

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Governor's Office of Elderly Affairs
Executive Department
State of Louisiana
Baton Rouge, Louisiana

September 1, 1999



Financial and Compliance Audit Division

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

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LEGISLATIVE AUDITOR

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**GOVERNOR'S OFFICE OF ELDERLY AFFAIRS
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Management Letter
Dated August 16, 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.

September 1, 1999



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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August 16, 1999

GOVERNOR'S OFFICE OF ELDERLY AFFAIRS
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ending June 30, 1999, we conducted certain procedures at the Governor's Office of Elderly Affairs. Our procedures included (1) a review of the office's internal controls; (2) tests of financial transactions for the years ending June 30, 1999, and June 30, 1998; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1999, and June 30, 1998; and (4) a review of compliance with the prior report recommendations.

The Annual Fiscal Reports of the Governor's Office of Elderly Affairs are not within the scope of our work, and, accordingly, we offer no form of assurance on those reports. 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 other 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 Governor's Office of Elderly Affairs, dated January 14, 1998, we reported findings relating to inadequate controls over payroll, noncompliance with movable property regulations, and a lack of adequate controls over the office's travel/petty cash fund. The findings relating to noncompliance with movable property regulations and lack of controls over the office's travel/petty cash fund have been resolved by management. The finding relating to inadequate controls over payroll is 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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EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
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Inadequate Controls Over Payroll

For the second consecutive audit, the Governor's Office of Elderly Affairs (GOEA) does not have an adequate system of internal controls over payroll and did not comply with all Civil Service rules and regulations relating to time and attendance records. Good internal controls require a review of transactions to ensure that data are accurate, complete, approved, and reliable and to ensure that errors and fraud are detected within a timely period. Civil Service Rule 15.2 requires the employee and supervisor to certify the number of hours of attendance or absence from duty on the time and attendance records. In a sample of 26 employees, the following exceptions were noted:

- Three employees (11.5%) did not certify (sign) their time and attendance records.
- One employee's time and attendance record did not match the hours reflected in the official payroll records.
- Two leave slips were not properly signed and/or approved.
- One employee is earning leave at a rate lower than the rate prescribed by Civil Service based on years of service.
- The amount and kind of leave taken on two leave slips did not match the permanent leave record.
- Management did not provide prior approval for an employee to earn overtime as required by the agency personnel manual.

An additional review of 469 employee time sheets (eight payroll periods) for employee's signature, supervisor's signature, and approved leave slip (if applicable) revealed that 17 time sheets (3.6%) were not signed by the employee, 6 time sheets (1.2%) did not have the supervisor's approval, and 24 time sheets (5.1%) showed leave that was not supported by a properly approved leave slip.

These discrepancies occurred because management has not placed sufficient emphasis on supervisors and payroll staff performing an adequate and complete review of all payroll time and attendance records. In addition, periodic payroll audits as required by the office's personnel policies have not been performed since fiscal year 1997. Failure to maintain an adequate system of internal controls over payroll and failure to comply with rules and regulations established by the Louisiana Department of State Civil

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EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

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Service increases the risk that errors or fraud could occur and not be detected in a timely manner.

GOEA should ensure that all payroll time and attendance records are adequately reviewed for accuracy, completeness, proper approval, and compliance with Civil Service rules and regulations. In addition, the office should conduct periodic payroll audits as required by its personnel policy. Management of the office concurred with the finding and recommendation and has taken corrective action (see Appendix A, page 1).

**Internal Control Weaknesses in Long-Term
Care Assistance Program**

GOEA has not maintained an adequate segregation of duties in the office's Long-Term Care Assistance (LTCA) program and has not remitted unclaimed LTCA payments to the Department of Revenue as required by Louisiana unclaimed property laws.

A review of the LTCA program revealed that the administrative manager can perform the incompatible functions of entering and deleting residents' data, generating and distributing payments to residents, receiving and posting residents' refunds to the residents' accounts, maintaining a list of refunds due to the program, reconciling the bank statement, and verifying the accuracy of the residents' records. Good internal controls require segregation of duties so that no one employee would be in a position to both initiate and conceal errors or fraud. In addition, as of December 31, 1998, GOEA has not remitted LTCA checks totaling \$81,811, that have been outstanding for more than one year to the Department of Revenue as required by Louisiana Revised Statute 9:152, *et seq.*

These weaknesses occurred because management has not placed sufficient emphasis on segregating duties and was not fully aware of the requirements of Louisiana unclaimed property laws. Failure to ensure adequate segregation of duties increases the risk that errors and fraud material to the financial statements could occur and remain undetected. Failure to comply with unclaimed property laws increases the risk that the unclaimed property will not be adequately safeguarded.

GOEA should implement procedures in the LTCA program to ensure that duties are adequately segregated and that unclaimed LTCA checks are remitted timely to the Department of Revenue. Management of the office concurred with the finding and recommendation and has taken corrective action (see Appendix A, page 2).

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**Inadequate Controls Over the Reporting
of Movable Property**

GOEA does not have adequate internal controls over the reporting of its movable property. Adequate internal controls should include management's review of movable property certification reports and periodic reconciliations between additions in its movable property records and acquisitions as recorded in its general ledger. Each year the office is required by the Louisiana Administrative Code (LAC) 34:VII.319(A) to certify the existence of its movable property and identify exceptions or discrepancies between the actual property on hand and the property recorded by the Louisiana Property Assistance Agency (LPAA) for the current year and each of the three previous years.

The office's 1998 Certification of Annual Property Inventory incorrectly reflected the amount of exceptions or discrepancies identified during the office's current and previous three years' inventory process. In addition, management did not reconcile additions in its movable property records to acquisitions in its general ledger for fiscal years 1997 and 1998 but used derived amounts (based on deletions and beginning and ending balances) for movable property additions for these years. By reporting these unreconciled amounts for current and prior year additions, the office understated movable property at June 30, 1997, by \$48,855, overstated fiscal year 1998 additions by \$66,108, and overstated movable property at June 30, 1998, by \$17,253 in the office's 1998 financial statements.

These weaknesses exist because management has not placed sufficient emphasis on the accurate preparation and review of the LPAA certification report and on the accurate reporting of movable property activity in the annual financial statements. As a result, the office's Certification of Annual Property Inventory does not accurately reflect all property owned by the office. Furthermore, failure to reconcile movable property additions to the office's general ledger increases the risk that movable property will not be properly accounted for and reported in the office's annual financial statements.

GOEA should implement controls to ensure that the Certification of Annual Property Inventory is accurately prepared and reviewed before submission to LPAA. Furthermore, management should reconcile movable property additions to the office's general ledger to ensure that movable property is adequately accounted for and reported in the office's annual financial statement. Management of the office concurred with the finding and recommendation and has taken corrective action (see Appendix A, page 3).

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EXECUTIVE DEPARTMENT
STATE OF LOUISIANA**

Management Letter, Dated August 16, 1999

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The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvement 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 finding relating to the office's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended for the information and use of the office 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,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive, flowing style.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MMG:THC:RCL:ss

[GOEA]

Appendix A

Management's Responses and Corrective Action Plans to the Findings and Recommendations



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA

GOVERNOR'S OFFICE OF ELDERLY AFFAIRS

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July 29, 1999

Dr. Daniel G. Kyle, CPA, CFE, Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Single Audit Finding - Inadequate Controls over Payroll

Dear Dr. Kyle:

The Governor's Office of Elderly Affairs (GOEA) is in receipt of your request for an official response relating to a reportable Audit finding for our agency. We concur with your finding that there has been inadequate control over payroll time keeping. Corrective measures have been put in place.

On April 19, 1999 GOEA implemented a new single week time sheet process to record time and gather supporting documentation on a weekly rather than Biweekly basis. This allows the agency's managers and supervisors more time to review the time sheets and the attached supporting documentation for completeness. GOEA no longer utilizes summary sheets and keys time and attendance utilizing the individual time sheets. The Fixed Time Entry report for each pay period is now compared against the time sheets for each employee and any errors are noted and corrected.

GOEA has hired a new internal auditor and shall implement periodic payroll audits as prescribed by the GOEA personnel policy manual.

Thank you for your recommendations. We realize that external review strengthens our processes.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul F. Arceneaux".

Paul F. "Pete" Arceneaux
Executive Director



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
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July 29, 1999

Dr. Daniel G. Kyle, CPA, CFE, Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Single Audit Finding - Internal Control Weaknesses in Long Term Care Assistance Program

Dear Dr. Kyle:

The Governor's Office of Elderly Affairs (GOEA) is in receipt of your request for an official response relating to a reportable Audit finding for our agency. We concur with your finding that there have been an internal control weaknesses in the Long Term Care Assistance program. corrective measures have been put in place.

GOEA has implemented changes in the assigned duties of the Louisiana Long Term Care Assistance program staff to properly segregate check printing and mailing, keypunch, and returned funds processing. GOEA has adopted a procedures manual to govern each of these processes including the handling of mail for the LTCA program. GOEA will comply with the Louisiana unclaimed property laws. We are now in the process of making improvements to the Louisiana Long Term Care Assistance program to automate this process.

Thank you for your recommendations. We realize that external review strengthens our processes.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul F. Arceneaux".

Paul F. "Pete" Arceneaux
Executive Director



M. J. "MIKE" FOSTER, JR.
GOVERNOR

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August 2, 1999

Dr. Daniel G. Kyle, CPA, CFE, Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Single Audit Finding - Inadequate Controls over the Reporting of Moveable Property

Dear Dr. Kyle:

The Governor's Office of Elderly Affairs (GOEA) is in receipt of your request for an official response relating to a reportable Audit finding for our agency. We concur with your finding that there has been inadequate controls over the reporting of moveable property. corrective measures have been put in place.

On April 21, 1999, the Governor's Office of Elderly Affairs implemented a new set of rules governing the handling of property. These rules require meetings between the property manager, her supervisor, and the unit manager before the start of the annual inventory cycle, and after the inventory is complete. The rules require a review of the Certification of Annual Property Inventory by the property manager's supervisor and the unit manager. The rules also require that the unit manager sign the Certification of Annual Property Inventory. This agency has also started a special filing system to keep an individual record, by fiscal year, of all acquisitions, dispositions, and changes. The file system will also keep an individual record of items lost or stolen if any. For fiscal year 2000, this agency will start coding acquisitions object codes only to items that are valued at \$250 or more and are therefore to be tagged and recorded in the Property Assistance system. This change will allow us to reconcile ISIS AFS acquisitions to what has been recorded in the Property Assistance system.

Thank you for your recommendations. We realize that external review strengthens our processes.

Sincerely,

Paul F. "Pete" Arceneaux
Executive Director