated and inserted into LaGov, and paid overtime was properly accounted for and approved. As noted in the Current-report Findings section, our procedures revealed employee certifications and supervisors' approvals were not performed or were not performed timely.

Contracts

At June 30, 2020, LMD's contracts in effect totaled approximately \$70 million. We obtained an understanding of the Department's procedures over the awarding of and payment on contracts. Based on the results of our procedures, the LMD had adequate controls in place to ensure that contracts were properly approved, were awarded in accordance with applicable laws and regulations, and expenditures were in accordance with the terms of the contracts.

Louisiana National Guard Travel Expenditures

Louisiana National Guard travel expenditures paid by LMD relate to missions that require active-duty Louisiana National Guard service members travel to an assigned location and stay at

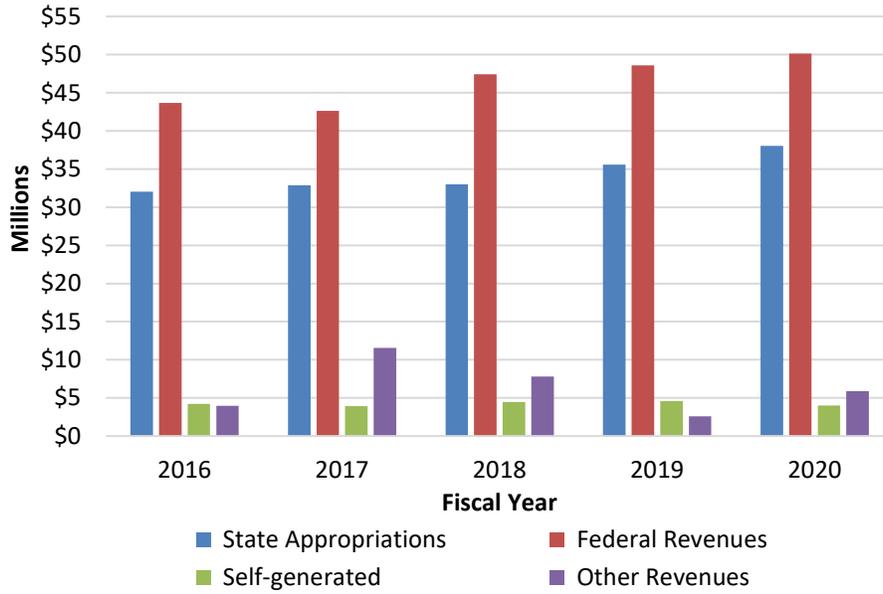
designated hotels or LMD installations. Travel expenditures paid by LMD included hotel stays, billeting, vehicle rentals, and fees for contracted project management of COVID-19 related hotel stays. Travel expenditures associated with active duty Louisiana National Guard service members totaled \$4.9 million for fiscal years 2020 and 2021 through April 6, 2021. We obtained an understanding of LMD's controls over travel expenditure reimbursements and authorizations. We then performed procedures to determine whether travel expenditures were made in accordance with applicable state laws and regulations and contract terms, where applicable. Based on the results of our procedures, LMD had adequate controls to ensure that travel expenditures were approved and made for proper business purposes, sufficient documentation was maintained to support the expenditures, and expenditures complied with state laws and regulations and contract terms, where applicable.

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. We also prepared an analysis of LMD's revenues and expenditures for fiscal years 2016 through 2020.

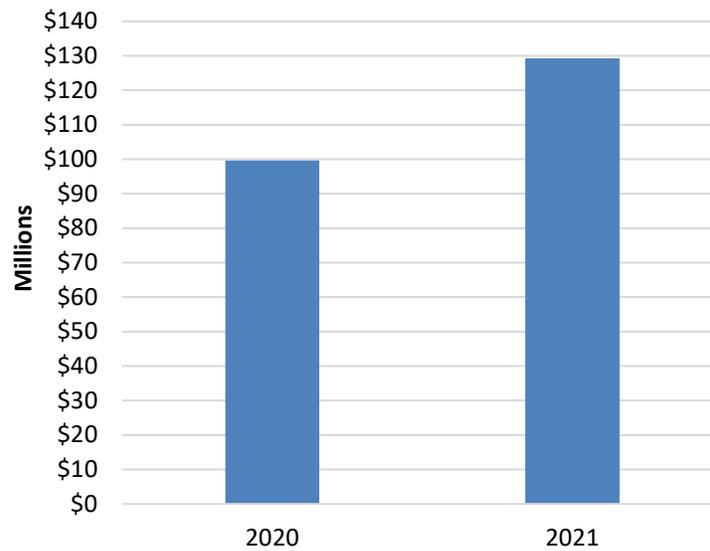
In analyzing the revenue trends over the past five fiscal years as noted in Exhibit 1, we found that revenues increased 8% in fiscal year 2020, primarily due to additional revenues needed to pay for LMD's responses to Hurricane Barry and the COVID-19 pandemic. In addition, as noted in Exhibit 2, in analyzing LMD's expenditures for fiscal year 2020 to fiscal year 2021, we found that expenditures increased 30% in fiscal year 2021. The increase was due to LMD responses to multiple tropical storms and hurricanes that impacted Louisiana and the COVID-19 pandemic.

Exhibit 1 Five-Year Revenue Trend



Source: Integrated Statewide Information System Reports

Exhibit 2 Fiscal Year 2020 & 2021 Expenditures



Source: Integrated Statewide Information System Reports

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", with a stylized flourish extending to the right.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

CJH:JPT:BH:EFS:aa

LMD2021

APPENDIX A: MANAGEMENT'S RESPONSES



State of Louisiana

JOHN BEL EDWARDS
GOVERNOR

LOUISIANA NATIONAL GUARD
OFFICE OF THE ADJUTANT GENERAL
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New Orleans, LA 70117

D. KEITH WADDELL
BRIGADIER GENERAL
THE ADJUTANT GENERAL

9 July 2021

Michael J. Waguespack, CPA
Legislative Auditor
Louisiana Legislative Auditor's Office
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack

Our agency concurs with the finding regarding "Failure to Certify and Approve Time and Attendance Records Timely" referenced in your letter dated 1 July 2021.

During the period of your team's engagement, the Louisiana Military Department (LMD) developed and implemented new controls (see attached policy letter) to ensure employees certify and supervisors approve time and attendance records in a timely manner. LMD is running the ZP241 report on Payroll Tuesday's to ensure compliance by Employees and approvers prior to the agency suspense. Additionally, these controls will be added to the 2022 LMD Policies and Procedures Manual. LMD will consistently review these controls to ensure that timely certification and approval continues.

The point of contact responsible for maintaining performance of these controls is Sergeant Major (Retired) Chad Anderson at 225-319-4981 or chad.j.anderson1.nfg@mail.mil.

Enclosure:
LMD Policy Time and Attendance

A blue ink signature of Lee W. Hopkins, written in a cursive style.

LEE W. HOPKINS
BG, LAARNG
Director, Louisiana Military Department



State of Louisiana

JOHN BEL EDWARDS
GOVERNOR

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9 July 2021

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Post Office Box 94397
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Dear Mr. Waguespack

Our agency concurs with the finding regarding "Theft of Cash Receipts" referenced in your letter dated 1 July 2021.

We appreciate your team's recognition in their finding that the Louisiana Military Department (LMD) identified that revenues were unaccounted for, conducted an internal review, reported the theft of funds, received full restitution of funds, and developed and implemented new controls to better protect the organization from future occurrence.

The new controls were implemented 14 July 2020 with revenue deposits and deadlines being proactively monitored. These controls were codified through publication in the 2021 LMD Policies and Procedures Manual. As per your letter, LMD concurs with your recommendation that our agency must continue to consistently perform these newly established controls.

The point of contact responsible for maintaining performance of these controls is Master Sergeant (Retired) Matthew Martin at 337-593-2025 or matthew.l.martin18.nfg@mail.mil.

A handwritten signature in blue ink, appearing to read "L. W. HOPKINS".

LEE W. HOPKINS

BG, LAARNG
Director, Louisiana Military Department

"An Equal Opportunity Employer"

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Military Affairs (LMD) for the period from July 1, 2019, through June 30, 2021. Our objective was to evaluate certain controls LMD uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of our procedures, which is 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 the LMD's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The LMD's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- 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.
- Based on the documentation of LMD's controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures on selected controls and transactions relating to self-generated revenues, fuel card expenditures, payroll and personnel, contracts, and Louisiana National Guard travel expenditures.
- 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 any significant variances that could potentially indicate areas of risk.

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 purpose.