

STATE OF LOUISIANA LEGISLATIVE AUDITOR

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Louisiana Universities Marine
Consortium for Research and Education
Department of Education
State of Louisiana
Chauvin, Louisiana

August 7, 1996



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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Louisiana Universities Marine
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**LOUISIANA UNIVERSITIES MARINE
CONSORTIUM FOR RESEARCH AND EDUCATION
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Chauvin, Louisiana**

**Management Letter
Dated July 8, 1996**

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 has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

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**EXECUTIVE BOARD OF THE LOUISIANA UNIVERSITIES MARINE
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As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1996, we conducted certain procedures at the Louisiana Universities Marine Consortium for Research and Education (LUMCON), a marine research and education facility within Louisiana state government. Our procedures included (1) a review of LUMCON's internal control structure; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The 1996 Annual Financial Report of LUMCON was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report upon its issuance. LUMCON's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected other personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on LUMCON for the year ended June 30, 1995, we reported findings relating to compliance with the state's movable property regulations and inadequate controls over cash receipts. The cash receipts finding has been resolved by management; however, the finding relating to movable property has not been resolved and is addressed again in this report.

Based upon the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

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STATE OF LOUISIANA**

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Movable Property Regulations

For the fourth consecutive engagement period, LUMCON does not have an adequate internal control structure over movable property to ensure compliance with state property control regulations. Louisiana Administrative Code 34:VII.307 requires that all acquisitions of qualified property be tagged and all pertinent inventory information be sent to the Louisiana Property Assistance Agency (LPAA) within 45 days after receipt of the property. In a test of 29 acquisitions, we found that 20 items (\$108,281 of \$134,320) were not tagged and were not added to the inventory system until 47 to 85 days after receipt of the property. Failure to update the movable property system on a timely basis increases the risk of loss arising from unauthorized use of the property and subjects the agency to noncompliance with state regulations.

Management of LUMCON should establish internal control structure policies and procedures to ensure that all property is tagged and reported timely to LPAA in accordance with state regulations. In a letter dated June 27, 1996, Dr. Michael Dagg, Interim Executive Director, responded that new procedures for tagging and reporting movable property have been established.

Purchasing Regulations

LUMCON did not comply with state laws and regulations relating to equipment purchases. LUMCON was delegated \$3,000 of purchasing authority in 1990 by the Director of State Purchasing. Consequently, purchases of equipment in excess of \$3,000 should be made through State Purchasing. Our examination of 39 transactions disclosed that six equipment purchases in amounts ranging from \$6,090 to \$22,100, totaling \$82,873, were not requisitioned through the State Central Purchasing Agency and therefore were not subject to the appropriate bid procedures and were in non-compliance with state laws and regulations.

By not using the State Central Purchasing Agency, there can be no assurance that equipment items were obtained at the most favorable prices, resulting in possible excessive expenditures by the agency.

Management of LUMCON should adhere to state purchasing laws and regulations related to delegated purchasing authority. In a letter dated June 27, 1996, Dr. Michael Dagg, Interim Executive Director, responded that "In the future, we will adhere strictly to state regulations."

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Payroll

LUMCON does not have adequate internal accounting controls over its payroll function to ensure compliance with state rules and regulations. In a sample of 21 payroll transactions, we noted the following:

- One employee was advanced \$500 of compensation and was paid approximately \$2,154 for work, when the individual was out-of-state on personal business, prior to his official date of employment.
- Seven employees did not sign the time and attendance reports.
- Three employees did not submit leave slips.
- One employee's leave slip was not approved by the supervisor.

An adequate system of internal controls and Civil Service Rule 15.2 provide that the employee and supervisor certify the number of hours of attendance or absence from duty on the time and attendance records. This minimizes the risk that time and attendance records are processed for nonexistent or former employees or that records are processed which contain incorrect hours worked and/or leave taken. In addition, Article 7, Section 14 of the 1974 Louisiana constitution provides that any funds of the state or any political subdivision may not be loaned, pledged, or donated. The prepayment of salaries is, in effect, a loan to the employee for salary not yet earned.

Management of LUMCON should implement and monitor internal control policies and procedures to ensure compliance with state laws and regulations to prohibit the payment of advances, stress accurate recording of hours worked and leave taken, and require certification of time and attendance and leave records by the employee and the supervisor. In addition, compensation paid to the employee prior to his official date of hire should be returned to LUMCON by the employee. In a letter dated June 27, 1996, Dr. Michael Dagg, Interim Executive Director, responded that "The employee in question, Jack Carter, is a writer of computer software. He was in fact employed here several days prior to leaving for the out-of-state personal business. Furthermore, a portion of that time (out-of-state) was spent working on the specific software he was hired to write. Since then, Mr. Carter has worked well above 40 h/week and he has exceeded my expectations, accomplishing in a little over 3 months what I expected to take more like 6. This important software for a monitoring system on our research vessel has allowed us to increase vessel usage. In short, he is a dedicated and

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productive employee. Nevertheless, I have directed him to return the \$2,154 your office believes was paid to him inappropriately.

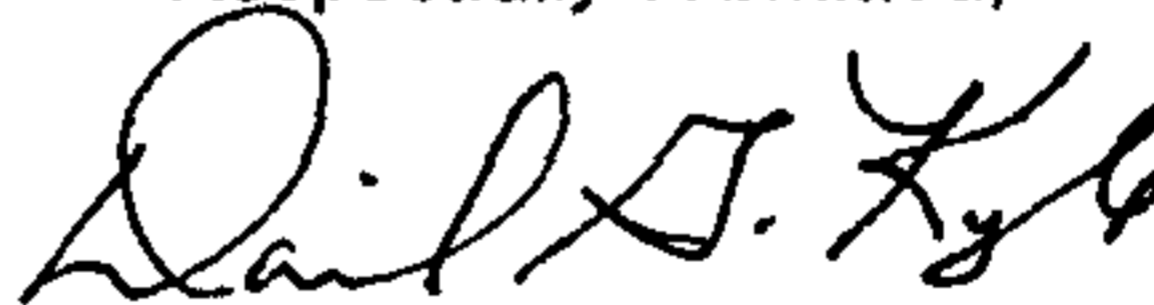
"The \$500 advanced to Mr. Carter was repaid within approximately 10 days. This situation was highly irregular and has not been repeated, nor will it be repeated in the future, for any employee.

"We have tightened our surveillance of time cards and leave slips, now requiring 2 persons in our 3 person Financial section to verify compliance with these regulations. The employee previously responsible for this (Marybeth Duplantis) has recently left LUMCON and we are in the process of replacing her."

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LUMCON. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of LUMCON should be considered in reaching decisions on courses of action. The findings relating to LUMCON's compliance with applicable laws and regulations should be addressed immediately by management.

By provisions of state law, this report is a public document, and it has been distributed to the appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
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DLB:MLD:dl

(LUMCON)

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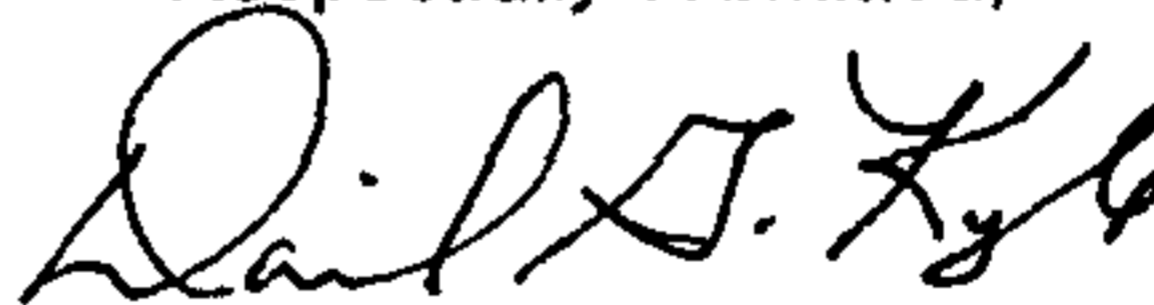
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