STATE OF LOUISIANA
LEGISLATIVE AUDITOR

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

February 17, 1998

Financial and Compliance Audit Division

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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 January 14, 1998

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.

February 17, 1998

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January 14, 1998

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 ended June 30, 1997, 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, 1997, and June 30, 1996; and (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1997, and June 30, 1996.

The Annual Fiscal Reports of the Governor's Office of Elderly Affairs were not within the scope of our procedures, and, accordingly, we express no opinion or any other 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 agency 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.

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

Inadequate Controls Over Movable Property

The Governor's Office of Elderly Affairs (GOEA) has not complied with the state's movable property laws and regulations. Louisiana Administrative Code 34:VII.307 requires that all acquisitions of qualified property be tagged and all pertinent inventory information be sent to the Louisiana Property Assistance Agency (LPAA) within 45 days after receipt of the property. Our review of 34 items acquired between July 1, 1995, and February 28, 1997, disclosed the following:

- Three items ($1,642 of $29,441) were neither tagged nor added to the inventory system although 68 to 547 days had elapsed since the items were received.

- Of the remaining 31 items, 16 ($13,012 of $29,441) were not tagged and added to the inventory system until 47 to 330 days after they were received.

These errors occurred because the property manager was not aware that there was a time requirement for tagging and reporting acquisitions. Failure to maintain an accurate movable property system increases the risk of loss arising from unauthorized use and subjects the office to noncompliance with state laws and regulations.

The GOEA should ensure that all property is tagged and all pertinent inventory information is transmitted to LPAA in accordance with state regulations. In a letter dated August 4, 1997, Mr. Bobby Fontenot, Fiscal Officer, concurred with the finding. Mr. Fontenot stated that the property manager now understands that a time requirement exists for tagging property and procedures now require that the property be received and tagged by the property manager before it is placed into use.

Inadequate Controls Over Travel/Petty Cash Fund

The GOEA does not have an adequate system of internal controls over disbursements from the travel/petty cash fund and did not comply, in all instances, with the state travel regulations as contained in Policy and Procedures Memorandum 49 (PPM 49). We examined the employee travel files for fiscal years 1996 and 1997 and noted the following discrepancies:

- The director was reimbursed $140 for a group meal purchased at a local restaurant. PPM 49 allows for the purchase of special meals if it is in the best interest of the state to use public funds for provision of a meal to a person who is not otherwise eligible for meal reimbursement. However, all such meals must have prior approval of the commissioner of administration. The GOEA could not provide evidence of the commissioner's approval and the file did not contain documentation of the purpose of the meal or the names of the persons provided the meal.

- Reimbursements totaling $460 were made for five instances where vehicles were rented. PPM 49 allows for the use of rented vehicles if the expenditure is approved in writing by the agency head before departure. Documentation showing the cost effectiveness of available options must also be readily available in the reimbursement files. The director was the traveler for three of the instances and prior approval can be inferred. However, prior written approval of the director was not documented for the remaining two instances and there was no documentation available to indicate that rental of a vehicle was the most cost effective means of travel for any of the instances where vehicles were rented.

- An employee was reimbursed $260 for educational expenses although documentation presented to support the expenditure indicated that the employee received a grant award that exceeded the cost of the tuition for the course. The GOEA does not have a written policy specifying when educational expenses incurred by employees will be reimbursed. However, management of GOEA represented that the office would pay out-of-pocket expenses to an employee if the course was job related. No documentation was presented to support any out-of-pocket expenses incurred by the employee.

- Two employees were reimbursed a total of $914 for two modems, a sofa table, and several computer parts that were purchased by the employees for agency use. One of the computer parts costing $207 was supported by a packing slip rather than an invoice. Furthermore, the validity of this purchase could not be confirmed since the firm could not be located at either the phone number or address given on the packing slip. The travel/petty cash account is intended for minor purchases of an unusual nature. Furniture and computer equipment should be purchased through normal procedures using checks generated by the state's purchasing system.

- Although subsequently reimbursed, two newly hired individuals were issued their first pay checks totaling $1,425 from the travel/petty cash account because documentation of their employment was not processed in time for them to receive their checks through the Uniform Payroll System (UPS) on the normal payroll date. An adequate system of internal controls would ensure that all paperwork related to payroll is processed in a timely manner. Furthermore, UPS has procedures that should be followed when supplementary checks are needed. The travel/petty cash account is not intended to be a means to pay employees for their services and should not be used to do so.

These conditions occurred because the office has not placed sufficient emphasis on compliance with the state's travel policy and does not have a formal policy relating to the types of expenditures that are allowable from the travel/petty cash account.

The GOEA should consistently follow the state's travel regulations when reimbursing travel expenditures and adopt a formal policy specifying the types of other expenditures that can be reimbursed from the travel/petty cash account, the type of documentation required to support the reimbursement, the procedures to be followed when requests for reimbursement are submitted without proper documentation, et cetera. This policy should not allow payroll expenditures or routine purchases to be made from the account. Furthermore, the GOEA should formally adopt a policy specifying what educational expenses are reimbursable to its employees and follow that policy once it is adopted. Failure to provide an adequate system of internal controls and failure to follow the state's travel regulation increases the risk that unnecessary costs will be incurred by the state. In a letter dated August 4, 1997, Mr. Bobby Fontenot, Fiscal Officer, concurred with the finding. Mr. Fontenot stated that the incidents of payments that were not in accordance with state travel regulations were due to inadvertent error. Mr. Fontenot also stated that the GOEA is in the process of writing policy regarding expenditures to be paid from petty cash and on documentation needed to qualify for reimbursement of educational expenses. Mr. Fontenot feels that oversight from a new internal auditor position will help in preventing errors in the future.

Inadequate Controls Over Payroll

The GOEA does not have an adequate system of internal controls over payroll and did not comply with all Civil Service rules and regulations that are designed to ensure that time and attendance records supporting approximately $1.8 million of expenditures for personal services are complete and accurate. We examined the controls and records for one pay period for each of the two years under audit and noted the following:

- The timekeeper for GOEA enters her own time and leave records without subsequent review by another employee. An adequate system of internal controls would provide for adequate segregation of duties so that no one employee would be in a position to both initiate and conceal errors.

- The Division of Administration, through UPS, provides various reports that can be used to determine that entries into the on-line Time and Leave System are complete and accurate. No one at the GOEA reviews these reports to ensure that time worked and leave taken have been accurately entered into the system. Rather, the timekeeper relies on employees to notify her if they note errors in their payroll or leave records. An adequate system of internal controls would provide procedures to ensure that all records related to payroll are accurate.

- Four of 10 employees (40 percent) examined did not certify (sign) their time and attendance records. Civil Service Rule 15.2 requires the employee to certify the number of hours of attendance or absence from duty on the time and attendance record.

These conditions occurred because the GOEA has not placed sufficient emphasis on controls over the payroll system. 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 Service increases the risk that errors or fraud could occur and not be detected in a timely manner.

The GOEA should implement procedures that would ensure that all entries into the on-line Time and Leave Entry System are complete and accurate, that duties are appropriately segregated, and that the office is in compliance with all Civil Service rules and regulations. In a letter dated November 21, 1997, Mr. Larry Kinlaw, Appointing Authority, concurred with the finding and stated that corrective measures have recently been put into place. He stated that on January 1, 1997, the GOEA took on all duties previously performed for them by the Division of Administration. A Planning and Compliance Unit was established in recognition of the need for adequate internal controls. This unit includes an internal auditor. The Planning and Compliance Unit has now reviewed all areas of payroll and designed procedures to bring the GOEA into compliance with the requisite rules and regulations. He stated that these new procedures address all areas of the finding. In addition, corrective action will include routine audits of payroll to ensure continued compliance.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation cost, 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 office's compliance with applicable laws and regulations should be addressed immediately by 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

Daniel G. Kyle, CPA, CFE
Legislative Auditor

SRT:MWB:dl

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