

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Social Services  
State of Louisiana  
Baton Rouge, Louisiana

April 14, 1998



*Financial and Compliance Audit Division*

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

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**DEPARTMENT OF SOCIAL SERVICES  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

**Management Letter  
Dated March 11, 1999**

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.

**April 14, 1999**



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9377

DAVID G. BULL, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

1400 NORTH THIRD STREET  
POST OFFICE BOX 9497  
BATON ROUGE, LA 70804-9497  
TELEPHONE: (504) 385-8800  
FACSIMILE: (504) 385-8870

March 11, 1998

**DEPARTMENT OF SOCIAL SERVICES**  
**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, 1997, we conducted certain procedures at the Department of Social Services. Our procedures included (1) a review of the department's internal controls; (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 Annual Fiscal Report of the Department of Social Services was not audited or reviewed by us, and, accordingly, we offer no opinion or any other form of assurance on that report. The department'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 other selected department 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 for the year ended June 30, 1996, we reported findings concerning cash controls over child support enforcement collections, Title IV-D intake and collection activities, food stamp underissuance, unallowed expenditures in the foster care program, audit report monitoring, and control deficiencies in the Advanced Government Purchasing System (AGPS). The findings concerning Title IV-D intake and collection activities, food stamp underissuance, unallowed expenditures in the foster care program, and internal control deficiencies in AGPS have been resolved and are not repeated in this report. The remaining findings on cash controls over child support enforcement collections and monitoring of audit reports are addressed again in this report.

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

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**Inadequate Controls Over Movable Property**

The Department of Social Services, Office of the Secretary, failed to maintain adequate internal controls over movable property and, as a result, the reported balance of property owned by the department was overstated by \$9,126,985. Good internal controls require that adequate procedures be in place to ensure that (1) the acquisition, valuation, and disposition of movable property is accurately reflected in the accounting records; and (2) the amounts reported in the financial statements are materially correct. Our audit of movable property disclosed the following:

- Internal records of additions and deletions are not reconciled to reports issued by the Louisiana Property Assistance Agency (LPAAG), the agency responsible for maintaining the master listing of property owned by the department.
- The property manager is not notified of the purchase of equipment that is required to be tagged and, therefore, would not be aware of the receipt of property in remote locations that was not tagged. No reconciliation is made between property purchased and property added to the master listing.
- At year-end, the property manager calculates additions and deletions to movable property from internal tagging information supplied throughout the year. Because of the volume of material to process at one time, there is increased risk that errors will be made.
- Property is included as an addition on the annual fiscal report based on the fiscal year in which the property was tagged rather than the fiscal year in which it was purchased.
- Monthly payments for equipment purchased through capital leases were included in additions to movable property. This equipment had been acquired in the prior year and was included in the movable property balance on the prior year's annual fiscal report at the proper amount.

These conditions occurred because the employee responsible for movable property was not adequately trained and/or did not receive adequate supervision. Had these errors remained undetected, movable property would have been overstated by \$9,126,985 on the financial statements of the State of Louisiana.

The department should ensure that all property managers are adequately trained and supervised. Furthermore, the department should develop written procedures for the

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property manager to follow that would ensure that monthly reconciliations are made between purchases and tagged equipment and between internal tagging/deletion documents and the reports issued by LFAA. Finally, the property manager should receive training regarding how to value equipment acquired through capital leases and how to place additions of property into the correct fiscal year. In a letter dated December 2, 1997, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding and outlined a plan of corrective action.

### **Attendance and Leave Records Not Maintained**

The Department of Social Services failed to maintain daily attendance and leave records for six unclassified employees. Executive Order MUF 96-79, Section 29(A) requires the department to maintain daily attendance and leave records for each unclassified employee who is eligible to accrue annual, sick, and/or compensatory leave. The Department of Social Services has interpreted this executive order to allow unclassified employees, appointed by the governor, to earn annual and sick leave although they are not required to use such accumulated leave when they are absent from work. Our review of leave for appointed officials disclosed that the assistant secretary of the Office of Community Services was absent from work on July 17, 1997. However, she received credit for eight hours of work that day and earned additional leave at her current rate for hours worked. This occurred because the on-line time and leave entry system used by the state will indicate that eight hours of work were performed each day unless specific hours of leave used are entered into the system. Because the six unclassified employees do not maintain attendance records, the timekeeper will be unaware of any leave taken and will be unable to enter the appropriate adjustments for leave used into the on-line time and leave entry system. We were unable to determine if additional leave should have been charged to these six employees because attendance records were not maintained.

Failure to accurately record the use of leave can result in unnecessary expenses for the state because employees leaving state service are paid for a portion of their accrued annual leave and the remaining leave balances are used in calculating an employee's pension benefits at retirement.

The Department of Social Services should fully comply with Executive Order MUF 96-79 by requiring all employees to maintain accurate daily attendance and leave records and by requiring the six unclassified employees to charge leave when absent from work. In a letter dated September 18, 1997, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding. Mr. Joseph stated that department personnel had attended a meeting in January 1997 regarding the time and attendance of unclassified gubernatorial appointees. At that time, representatives from the governor's office indicated that Executive Order MUF 96-79 would be revised.

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Mr. Joseph also said that department personnel again contacted the Division of Administration on August 31, 1987, to determine the status of the revisions to the executive order. Mr. Joseph indicated that it is the department's intention to fully comply with the revised executive order once it is received.

**Inappropriate Reimbursement for  
Related Party Transactions**

The Louisiana Office of the Inspector General (OIG) issued a report on July 15, 1990, that contained findings on the Department of Social Services, Office of Family Support, and questioned \$221,869 of department expenditures. These costs were questioned because the OIG identified related party transactions for which two contractors were over-compensated. Community Independent Living Systems, Inc. (CILS) and Louisiana Industries for the Disabled (LIFTD) contract with the department to provide various services under the Job Opportunities and Basic Skills Training (CFDA 83.567) program. These companies received reimbursement for expenditures related to the lease of computer equipment from Community Training, Management and Evaluation, Inc. (CTME) necessary for the performance of their contracts. The owner of CTME also controlled CILS and was the executive director of LIFTD and, therefore, any transactions between these companies are related party transactions.

Office of Management and Budget (OMB) Circular A-132, Attachment B, governs nonprofit entities and limits reimbursements in related party transactions to the cost of the equipment. 48 CFR Part 31 governs commercial contractors and limits rental cost reimbursement to the acquisition cost of equipment for automatic data processing equipment. Although LIFTD is a nonprofit entity, it is unclear whether CILS is commercial or nonprofit because it was incorporated as a nonprofit but does not have the IRS 501(c) nonprofit status and pays federal income tax on its profits. However, under either criteria, the amount of reimbursement allowed for the computer equipment is limited to the cost of the equipment. The report states that the department paid the two companies a total of \$633,759 and estimates that the leased equipment would have cost \$111,869. We estimate the federal portion of the cost questioned by the OIG to be \$158,746.

The OIG recommends and we concur that the department should seek restitution for these overpayments and refer the matter to appropriate authorities. In a letter dated December 18, 1987, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred that the department should seek restitution for overpayments made to CILS and indicated the steps the department has already taken. This matter is currently under litigation.

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### Failure to Perform Cost Allocation Samples Timely

The Department of Social Services did not always ensure that the random moment sampling (RMS) process was conducted timely. 48 CFR Part 95, Subpart E and Office of Management and Budget Circular A-87 require the department to prepare, obtain federal approval for, and follow a plan for the allocation of indirect costs to the federal programs administered by the department. The approved plan designates RMS for the allocation of personnel costs to the Office of Family Support (OFS) and the Office of Community Service (OCS). Our audit tests revealed that the designated observer did not conduct the random moment sample at the scheduled time for 7 percent (1 of 14) of the observed samples for OFS and 79 percent (7 of 9) of the observed samples for OCS. The cost allocation plan also requires the department to perform a random monitoring observation of the RMS process for each location at least once per quarter to assure compliance with prescribed procedures. Twenty-two percent (2 of 9) of the monitoring reports requested were not performed.

Failure to follow the internal control procedures designed to encourage and ensure compliance with prescribed procedures may contribute to the high rate of noncompliance. These deviations in prescribed procedures could result in developing inaccurate random moment statistics for the allocation of approximately \$178 million in personnel costs to the following major federal programs administered by OFS and OCS:

- CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program
- CFDA 93.556 - Temporary Assistance for Needy Families
- CFDA 93.640 - Family Support Payments to States - Administrative Payments
- CFDA 93.656 - Foster Care - Title IV-E
- CFDA 93.667 - Social Services Block Grant

The Department of Social Services should ensure that coordinators and observers adhere to the prescribed procedure for conducting and monitoring the random moment sampling process as required by the department's cost allocation plan. In a letter dated December 29, 1992, Ms. Brenda L. Kelley, Deputy Assistant Secretary on behalf of Ms. Shirley B. Goodwin, Assistant Secretary of the Office of Community Services, concurred with the finding and outlined a plan of corrective action. An additional letter dated December 22, 1992, from Mr. Thomas Joseph, Director of the



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Division of Fiscal Services, stated that Ms. Vera Stokes, Assistant Secretary of the Office of Family Services, has directed her lead management staff to address the weaknesses noted.

#### **Audit Reports Not Monitored**

For the fourth consecutive year, the Department of Social Services does not have an adequate monitoring system to ensure that all subrecipients expending \$300,000 or more in federal funds and cost-reimbursement contractors funded with \$100,000 or more of state funds are audited in accordance with Government Auditing Standards. Federal regulations (OMB Circular A-133) require the department to ensure that each subrecipient expending federal pass-through funds totaling \$300,000 or more has an audit performed that will comply with this circular. Louisiana Administrative Code (LAC) 34:11-134 gives the department the option of requiring audits, examining source documents for each payment request, or using internal auditors to do frequent surprise contract compliance audits of contractors that receive \$100,000 or more in state funds. The department has elected to require audits.

While monitoring procedures have been developed, the department has not implemented the system to ensure that all required audits are received. Failure to ensure that federal subrecipients or cost-reimbursement contractors are audited in accordance with Government Auditing Standards increases the risk that federal subrecipients or cost-reimbursement contractors will not expend federal financial assistance or state funds, respectively, in accordance with applicable laws and regulations.

The Department of Social Services should ensure that federal subrecipients and cost-reimbursement contractors are audited as required by federal and state laws and regulations. In a letter dated January 5, 1998, Mr. Thomas Joseph, Director of the Division of Fiscal Services, stated that the department does not agree with the finding. Mr. Joseph pointed out that the OMB Circular A-133 is effective for periods beginning on or after July 1, 1996; however, it was not fully revised until June 28, 1997, and entered into the Federal Register until July 1, 1997. Mr. Joseph stated that the department had specifically requested guidance from the Legislative Auditor's Office during the latter part of 1996 concerning the \$300,000 threshold mentioned in the finding. Furthermore, the department's review of the single audit information Service publication dealing with current developments (Number 155 - November 1997) found that Mr. Norwood Jackson, Deputy Controller of the Office of Management and Budget, stated that "... pass-through entities must inform all subrecipients of circular A-133's requirements, but subrecipients are not required to inform pass-through entities what their actual spending levels are. Therefore, pass-through entities might not know if their subrecipients spend \$300,000 or more (and require a single audit)." Mr. Joseph

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further stated "... it is the considered opinion of DSS and its fiscal unit that, in the absence of any specific directives from either OMB, any federal funding source(s), or your office, any policy of inaction would strictly be after-the-fact."

**Additional Comments:** Although the timing of the issuance of the finalized OMB Circular A-133 delayed prompt implementation of the requirements of the circular. Furthermore, the department needs to address the requirements of the Louisiana Administrative Code related to the cost-reimbursement contractors receiving state funds. While the Legislative Auditor's Office may provide guidance to the department on policies and procedures, we do not dictate such.

### **Inadequate Documentation of Foster Care Payments**

The Department of Social Services, Office of Community Services, did not consistently adhere to its procedures for making payments under the Foster Care - Title IV-E (CFDA 93.858) program. The procedural manual for the Tracking Information and Payment System (TIPS), through which payments for foster care services are made, requires that service authorizations be prepared and approved for room and board payments and that receipts or other documentation be filed in the client's records for expenditures made by foster parents on behalf of foster care children. However, five of 50 payments (10 percent) that totaled \$2,136 of the \$8,812 (22 percent) examined were not supported by the required documentation.

These conditions may be attributed to poor record keeping practices. Failure to follow prescribed procedures could result in unallowable, unauthorized, or duplicate payments.

The Office of Community Services should immediately require all foster care workers to adhere to the TIPS procedural manual by maintaining documentation of payments in the client's payment records. In a letter dated February 19, 1998, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding. He stated that corrective action has been taken in each office to ensure proper procedures are adhered to in the future. This action included reviewing the TIPS procedural manual along with office procedures and advising staff to conform to department standards. He also stated that the State Office TIPS Committee will be used as a work group to determine if other corrective measures are appropriate.

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**Inadequate Controls Over Child  
Support Collections**

For the third consecutive year, the Department of Social Services, Office of Family Support, Child Support Enforcement Program (CFDA 99.849, Title IV-D) does not have adequate internal controls over collections of child support. An adequate system of controls requires that cash and cash equivalents be safeguarded at all times.

We reviewed debit and credit memoranda issued for bank deposits made by the Child Support Enforcement Program. Forty debit/credit memoranda were issued to the Child Support Enforcement state office and various regional offices. These memoranda have an absolute value of \$124,072 and represent errors in the deposits of child support collections. The types of errors noted included the following:

- Checks totaling \$2,241 were missing from the deposits and, in some cases, check stubs were included in the deposit instead of the check (eight memos for a total of 14 missing checks).
- There were addition errors (four memos).
- There were listing errors (11 memos).
- Total deposit amounts were transferred incorrectly to the deposit slip (three memos).
- Employees made errors entering the deposit information into the computer (three memos).
- The bank was unable to determine the cause of one error because the department did not include a list of the deposit items with the deposit (one memo).
- There were other miscellaneous errors (12 memos).

These debit and credit memoranda resulted from deficiencies in procedures for processing and depositing collections or from employees not following the proper procedures. An adequate internal control system should ensure that errors will be detected within a timely period by employees in the normal course of performing their assigned duties.

As a result of investigating the debit and credit memos, we found eight errors in posting payments to client accounts were for a total of \$3,813. In addition, another posting error in the amount of \$420 was found during a separate test of the accuracy of posting

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cash receipts in the New Orleans regional office. When child support payments are not posted correctly, the custodial parents, the federal government, and the state government may not receive all monies that they are due.

The Department of Social Services should immediately initiate procedures to determine the causes of the errors noted on the debit/credit memoranda and make all required corrections. Furthermore, the department should conduct a review sufficient to determine if all child support funds collected were deposited, to determine whether all absent parents were credited for their payments, and to determine whether fraud has occurred. In a letter dated September 8, 1997, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding although he pointed out that some of the errors were made by hearing officers appointed by the courts over which the department has no direct authority. Mr. Joseph outlined a plan of corrective action that he expects to be in place by October 1, 1997.

### **Inadequate Controls Over Accrual and Use of Compensatory Leave**

The Department of Social Services, Office of Community Services (OCS), has not adhered to its established policies or the rules and regulations established by the Louisiana Department of State Civil Service regulating the accrual and use of compensatory leave. The OCS Policy/Procedure Memorandum 89-03 requires supervisory staff to restrict overtime to a minimum. This policy also requires employees to use compensatory leave earned before annual leave is used. Rule 11.21 of the State Civil Service requires the department to maintain correct leave and attendance records, while Rule 11.29 limits the amount of compensatory leave that each employee can carry forward into a succeeding calendar year to 360 hours.

We conducted a review of two New Orleans area OCS offices and noted the following conditions:

- OCS employees are consistently turning in prior period adjustments for credit for overtime hours worked anywhere from a few days to one year previous. For the six pay periods preceding the end of the fiscal year, 141 of the approximately 154 OCS employees at the two New Orleans offices turned in one or more prior period adjustments claiming previously unreported compensatory leave earned. These pay periods were submitted for examination because the department determines late in the fiscal year if there is sufficient remaining budget to pay cash for overtime worked rather than continuing to carry compensatory leave balances. For fiscal year 1997, OCS made cash payments totaling

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approximately \$200,000 for overtime during the last six pay periods of the fiscal year.

- Three of nine employees tested who failed to timely report the accrual of compensatory leave used annual leave before compensatory leave was used.
- One of the nine employees carried forward more than the State Civil Service allowance of 360 hours into the 1997 calendar year.

These errors occurred because OCS supervisory staff is not properly monitoring employee time and attendance records to assure that compensatory leave earned is properly reported at the time it is earned. Delays in reporting compensatory leave earned increases the risk that employee claims are not valid and that the employee will be compensated for services that were not rendered.

The Department of Social Services, Office of Community Services should assure that all offices adhere to the established policies and procedures of the department and the established rules and regulations of State Civil Service relating to the accrual and use of compensatory leave. In a letter dated October 3, 1997, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred with the finding and outlined a plan of corrective action, which he expects to be in place by November 3, 1997.

#### **Errors in Processing and Reporting Lease Amounts**

The Department of Social Services is not following established procedures for inputting leases into the Contract Financial Management System (CFMS). CFMS provides detailed procedures for processing leases and amendments to leases. These procedures call for amendments to be input into the system when the fully executed amendments have been received from the Division of Administration, Office of Facility Planning. The department failed to input correct lease information into CFMS, which resulted in erroneous information being used to prepare the lease rate disclosure for the annual fiscal reports. The department attempted to correct this error and submitted amended footnote disclosures to the Office of Statewide Reporting. However, the amended note continued to contain significant errors. We examined 52 of the department's 114 operating leases and found that 26 contained errors that would have understated the footnote in the comprehensive annual financial statements for the state of Louisiana by \$1,113,194.

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These errors occurred because the department did not follow established procedures regarding the input of lease amendments and because of various accounting errors in compiling amounts. The department should follow established procedures that require lease information to be input into the CFMS timely and correctly. Furthermore, an appropriate review procedure should be established to ensure accurate preparation of the annual fiscal report. In a letter dated December 29, 1997, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred that errors occurred and outlined a plan of corrective action.

### Inadequate Controls Over Receipts

The Department of Social Services does not have adequate controls over receipts to assure that all cash received is deposited and that deposits are made timely. A good system of controls would segregate duties so that no one employee is in a position to commit errors or fraud that would not be caught timely by another employee in the regular course of assigned duties. In addition, Article VIII, Section 9(A) of the Louisiana Constitution of 1974 requires that all money received by a state agency be deposited immediately upon receipt. During our audit of revenue, we noted the following:

- A log of receipts is not prepared at the time mail is opened in the mailroom. A log of receipts is ultimately prepared when checks are presented to the revenue clerk for deposit. However, this log is prepared by the same clerk who also deposits the money. Receipts processed in this manner approximate \$11 million annually.
- Checks and money orders are not routed directly from the mailroom to the revenue clerk for deposit, but are routed to other sections for processing. As a result, funds are not deposited promptly upon receipt. Checks and money orders are not date stamped when they are received so it is not possible to determine with certainty how long checks are being held before deposit. However, we used the date of the check to estimate the length of time between receipt and deposit. We tested 11 receipts totaling \$630,666 and noted that six receipts (\$66,213) were deposited at least 30 days after the date of the check, four receipts (\$48,744) were deposited at least 60 days after the date of the check, and one receipt (\$519,738) was deposited at least 150 days after the check was dated.

These conditions occurred because the department has not placed adequate emphasis on controls over receipts. Failure to properly segregate duties regarding the receipt and deposit of cash and failure to direct all receipts directly to the revenue section for

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deposit increases the risk that receipts will be lost or diverted and such losses will not be detected.

The department should strengthen its controls over receipts. Mail should be opened by two persons who log each receipt and certify the total collected. All receipts should be sent directly to the revenue section for deposit. Copies of the checks along with supporting documentation can then be forwarded to any other person needing that information. The daily log of receipts and the daily deposit ticket should be reconciled and/or reviewed by an independent third party to ensure that all funds received were deposited. In a letter dated January 20, 1988, Mr. Thomas Joseph, Director of the Division of Fiscal Services, concurred that certain receipts were not deposited timely and that a log is not prepared at the time mail is opened in the mailroom. However, he stated that the mailroom at 755 N. Third Street is not a central receiving point and that mail that could contain receipts may be received at many locations throughout the state. In addition, only mail that is not directed to a specific location is even opened at the 755 N. Third Street mailroom. Mr. Joseph did not propose any corrective action other than reminding employees to adhere to Article VII, Section 8(A) of the Louisiana Constitution.

**Additional Comments:** By allowing receipts to come into the department at many locations for processing before submission for deposit and by not logging and certifying receipts by two persons regardless of where they are received increases the risk that receipts may be lost or stolen. Furthermore, it makes compliance with Article VII, Section 8(A) of the Louisiana Constitution unlikely. To the extent practical, management should attempt to centralize collection of all receipts to ensure prompt deposit and security for all funds collected.

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

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

Respectfully submitted,



Daniel G. Kjae, CPA, CFE  
Legislative Auditor

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