

## Attachment I

### Management's Responses

## LEGISLATIVE AUDITOR

### LOUISIANA STATE POLYGRAPH BOARD DEPARTMENT OF ECONOMIC DEVELOPMENT

Internal Control Report

December 11, 1999

Page 3

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters relating to internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

However, we noted the following matters involving internal control and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the Louisiana State Polygraph Board as of June 30, 1998, and for the two years then ended. Management's responses to the findings and recommendations presented in this report are included in Attachment I.

#### **Inadequate Segregation of Duties**

The board does not have adequate segregation of duties. As disclosed in the prior audit report, the board's operations preclude an adequate segregation of duties and other features of an adequate system of internal control. Adequate segregation of duties includes assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. The board does not have employees to employ such controls and to do so would not be cost beneficial.

## LEGISLATIVE AUDITOR

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
Internal Control Report  
December 15, 1966  
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### Accounting Records Not Maintained

The board has not maintained proper accounting records. The board's accounting records consist of check stubs for the board's bank account. Proper accounting records should (1) provide evidence that board officials have fulfilled their stewardship responsibilities, (2) properly reflect and account for the receipt and disbursement of funds, (3) demonstrate the board's compliance with applicable laws and regulations, and (4) provide for the preparation of accurate and timely financial statements. The lack of adequate accounting records resulted in the following:

1. The amounts reported by the board in its annual financial statements could not be verified. In addition, our audit revealed several errors in the amounts reported by the board.
2. We had to prepare accounting records (cash receipts and cash disbursements journals) from the checkbook stubs and deposit slips before we could complete the financial statements. The preparation of accounting records requires additional time which increases the cost of the audit.
3. The board did not have the ability to monitor its budget. The lack of budgetary control over expenditures resulted in the board's actual expenditures exceeding budgeted expenditures by \$224 and \$250, respectively, for the years ended June 30, 1965 and 1966.

The board should maintain books of original entry. These include a cash disbursements journal, cash receipts journal, and a general ledger. The cash disbursements journal, at a minimum, should include the check number, date paid, payee, amount, and amount charged. The cash receipts journal, at a minimum, should include the source of the receipt, date received, amount, and account credited. The cash receipts and disbursements journals should be maintained on a monthly basis. The general ledger should be used to summarize the cash receipts and disbursements transactions.

Also, actual revenues and expenditures should be compared to the budgeted amounts, at least on a quarterly basis, to ensure that actual amounts are within the amounts budgeted.

LEGISLATIVE AUDITOR

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
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**Timely Reconciliation of Bank Statements**

The board's bank account was not reconciled in a timely manner. During the audit period, the board's bank account was not reconciled to the checkbook balance for 10 of the 24 months. Adequate internal control requires that the board's bank balance be reconciled to the check register and accounting records on a timely basis. Failure of the board to reconcile the bank statement to the accounting records on a timely basis subjects the board's funds to increased risk of loss.

The board should reconcile the bank balance to the checkbook balance and the accounting records each month. This reconciliation would ensure that all revenue and expenditure transactions are properly recorded in the board's accounting records.

This report is intended for the information and use of the board and its 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

LLG-GUM/j

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**State of Louisiana**  
**POLYGRAPH BOARD**

December 27, 1998

Mr. Daniel G. Kyle, CPA, CFE  
Legislative Auditor  
P.O. Box 94397  
Baton Rouge, LA 70804-0397

Dear Mr. Kyle:

In response to the recommendations of the Legislative Auditor's Office following an audit for the fiscal years 1995-1996, the Louisiana Polygraph Board will make the following changes:

1. Immediate Segregation of Duties

By law, most duties are assigned to the Secretary. The Chairman approves all expenses. The Board must function in the current manner.

2. Accounting Records Not Maintained

The board intends to maintain records to bring our accounting procedures up to the recommended standards, to include a general ledger, a cash disbursements journal and a cash receipts journal. Actual revenues and expenditures will be compared to the budgeted amounts on a quarterly basis.

3. Timely Reconciliation of Bank Statements

The board will reconcile the bank balance to the check book balance on a monthly basis.

4. Failure to Invest Idle Funds

The board intends to deposit its funds in an interest bearing checking account.

In closing, the board appreciates the recommendations of the Legislative Auditor and will implement these changes in a timely manner.

Sincerely,

*Forrest M. Kavanaugh*

Forrest M. Kavanaugh  
Chairman



EDWIN H. LEVANSOUE  
COMMISSIONER  
1998

VERN G. KING  
CHAIRMAN

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12/28/98 2:00 PM

12/28/98 2:00 PM

LOUISIANA STATE POLYGRAPH BOARD  
 DEPARTMENT OF ECONOMIC DEVELOPMENT  
 STATE OF LOUISIANA

General Purpose Financial Statements  
 and Independent Auditor's Reports  
 As of and for the Two Years Ended June 30, 1998

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LOUISIANA STATE POLYGRAPH BOARD  
 DEPARTMENT OF ECONOMIC DEVELOPMENT  
 STATE OF LOUISIANA  
 GOVERNMENTAL FUND - GENERAL FUND

Statement of Revenues, Expenditures,  
 and Changes in Fund Balance  
 For the Years Ended June 30, 1999, and June 30, 1998

	YEAR ENDED JUNE 30, 1999	YEAR ENDED JUNE 30, 1998
<b>REVENUES</b>		
Licenses	<u>\$3,208</u>	<u>\$3,118</u>
<b>EXPENDITURES</b>		
Operating services	1,264	2,004
Materials and supplies	900	45
Travel	140	48
Other - credit fees	120	-
Total expenditures	<u>3,324</u>	<u>2,117</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	2	1,001
<b>FUND BALANCE AT BEGINNING OF PERIOD</b>	<u>1,030</u>	<u>1,030</u>
<b>FUND BALANCE AT END OF PERIOD</b>	<u>\$5,032</u>	<u>\$5,071</u>

The accompanying notes are an integral part of this statement.

LEGISLATIVE AUDITOR

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT

Compliance Report

December 11, 1988

Page 2

In the future, the board should invest all public funds that are in excess of its immediate cash requirements in interest-bearing accounts.

We considered this instance of noncompliance in forming our opinion on whether the Louisiana State Polygraph Board's 1988 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. This report does not affect our report dated December 11, 1988, on those general purpose financial statements.

Our comments on compliance with laws and regulations are intended for the information and use of the board and its 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

DDK:DLM/g

11/11/88





OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BAYOU BOULE, LOUISIANA 70004-9199

DAVID G. JONES, PH.D., CPA, CMA  
LEGISLATIVE AUDITOR

December 11, 1998

REPORT # 1998-0152  
ISSUE DATES 12/11/98  
TELEPHONE: (504) 386-6100  
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Independent Auditor's Report on Internal Control Based  
Society on its Audit of the General Purpose Financial Statements

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the Louisiana State Polygraph Board, a component unit of the State of Louisiana, as of June 30, 1998, and for the two years then ended, and have issued our report thereon dated December 11, 1998.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Management of the Louisiana State Polygraph Board is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with laws and regulations. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the Louisiana State Polygraph Board for the two years ended June 30, 1998, we obtained an understanding of internal control with respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

EXHIBIT A



BRUNSON BAYL, FRANK, CPA, CFE  
LEGISLATIVE AUDITOR

OFFICE OF  
LEGISLATIVE AUDITOR  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-0007

December 11, 1995

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Independent Auditor's Report on Compliance With Laws and  
Regulations Material to the General Purpose Financial Statements

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the Louisiana State Polygraph Board, a component unit of the State of Louisiana, as of June 30, 1995, and for the two years then ended, and have issued our report thereon dated December 11, 1995.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Louisiana State Polygraph Board is the responsibility of the board's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instance of noncompliance that is required to be reported herein under Government Auditing Standards. Management's response to the finding and recommendation presented in this report is included in Attachment I.

**Failure to Invest Idle Funds**

The board did not invest idle funds. LSA-R.S. 49:327(D) requires that funds in excess of immediate cash requirements be invested in prescribed interest-bearing accounts or securities. The board's average monthly bank account balance was approximately \$8,300 during the two year period ended June 30, 1995. As a result of not investing in interest-bearing accounts, the board did not properly exercise its stewardship responsibilities over public funds and needed revenues from the investment of idle funds were not earned.

**OTHER REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

The following pages contain reports on internal control and compliance with laws and regulations required by Government Auditing Standards, issued by the Comptroller General of the United States. The report on internal control is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses. The report on compliance with laws and regulations is, likewise, based solely on the audit of the presented financial statements and presents, where applicable, compliance matters that would be material to the presented financial statements.



DARIEL O. KYLE, FRED, CPA, CFC  
LEGISLATIVE AUDITOR

OFFICE OF  
LEGISLATIVE AUDITOR  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-4397

December 11, 1996

ACCOUNTS RECEIVABLE  
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Independent Auditor's Report  
on the Financial Statements

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of the Louisiana State Polygraph Board, a component unit of the State of Louisiana, as of June 30, 1996, and for the two years then ended, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the Louisiana State Polygraph Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana State Polygraph Board as of June 30, 1996, and the results of operations for the two years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 11, 1996, on our consideration of the Louisiana State Polygraph Board's internal control and a report dated December 11, 1996, on its compliance with laws and regulations.

Respectfully submitted,

Darrel O. Kyle, CPA, CFC  
Legislative Auditor

DOE:01847

10/1/96

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
STATE OF LOUISIANA  
GOVERNMENTAL FUND - GENERAL FUND

Balance Sheet, June 30, 1996

**ASSETS**

Cash (note 2)

\$6,190

**LIABILITIES AND FUND EQUITY**

Liabilities - accounts payable

\$38

Fund Equity - fund balance - unreserved - undesignated

\$6,152

**TOTAL LIABILITIES AND FUND EQUITY**

\$6,218

The accompanying notes are an integral part of this statement.

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
STATE OF LOUISIANA  
Baton Rouge, Louisiana

General Purpose Financial Statements  
and Independent Auditor's Report  
As of and for the Two Years Ended June 30, 1996

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to appropriate state 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.

January 22, 1997

LEGISLATIVE AUDIT ADVISORY COUNCIL

**MEMBERS**

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Senator Ronald C. Boss, Vice Chairman

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LEGISLATIVE AUDITOR

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

DIRECTOR OF POLICY AND QUALITY ASSURANCE

Grover C. Austin, CPA

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
Notes to the Financial Statements (Continued)

2. CASH

At June 30, 1995, the board has cash (bank balance) totaling \$6,710 in a demand deposit account. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 1995, the board has \$6,710 in deposits (collected bank balance), which is fully secured from risk by federal deposit insurance.

3. LEASE OBLIGATIONS

The board has no lease obligations at June 30, 1995.

4. LITIGATION AND CLAIMS

There is no litigation pending against the board at June 30, 1995.

5. RELATED PARTY TRANSACTIONS

The board was not involved in any related party transactions for the two year period ended June 30, 1995.

6. SUBSEQUENT EVENTS

There are no subsequent events that would affect the board's financial statements.



LOUISIANA STATE POLYGRAPH BOARD  
 DEPARTMENT OF ECONOMIC DEVELOPMENT  
 STATE OF LOUISIANA  
 GOVERNMENTAL FUND - GENERAL FUND

Statement of Revenues, Expenditures,  
 and Changes in Fund Balance - Budget  
 (GAAP Basis) and Actual  
 For the Years Ended June 30, 1988, and June 30, 1989

	JUNE 30, 1989		VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL	
<b>REVENUES</b>			
Licenses	\$0.000	\$0.026	\$26
<b>EXPENDITURES</b>			
Operating services	1,400	1,368	32
Materials and supplies	275	90	175
Travel	1,315	740	575
Other - audit fees		1,120	(1,120)
Total expenditures	3,290	3,328	(38)
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	None	2	2
<b>FUND BALANCE AT BEGINNING OF PERIOD</b>	0.000	0.000	None
<b>FUND BALANCE AT END OF PERIOD</b>	\$0.000	\$0.002	\$2

The accompanying notes are an integral part of this statement.

JUNE 30, 1988		
BUDGET	ACTUAL	VARIANCE (FAVORABLE) (UNFAVORABLE)
\$2,700	\$2,730	\$1,000
783	2,804	(1,341)
883	45	848
994	640	353
<u>2,460</u>	<u>2,797</u>	<u>(667)</u>
340	1,000	760
<u>5,800</u>	<u>5,838</u>	<u>(38)</u>
<u>\$1,800</u>	<u>\$2,871</u>	<u>\$776</u>

**LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
STATE OF LOUISIANA**

**Notes to the Financial Statements  
As of and for the Two Years Ended June 30, 1986**

**INTRODUCTION**

The Louisiana State Polygraph Board is a component unit of the State of Louisiana created in 1980 in accordance with Louisiana Revised Statutes (LSA-R.S.) 37:2021-2024. The board was transferred to the Louisiana Department of Economic Development, formerly the Louisiana Department of Commerce, by LSA-R.S. 38:909. The board is composed of five members appointed by the governor to serve terms concurrent with the governor. The board members serve without compensation. The board is charged with the responsibility of regulating all persons who purport to be able to detect deception or to verify the truth of statements through the use of polygraph instrumentation. The operations of the board are funded solely by certification fees. The board certified 85 polygraph examiners during 1985 and 92 polygraph examiners in 1986. Since the board has no employees, all accounting functions are performed by the board's secretary.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**B. REPORTING ENTITY**

As the state governing authority, for reporting purposes, the State of Louisiana is the financial reporting entity for the board. The financial reporting entity consists of (a) the primary government (state), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Section 2100 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards established criteria for determining which component units should be considered part of the State of Louisiana for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability.

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
Notes to the Financial Statements (Continued)

The Polygraph Board is considered a component unit of the State of Louisiana because the state is financially accountable for the board since the governor appoints the members of the board and can impose his will on the board. The accompanying financial statements present information only on the fund maintained by the Louisiana State Polygraph Board and do not present information on the state, the general government services provided by the state, or the other governmental units that comprise the financial reporting entity. Annually, the State of Louisiana issues general purpose financial statements, which include the activity contained in the accompanying financial statements.

**C. FUND ACCOUNTING**

The board uses a fund (General Fund) to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts.

The General Fund of the board is classified as a governmental fund and is the general operating fund of the board and accounts for all financial resources. Revenues are accounted for in this fund based upon the purpose for which they are to be spent and the means by which operating activities are conducted. General operating expenditures are paid from this fund.

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The General Fund is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The operating statement presents increases and decreases in net current assets. The modified accrual basis of accounting is used by the General Fund. The General Fund uses the following practices in recording revenues and expenditures:

**Revenues:**

Polygraphical fees are recognized in the amounts earned, to the extent that they are both measurable and available. Certification fees are assessed on a calendar year basis and are normally collected in the months of October, November, and December preceding the certification period.

LOUISIANA STATE POLYGRAPH BOARD  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
Notes to the Financial Statements (Continued)

**Expenditures**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

**E. BUDGET PRACTICES**

The board submitted its annual budget to the various agencies prescribed by LSA-R.S. 39:1331-1342, in accordance with LSA-R.S. 39:603. The budget is prepared on a modified accrual basis of accounting. Although budget amounts lapse at year-end, the board retains its unexpended fund balance to fund expenditures of the succeeding year. Formal budget integration is not employed as a management control device during the year.

**F. CASH**

Cash consists of the amount in a noninterest-bearing demand deposit account. Under state law, the board may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the board may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state chartered credit unions.

**G. FIXED ASSETS AND GENERAL  
LONG-TERM OBLIGATIONS**

The board does not own any general fixed assets and has no long-term obligations at June 30, 1998.

**H. VACATION, SICK LEAVE,  
AND PENSION PLAN**

The board has no employees; therefore, there is no vacation and sick leave policy or pension plan.

**STATE OF LOUISIANA  
LEGISLATIVE AUDITOR**

Louisiana State Polygraph Board  
Department of Economic Development  
State of Louisiana  
Baton Rouge, Louisiana

January 22, 1997



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