

LEGISLATIVE AUDITOR

OFFICE OF RISK MANAGEMENT  
EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA

Management Letter, Dated January 17, 1997

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Listing. While Mr. Keener did not agree with certain components of the finding, he outlined specific steps of corrective action in response to the audit concerns.

**Noncompliance With Disaster Assistance Program**

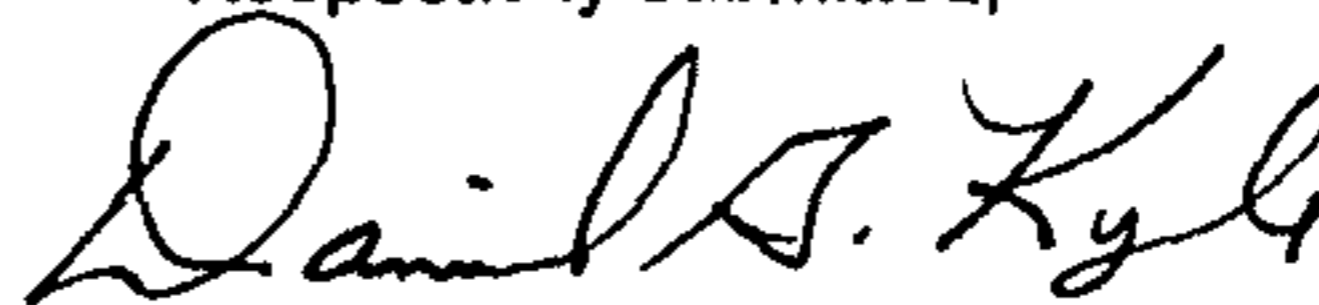
During the year ended June 30, 1996, ORM retained Disaster Assistance program monies to which the office was not entitled. As a result of flooding in a declared disaster area, ORM received funds under the Disaster Assistance program (CFDA 83.516) through the Louisiana Office of Emergency Preparedness (OEP). The funds were for losses to property and to reimburse insurance deductibles to various state agencies. However, ORM received duplicate reimbursements totaling \$11,876, and also did not disburse insurance deductibles to 12 state agencies totaling \$2,700. In addition, ORM did not file quarterly reports timely, as required by the OEP.

ORM should forward the \$2,700 of disaster assistance funds to the state agencies for which they were intended and should refund duplicate reimbursements of \$11,876 to the OEP. In addition, ORM should ensure that all reports required by grantor agencies are filed timely. In a letter dated December 27, 1996, Ms. Evon L. Wise, State Risk Assistant Director, concurred with the finding and outlined the corrective action taken by the department.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation costs, and their potential impact on operations of the office should be considered in reaching decisions on courses of action. The findings relating to the office'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 appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MGT:BJJ:dl

[ORM]

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user's access, including limits on claim payments and reserves for payments.

- Employees in the contract section who should not have access to approve payments, sometimes use another employee's sign-on and password to approve payments suspended for review.
- Improper data fields were used for reserve input in error. Unused fields should be restricted from input by Corporate Systems.
- The office has not provided sufficient instructions to other agencies for using the Claims Loss Listing provided to them by ORM. In addition, agency address changes were not input timely by ORM.

After our audit period, fiscal year 1996, it was discovered that an adjuster who had been employed by ORM approximately 90 days was alleged to have misappropriated \$39,000, through the falsification of claims and supporting documentation. The employee was terminated and legal action is being pursued.

Failure to develop and implement an adequate control structure over claims and related contractual payments may result in errors and/or irregularities that are not detected in a timely manner.

ORM should implement procedures over claims and related contractual payments to ensure adequate documentation and approval of those payments. Management should provide for adequate segregation of duties to safeguard assets, to ensure that accounting data is both accurate and reliable, and that errors and/or irregularities are being detected in a timely manner, including procedures to strengthen the integrity of the EDP functions. In a letter dated January 15, 1997, Mr. Seth E. Keener, Jr., State Risk Director, stated that the office has made significant changes and improvements in the areas of internal control, beginning in February 1996. The majority of these changes were made from May through September of 1996, before and during the time that the auditors were conducting the audit. The auditors were made aware of the changes and improvements being instituted, which include (1) a complete revision of check writing procedures, including approval of forecasts; (2) segregation of check preparation and check distribution duties; (3) revision of approval documents that allow ORM to more easily record and track payment approvals; (4) a complete security review of user capabilities for computer systems; (5) a reorganization of contract personnel into the accounting unit and reassignment of duties to ensure segregation of duties and increased accountability; and (6) new instructions to agencies for use of the Claims Loss

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budget, however, in the 96/97 budget our TO was cut by four positions. Additional positions will be requested in the 97/98 budget."

**Internal Control Deficiencies  
Related to Claim Payments**

ORM has not exercised adequate controls over claims related payments. A good internal control structure should provide for adequate segregation of duties to safeguard assets, to ensure that accounting data is both accurate and reliable, and that errors and/or irregularities are detected in a timely manner. In addition, EDP controls are necessary to preserve the system's integrity and to provide reliance on the results produced by the system. During the year ended June 30, 1996, the office processed approximately \$142 million in claims and related contractual payments. In our consideration of the internal control structure, we noted the following weaknesses:

- For 7 of 67 claims payments tested, documentation was not on file to support how the exact amount of payment was determined for cases totaling \$6,517,692.
- For 13 of 23 claims payments tested, it was impossible to discern who increased payment reserves for a total of \$2,700,500. Employees did not follow the ORM policy of denoting the person who adjusts reserves for future payments.
- ORM does not require in-house approvals for payments to satisfy court judgments. Payments can be made by an adjuster without supervisory approval.
- Persons who process printed checks have EDP access allowing them to schedule payments and unsuspend payments waiting for approval. This increases the risk of improper payments.
- In three observations of the check-write procedures, we observed payment forecasts that were not approved by supervisors as required by ORM policies.
- ORM did not adequately monitor EDP access granted to employees for its outside data service center (Corporate Systems). Existing documentation was outdated and ORM has not required Corporate Systems to provide accurate security reports to allow a review of each

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**Lack of Internal Audit Function**

For the third consecutive year, the Office of Risk Management (ORM) does not have an effective internal audit function to examine, evaluate, and report on its internal control system and to evaluate the extent to which its employees complied with that control system. Act 16 of the 1995 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of \$30 million to use existing program resources and table of organization for the purpose of establishing an internal auditor position. In addition, considering the size of ORM's reported assets (\$91,362,721) and revenues (\$207,017,933), an effective internal audit function is important to ensure that ORM's assets are safeguarded and that ORM's policies and procedures are uniformly applied.

ORM should establish an effective internal audit function. In a letter dated September 6, 1996, Ms. Evon L. Wise, State Risk Assistant Director, stated that budgetary restrictions have prevented the office from complying with this requirement. An additional position was requested but not approved.

**Lack of Review of Original Documentation**

For the third consecutive year, ORM is not performing, on a sample basis, a field review of the original source documentation to support billings by contract attorneys. We noted that for fiscal year 1996, contract attorneys were compensated and/or reimbursed approximately \$10.5 million for expenses that included legal services and other expenses such as telephone, copying charges, postage, et cetera. In support of expenses, it is a practice of ORM to accept from attorneys, copies of receipts and summaries of time worked for legal services substantiated by an affidavit. Claim adjusters then perform desk reviews of these copies of supporting documents using the contract and ORM's billing guidelines as the criteria for review.

A field review of original source documentation has not been conducted since 1990. Considering the magnitude of payments to contract attorneys each year, an adequate internal control structure would require that ORM perform a field review, on a sample basis, of original source documentation to ensure that billings are accurate and expenses are allowable.

ORM should conduct field reviews on a sample basis of original source documentation maintained by the contract attorneys to ensure that ORM is being properly billed. In a letter dated September 6, 1996, Ms. Evon L. Wise, State Risk Assistant Director, stated, "In order to conduct the recommended field audits the Office of Risk Management will need to hire personnel for this purpose. We requested additional positions in the 96/97



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January 17, 1997

**OFFICE OF RISK MANAGEMENT  
EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

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 Office of Risk Management. Our procedures included (1) a review of the office'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 June 30, 1996, Annual Fiscal Report of the Office of Risk Management was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The office'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 office personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on the Office of Risk Management for the year ended June 30, 1995, we reported three findings relating to the internal audit function, settlements, and the review of original documentation. The office made substantial progress in resolving the settlements finding and it is not repeated in this report. The remaining findings on internal audit function and the review of original documentation are 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.

**OFFICE OF RISK MANAGEMENT  
EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

**Management Letter  
Dated January 17, 1997**

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.

February 19, 1997

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

**DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Office of Risk Management  
Executive Department  
State of Louisiana  
Baton Rouge, Louisiana

February 19, 1997



***Financial and Compliance Audit Division***

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