

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Public Safety Services
Department of Public Safety and Corrections
State of Louisiana
Baton Rouge, Louisiana

March 19, 1997



Financial and Compliance Audit Division

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Legislative Auditor

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**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Management Letter
Dated February 4, 1997**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

March 10, 1997



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February 4, 1997

**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY
AND CORRECTIONS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1996, we conducted certain procedures at Public Safety Services, a part of the Department of Public Safety and Corrections. Our procedures included (1) a review of Public Safety Services' 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 Department of Public Safety and Corrections - Public Safety Services 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 financial statements of the State of Louisiana, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected Public Safety Services' 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 management letter dated February 5, 1996, on Public Safety Services, we reported findings relating to the internal audit function, electronic data processing controls, monitoring and review of required reports, and assessment of penalties and interest. The findings relating to monitoring and review of required reports and assessment of penalties and interest have been resolved by management. The internal audit function and electronic data processing controls findings have not been resolved and are addressed again in this report.

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

LEGISLATIVE AUDITOR

**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY
AND CORRECTIONS
STATE OF LOUISIANA**
Management Letter, Dated February 4, 1997
Page 2

Internal Audit Function

For the ninth consecutive year, the Department of Public Safety and Corrections - Public Safety Services does not have an effective internal audit function to examine, evaluate, and report on its internal control systems and to evaluate the extent to which its employees complied with that system. Act 55 of the 1995 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of \$30 million to use existing program resources and table of organization for the purpose of establishing an internal auditor position. In addition, considering the size of Public Safety Services' reported assets (\$131,409,233), revenues (\$194,895,273), and collections of major state revenues, escheat monies, and income not available (\$1,046,166,622), an effective internal audit function is needed to ensure that the department's assets are safeguarded and that the department's policies and procedures are uniformly applied.

Public Safety Services should establish an effective internal audit function. In a letter dated September 5, 1994, Mr. Thomas H. Normile, Undersecretary, stated that the department has hired an internal auditor for the Office of Motor Vehicles, but the internal auditor for State Police has not been hired yet.

Electronic Data Processing Controls Weaknesses

For the third consecutive year, the Department of Public Safety and Corrections - Public Safety Services has not established an adequate internal control structure relating to electronic data processing (EDP) controls that could affect the integrity of data. 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 and/or irregularities. The department's computer systems process several million transactions each year, accounting for \$131,409,233 in assets, \$194,895,273 in revenues, and \$1,046,166,622 in major state revenue in the 1996 fiscal year. Most of the 2,300 departmental employees use at least one of three computer systems that are largely accessed through five security sign-ons, as well as the state's new purchasing system, Advanced Governmental Purchasing System (AGPS). The following were observed:

1. The department has not followed its procedure for granting EDP access, which requires each authorization to be permanently maintained. There are no established procedures to notify the computer security staff in a timely manner when employees who were authorized access to data files

LEGISLATIVE AUDITOR

**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY
AND CORRECTIONS
STATE OF LOUISIANA**

Management Letter, Dated February 4, 1997

Page 3

are terminated or reassigned. In addition, the Liquefied Petroleum Gas Commission shares a single password. Our attempt to identify the EDP transactions available to users disclosed that the users did not have documentation readily available showing the use of the many EDP transactions. Furthermore, the documentation of the terminal registration numbers that allow for limiting access to selected locations is outdated and inaccurate.

2. The department does not have adequate segregation of duties for performing EDP functions. Computer security staff in the Office of Motor Vehicles and Office of Management and Finance have incompatible functions that allow the same employee to have access to all employee sign-ons and routinely process data through the EDP systems. Many employees within the AGPS have more access than is needed. This includes certain employees who have the capabilities to initiate and/or approve payments and add new vendors. In addition, while application programmers no longer have data update capabilities in two of the three EDP systems, we could not determine the capabilities for the third system because of the lack of documentation of access codes for that system.
3. The department has not established adequate internal control procedures over its on-line time and leave entry system. Time and leave are keyed into the system by each designated timekeeper, who then prints a report that indicates all time and leave recorded into the system. Our review of internal controls disclosed that certain field offices in the Office of State Police and Office of Motor Vehicles perform incompatible functions in that the same employee who keys in the time and leave also reviews the report and verifies the data input into the system.

Without certain established procedures and adequate segregation, there is an increased risk that errors or irregularities could occur and not be detected in a timely manner.

Management should consider the following:

1. Restrict access to application data files to assigned individuals on a business-need-only basis and maintain a permanent record of the authorizations by directing all supervisors to approve employees access as reported on the regular security reports.

LEGISLATIVE AUDITOR

PUBLIC SAFETY SERVICES DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS STATE OF LOUISIANA

Management Letter, Dated February 4, 1997

Page 4

- Document all application transactions to facilitate a smooth transition in the event of employee turnover and for proper processing of data
- Ensure that owners of financial application data files periodically review all individuals having access to the files for which the owner is accountable
- Separate incompatible functions relating to security administration and the on-line time and leave entry systems

In a letter dated October 16, 1996, Mr. Thomas H. Riennie, Undersecretary, stated that the department has begun issuing a quarterly report of users on the system and will send the report to each supervisor for them to update and verify. The department will also review certain transactions and obtain the supervisor's approval on questionable transactions and will ensure that the person entering time and attendance is not the same person approving it.

Inadequate Payroll Controls

The Department of Public Safety and Corrections - Public Safety Services does not have adequate internal controls over its payroll function to ensure proper segregation of duties and compliance with state rules and regulations. We noted the following weaknesses during our review and tests of payroll controls:

- In many instances, the timekeeper performs incompatible functions in that the timekeeper posts the hours to the payroll system and verifies the accuracy of the postings. In a sample of 24 employees, we noted that two timekeepers are certifying the accuracy of the official time and attendance records without further supervisory review.
- At one State Police Troop station, approximately 44 percent of the 80 employees did not certify the accuracy of the official time and attendance reports for 10 consecutive payroll periods. In addition, there was no supervisory approval for the 10 official time and attendance reports. State Civil Service Rule 95.2 and State Police Commission Rule 95.2 require the employee and supervisor to certify the number of hours of attendance or absence from duty on the time and attendance records.

LEGISLATIVE AUDITOR

**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY
AND CORRECTIONS
STATE OF LOUISIANA**

Management Letter, Dated February 4, 1997

Page 5

- Departmental procedures are not adequate to ensure that timekeepers maintain required time-entry documentation. Although the Office of State Police performs compliance reviews that address certain personnel policies, those procedures do not include verification that the timekeepers maintain required payroll documentation. In a sample of 24 employees, we noted that two timekeepers do not maintain any documentation that supports the hours posted.
- The department does not have adequate segregation of duties to ensure that all workers' compensation checks are deposited. One individual is responsible for processing workers' compensation cases, receiving checks, and sending the checks to the payroll department which subsequently deposits them in the Office of Statewide Uniform Payroll's payroll clearing account. There are no procedures to ensure that the checks received by the individual are ultimately deposited by the payroll department.
- We noted that two employees in our sample of 24 payroll transactions from the Office of State Police were paid a total of \$602 at the rate of time and one-half for 28 hours before actually working 40 total hours (weekly) for officers and 80 total hours (bi-weekly) for commissioned officers. The office pays certain overtime hours at time and one-half rate regardless of whether the employees worked the required number of hours per the employee's regularly scheduled workday or workweek, as required by Civil Service rules 6.18 and 6.21. Failure to follow applicable rules and regulations subjects management to noncompliance with state regulations and results in excess payment of overtime hours.

An adequate system of internal control provides for the segregation of duties such that one person would not be placed in a position to both initiate and conceal errors or irregularities in the normal course of their duties. In addition, a good internal control structure should ensure that employees and supervisors certify the time and attendance reports on a timely basis and that timekeepers maintain all supporting payroll documentation. These procedures minimize the risk of time and attendance records being processed for nonexistent or former employees or that the records contain incorrect hours worked and/or leave taken. Because management has not placed sufficient emphasis on controls, the risk is increased that inaccurate, unsupported, and/or fraudulent payroll data could be entered and processed.

LEGISLATIVE AUDITOR

**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY
AND CORRECTIONS
STATE OF LOUISIANA**
Management Letter, Dated February 4, 1997
Page 6

The Department of Public Safety and Corrections - Public Safety Services should implement procedures to ensure that incompatible duties are adequately segregated, that employees and supervisors certify the time and attendance reports on a timely basis, and that timekeepers maintain all required supporting documentation. Further, the Office of State Police should comply with state and internal regulations relating to payroll and the payment of overtime hours. In a letter dated January 13, 1997, Mr. Thomas H. Normie, Undersecretary, stated that the department's policies are not being followed in some areas regarding time and attendance and more training of timekeepers and more reminders to supervisory personnel of the importance of certifying time sheets will eliminate this finding. He further stated that procedures will be instituted to ensure that all worker's compensation checks are received, checked, and deposited. In addition, he also stated that policies have been changed requiring all employees to work the proper number of hours before receiving paid overtime, except for commissioned officers working within the grant requirements for federal grants.

Inadequate Controls Over Returned Checks

The Department of Public Safety and Corrections - Public Safety Services has not maintained adequate internal controls over checks received that are subsequently returned from the depository for insufficient funds (NSF). During the year ended June 30, 1996, 2,852 NSF checks were returned to the department totaling \$652,696. Of that total, replacement funds were received for 1,600 checks totaling \$345,692. The remaining 1,152 checks totaling \$307,006 remained uncollected without the department taking sufficient measures against the check writers. At June 30, 1996, department records reflect \$695,304 of accounts receivable from NSF checks. In addition, unless the NSF check exceeds \$300, the department does not put any type of hold on future transactions with those parties. This failure to adequately provide controls over NSF checks has resulted in uncollected license fees, tax revenues, and interest income to the state, as well as to local parishes and municipalities.

Management should develop adequate internal control policies and procedures relating to returned checks that address both individuals and entities that register vehicles for their customers. Individuals paying with NSF checks should have their records flagged in the department's data system and should not be able to transact other business until the returned check is cleared. Entities who register vehicles for customers should be placed on a "certified funds only" basis if any NSF \$604 is unpaid. An alphabetized "certified funds only" listing should be maintained, updated monthly, and sent to all offices within the department. Adequate documentation should be maintained for all checks forwarded to the Department of Revenue and Taxation for collection, and copies

LEGISLATIVE AUDITOR

**PUBLIC SAFETY SERVICES
DEPARTMENT OF PUBLIC SAFETY
AND CORRECTIONS
STATE OF LOUISIANA**

Management Letter, Dated February 4, 1997

Page 5

of the replacement checks should be placed in the related files. In a letter dated January 10, 1997, Mr. Thomas H. Normis, Undersecretary, stated that the department's NSF check programs are outdated and will be rewritten in early 1997 to address all the concerns noted.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their 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,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MGT:RLT:THC:d

02/05/97