

**MILITARY DEPARTMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
New Orleans, Louisiana**

**Management Letter
Dated November 20, 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 and New Orleans offices of the Legislative Auditor.

January 15, 1997

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November 7, 1996, Colonel Michael C. Appe, Director, State Resources, stated that the department concurred with the finding and recommendation and indicated that the department was in the process of revising procedures under the Integrated Statewide Information System (ISIS) to allow for more consistency in processing expenditures and revenues. In addition, appropriate reconciliations will be performed to ensure accurate federal billings.

Timely Request for Reimbursements

The Military Department did not have procedures to ensure that reimbursements of expenditures relating to the U.S. Department of Justice, Federal Marshals contract were requested timely. Proper cash management requires timely requests for reimbursement of federal funds.

Between May 5 and May 24, 1996, the department incurred expenditures of \$13,585 relating to this contract. Because of personnel reorganizations, the department did not bill the federal government for reimbursement until September 17, 1996, approximately 116 days after the expenditures were incurred. As a result, state funds were unavailable for financing other department operations or for investment by the state.

The Military Department should implement procedures to ensure timely submissions of reimbursement requests for expenditures made on behalf of the U.S. Department of Justice, Federal Marshals contract. In a letter dated November 7, 1996, Colonel Michael C. Appe, Director, State Resources, stated that the department concurred with the finding and that procedures have been implemented to ensure timely requests for future reimbursements.

Weaknesses in Electronic Data Processing Controls

The Military Department has not established an adequate internal control structure over electronic data processing (EDP) controls. An adequate internal control structure requires that individuals be permitted access only to the data files and programs necessary to perform their duties. Duties should be segregated so that no one employee is in a position to both initiate and conceal errors or irregularities. Furthermore, periodic validations and audits should be performed to ensure the integrity of the data within the system. During our review of the department's EDP controls, the following weaknesses were observed:

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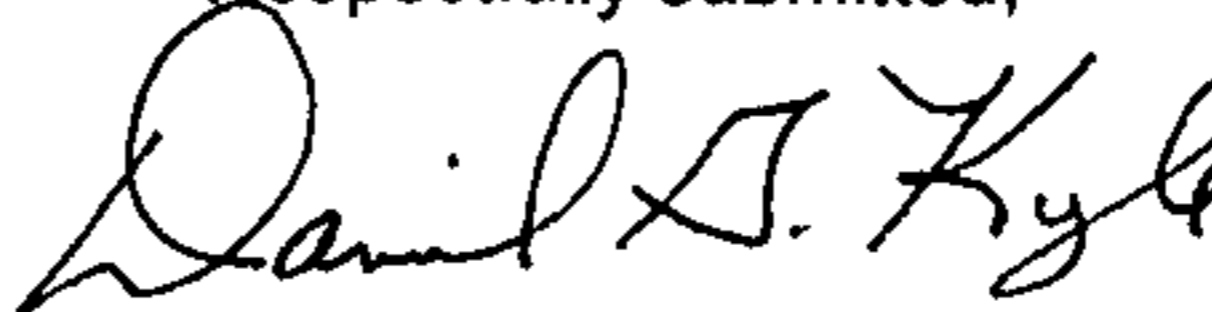
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The recommendations in this report represent, in our judgment, those which are most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and the potential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

This report is intended for the information and use of the department 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 cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

JMS:THC:dl

[MILITARY]

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Failure to establish adequate controls in an on-line data entry environment could result in the loss of data, inconsistent use of on-line data entry procedures, and failure to prevent or detect errors or irregularities in processing transactions.

The Military Department should implement the following to improve controls over electronic data processing:

ODES Nonpayroll Controls

- Establish written procedures for the issuance and deletion of user ID codes.
- Delete terminated employees' user ID codes immediately.
- Ensure that periodic validations are conducted on data entry and output and are documented to show the date and signature of the person performing the validation.
- Separate the incompatible functions relating to data entry and approval authorization.

Automated Government Purchasing System

- Establish written procedures for:
 1. the issuance and deletion of user ID codes for ODES.
 2. the proper recording of receipt dates for goods or services received.
- Eliminate system access to non-departmental personnel.
- Separate the incompatible functions relating to the establishment of new vendors and payment approval authorization.

In a letter dated November 7, 1996, Colonel Michael C. Appe, Director, State Resources, stated that the department concurred with the findings and recommendations and indicated that incompatible functions have been eliminated in both the ODES and AGPS systems, and written procedures are being prepared to address the other issues.

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On-Line Data Entry System (ODES) Nonpayroll Controls

- There are no written procedures pertaining to the issuance of user identification (ID) codes or the deletion of user ID codes once an employee terminates or no longer has a legitimate need for access. Access to ODES was not timely removed for two employees who terminated employment with the department.
- Due to a change in personnel, no validations were performed on check registers or input reports from July 1 to August 10, 1995, to ensure that data was properly entered and processed. Also, none of the 31 manual batches that had been transmitted by the department between July 1995 and May 1996 had been validated.
- There is an inadequate separation of duties in that one employee of the department has both data entry and approval user ID codes. During July and August 1995, the employee entered and approved the same transactions.

Automated Governmental Purchasing System (AGPS)

- There are no written procedures pertaining to the issuance of user ID codes or the deletion of user ID codes once an employee terminates or no longer has a legitimate need for access. Our review of the Integrated Statewide Information System (ISIS) security report revealed that one user was not an employee of the department and should not have had access to the system.
- There are no written procedures to ensure that the correct receipt date or accounting period is being entered into ISIS. The receipt date for 13 of 20 purchase orders tested by us was input into ISIS incorrectly by the accounts payable section. Accounts payable personnel either used the date the paperwork was received or the date they actually input information into ISIS rather than the actual receipt date of the goods or services.
- Four of the 30 users who had access to AGPS could add new vendors and approve payments. These are incompatible functions and should be segregated.



DANIEL G. KYLE, PH.D., CPA, CFE
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November 20, 1996

**MILITARY DEPARTMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA**
New Orleans, 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 Military Department. Our procedures included (1) a review of the department'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 Annual Fiscal Report of the Military Department 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 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 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 on the Military Department for the year ended June 30, 1995, we reported a finding relating to untimely requests for reimbursement of military construction expenditures. This finding has been resolved by management.

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

Federal Financial Reports

The Military Department did not submit timely the required quarterly progress reports or the Financial Status Reports (FEMA Form 20-10) for the Federal Emergency Management Agency (FEMA) Disaster Assistance Program (CFDA 83.516) and six other FEMA programs (CFDA 83.011, 83.105, 83.505, 83.520, 83.521, and 83.534). In addition, the department did not properly prepare, review, and approve the Financial Status Reports or the Federal Cash Transaction Reports (Form PMS 272) for the fiscal year ended June 30, 1996.

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Cash Management

For several federal programs, the Military Department requested federal funds in excess of immediate needs during the fiscal year ended June 30, 1996. The Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (C.20.b.7) requires the grantee financial management system to include procedures that minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. In addition, the Code of Federal Regulations [44CFR 13.21(c)] requires the grantee to be paid in advance, provided the time elapsing between the transfer of the funds and their disbursement is minimized. Specifically, the FEMA manual 2700.1, titled "Advance Financing Payment Systems," Chapter 3-3(d) states that recipient organizations funded via the SMARTLINK system generally should not have more than three work days' cash on hand.

Our test of federal drawdowns disclosed that between July 29, 1995, and February 13, 1996, the department received federal funds for FEMA's Disaster Assistance program (CFDA 83.516) totaling \$29,461,527, of which \$25,427,089 (86 percent) were not disbursed to the subrecipient agency within three days as required by FEMA. Specifically, \$12,551,303 of federal funds were disbursed from 4 to 9 days after receipt; \$12,102,636 of federal funds were disbursed from 10 to 20 days after receipt; and \$773,150 of federal funds were disbursed from 20 to 36 days after receipt. Management of the department indicated that classifying and processing the FEMA funds through the state accounting system caused these delays.

In addition, the department over-requested \$6,042 of federal funds for reimbursements of December 1995 and May 1996 expenditures relating to the National Guard Military Operations and Maintenance Projects (CFDA 12.401). The over-request was due to errors in the calculation of the reimbursement. The excess funds were spent and the error was corrected before the drawdown for October 1996.

The requesting of funds in excess of immediate needs results in these funds not being available to the federal government for investment or other uses during the period held by the department and thus creates a potential interest liability due to the federal government.

The Military Department should revise its cash management procedures to prevent the request of federal funds in excess of its immediate needs. In addition, the department should implement procedures to ensure that any errors made in the reimbursement calculations are detected and corrected in a timely manner. In a letter dated

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Military Department
Executive Department
State of Louisiana
New Orleans, Louisiana

January 15, 1997



Financial and Compliance Audit Division

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

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As required by the Code of Federal Regulations [44CFR 206.204 (f)], the department must submit quarterly progress reports to the FEMA regional director. Furthermore, the Office of Management and Budget's Circular A-102 requires the department to submit the Financial Status Reports no later than 30 days after the end of each quarter. However, from our review of the department's federal reports for the year, we determined that the department failed to submit any progress reports for a disaster that was declared on May 10, 1995. In addition, the Financial Status Report for disaster assistance, for the quarter ending September 30, 1995, was submitted 63 days after the due date, and the December 31, 1995, report had not been submitted as of July 2, 1996. The Financial Status Report for other FEMA programs for the quarter ending September 30, 1995, was submitted on December 5, 1995, or 35 days late.

We also noted that the Financial Status Reports were not prepared properly. According to FEMA's instructions, the Financial Status Report should include the federal, state, and local recipient's share of disaster assistance and should be prepared on an accrual basis. The department is only reporting the federal payments for disaster assistance, and the reports are being prepared on a cash basis. In addition, the Financial Status Reports and the Federal Cash Transaction Reports were not properly reviewed or approved before submission to FEMA. According to FEMA's instructions, these reports should be reviewed and approved by an authorized certifying official and documented with his signature. The reports we examined for the year were not reviewed, approved, and signed by an authorized official, but were only signed by the preparer.

The department's failure to report the transactions and financial status of the FEMA programs timely and according to instructions results in noncompliance with the federal program requirements.

The Military Department should adhere to the reporting requirements of the FEMA programs and properly prepare, review, approve, and submit all required federal financial reports timely. In a letter dated November 7, 1996, Colonel Michael C. Appe, Director, State Resources, stated that the department concurred with the finding and recommendation, and indicated that, effective with the quarter ending September 30, 1996, all Federal Financial Status Reports will be prepared on an accrual basis. These reports will be reviewed and then submitted no later than 20 days after the end of each quarter. In addition, quarterly disaster progress reports will be prepared, reviewed, approved, and submitted timely as required by FEMA.