

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

February 17, 1998



*Financial and Compliance Audit Division*

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

**Management Letter  
Dated January 23, 1988**

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, 1988



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January 23, 1988

**PUBLIC SAFETY SERVICES  
DEPARTMENT OF PUBLIC SAFETY  
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STATE OF LOUISIANA  
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As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1987, 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 controls; (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 within the scope of our work, and, accordingly, we offer no 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 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 report for the year ended June 30, 1986, we reported findings concerning the internal audit function, electronic data processing controls weaknesses, inadequate payroll controls, and inadequate controls over returned checks. These findings have not been resolved and are 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.

**Ineffective Internal Audit Function**

For the tenth consecutive year, the Department of Public Safety, Public Safety Services does not have an effective internal audit function. An effective internal audit function should provide assurance to management that assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations as designed by management, and procedures are sufficient to prevent or detect errors and fraud in a timely manner.

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The Department of Public Safety, Public Safety Services began to establish an internal audit function during the year ended June 30, 1987, by hiring two internal auditors. However, the efforts of these auditors during the current year were not sufficient to provide adequate coverage for the department. One auditor, assigned to the Office of Motor Vehicles, performed reviews of three Office of Motor Vehicles' field offices. The second auditor, assigned to the Office of State Police, was not hired until April 1987. Because of the limited time in that position, the duties performed by the auditor were limited to obtaining an understanding of the agency and audit planning. By assigning the auditors to specific offices within the department, the Office of Management and Finance and seven smaller appropriations within Public Safety Services are still without internal audit services. In addition, the auditors have not yet adopted an annual audit plan prioritizing their projects according to risk. A plan prioritized by risk would ensure that the efforts of the auditors are directed toward the areas of greatest need.

Considering the size of Public Safety Services' reported assets (\$100,250,166), revenues (\$141,854,199), and collections of major state reserves, esrow monies, and income not available (\$1,024,274,087), 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.

The department should continue its efforts to improve the effectiveness of its internal audit function to provide assurance to management that assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations as designed by management, and procedures are sufficient to prevent or detect errors or fraud in a timely manner. The internal audit function should be expanded to include all appropriations within Public Safety Services. This could be accomplished by ensuring that staffing levels are adequate and by prioritizing projects by risk after considering the needs of all appropriations within Public Safety Services. In a letter dated November 10, 1987, Mr. Thomas H. Norville, Undersecretary, stated that auditors are currently being used to examine all areas within the department when the need arises. He concurred that the auditor assigned to the Office of State Police did need some time to familiarize himself with the operations of that office but now that this has been accomplished, this auditor can be used more effectively. Mr. Norville also stated that it has been difficult to attract qualified auditors to the positions within Public Safety Services because of the low GS ratings designed by the Louisiana Department of State Civil Service. However, the department has met with Civil Service and the GS levels will be raised. Mr. Norville stated that he intends to request several additional internal auditor positions during the next budget cycle.

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### Assessment of Interest and Fines

During fiscal year 1997, the Department of Public Safety's Riverboat Gaming Division (RGD) did not assess interest or fines on those riverboat licensees who failed to submit daily tax remittance summary reports or transfer daily gaming fees within the legally required time period.

Louisiana Administrative Code (LAC) Title 42, Chapter 27, Section 2701 requires that:

- Each licensee submit a daily tax remittance summary report within 24 hours from the end of its gaming day.
- Each licensee remit all related taxes and fees by electronic fund transfer to the RGD's tax receipt bank account no later than 1 p.m. on the second day following the gaming day for which the activity was reported.
- Interest on late payment of taxes and fees be imposed at a daily rate of .0041 times the amount of unpaid taxes and fees for each day the payment is late.

In addition to interest, the Louisiana Gaming Control Board, on February 20, 1997, instituted a new fine schedule for each instance of noncompliance with the provisions of the riverboat rules and regulations. The schedule imposes a \$5,000 fine each time a daily tax remittance summary report or an electronic fund transfer is submitted late; however, the RGD has the discretion to determine whether or not to assess the fine.

In fiscal year 1997, there were 108 instances of untimely electronic fund transfers from all licensees ranging from 1 to 83 days late and 50 instances of untimely submissions of daily tax remittance summary reports from four licensees ranging from 3 hours to 5 days late. Based on our review of the untimely electronic fund transfers, interest totaling \$28,170 should have been assessed. In addition, a fine of \$5,000 for each of the 54 untimely electronic fund transfers and 25 untimely submissions of daily tax remittance summary reports occurring after February 20, 1997, could have been assessed at the discretion of the RGD. However, because the RGD considered these violations to be minor, there were no fines or interest assessed for fiscal year 1997.

Management of the RGD should ensure that interest for all untimely submissions of electronic fund transfers by riverboat licensees is assessed as required by LAC 42:27.2701. In addition, management should place greater emphasis on determining which instances of noncompliance by riverboat licensees warrant a fine.

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In a letter dated January 9, 1998, Mr. Thomas H. Norville, Undersecretary, Department of Public Safety Services, concurred with the finding and stated that since the RGD determined that late submissions of daily fee remittance summaries constituted only a 1 percent error rate for 1997, warning letters were issued in lieu of fine assessments.

Mr. Norville also indicated that the RGD has now issued interest assessment notices to the licensees for untimely electronic fund transfers that occurred during the 1997 fiscal year. However, the RGD considers the instances of untimely transfers and the financial impact of outstanding balances during the year to be minimal to the state. Therefore, no fines were issued.

For corrective action, the RGD will assess interest and fines on late wire transfers and fines on daily fee remittance summaries, if warranted, at the end of each six-month period. To ensure timely wire transfers, the RGD is attempting to institute an electronic funds transfer sweep system.

#### **Insufficient Controls Over Returned Checks**

For the second consecutive year, the Department of Public Safety and Corrections, Public Safety Services has not maintained adequate internal controls over checks returned from the depository for insufficient funds (NSF). During the year ended June 30, 1997, 3,363 checks totaling \$703,025 were returned to the department for NSF. Replacement funds totaling \$441,030 were received for 2,679 checks that were returned in the current and prior years. At June 30, 1997, the department records reflect \$98,451 of accounts receivable from NSF checks. This amount represents an increase of \$261,994 or 28 percent over the amount receivable at June 30, 1996. The failure of the department to maintain internal controls over NSF checks has resulted in uncollected license fees, tax reversals, and interest income to the state, as well as to local parishes and municipalities.

Management should develop internal controls over returned checks as follows:

- The records of individuals or entities that have paid with a NSF check should be designated in the department's data system to prevent processing of future transactions until replacement funds are received.
- Entities who register vehicles for customers should be placed on a "certified funds only" basis if replacement funds are not received in a timely manner.

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- An alphabetical "verified funds only" listing should be maintained, updated monthly, and provided to all offices within the department.
- Documentation should be maintained for all checks forwarded to the Department of Revenue and Taxation for collection. Copies of the replacement checks should be placed in the related files.

In a letter dated November 10, 1997, Mr. Thomas H. Normie, Undersecretary, stated that Act 1455 of the 1997 Regular Session now allows the department to cancel an individual's driving and vehicle registration if paid for with an NSF check. Along with the normal NSF check fee, an additional \$80 will be charged for reinstatement. Mr. Normie also stated that title companies are now required to post a bond with the department and they are put on a certified funds list until their NSF checks are paid. In addition, procedures will be implemented so that copies of documents submitted to the Department of Revenue are kept.

### **Inadequate Payroll Controls**

The Department of Public Safety and Corrections, Public Safety Services does not have adequate internal controls over its payroll function. An adequate system of internal control should include procedures to ensure compliance with state rules and regulations, that supporting documentation for payroll records is maintained, and that proper segregation of duties for payroll functions exists. We noted the following weaknesses during our review and tests of payroll controls:

- Overtime wages were improperly paid to 4 of 24 employees tested. The employees were paid a total of \$366 for 23.5 hours of work at the overtime rate of time and one-half before working their regularly scheduled number of hours per week. State Civil Service Rule 6.21 requires civilian employees to work 40 hours per week and State Police Commission rule 6.21 requires commissioned officers to work 60 hours biweekly before being paid at the overtime rate.
- Supervisors did not certify the hours of work recorded on the time and attendance worksheet for 2 of 24 employees tested. State Civil Service Rule 15.3 and State Police Commission Rule 15.3 require supervisors to certify the number of hours of attendance or absence from duty on the time and attendance records.



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- Supervisors did not sign leave slips to approve leave taken by 2 of 24 employees tested. State Civil Service Rule 11.7 requires that supervisors approve leave by employees.
- Annual and sick leave were earned at an improper rate for one of 24 employees tested. State Civil Service Rule 11.5 establishes the rates at which employees earn leave based on the length of state service. The employee earned leave at a rate higher than the established rate for his length of service for approximately 4.5 months.
- Department procedures are not adequate to ensure that timekeepers maintain required time entry documentation. Documentation to support the hours posted to the payroll system was not maintained by the timekeeper for one of 24 employees tested.
- 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 workers' compensation checks, and forwarding the checks to the payroll department where they are subsequently deposited into the Office of Statewide Uniform Payroll's payroll clearing account. There are no procedures to ensure that the checks received by the individual are timely deposited by the payroll department.

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.

The Department of Public Safety and Corrections, Public Safety Services should implement procedures over payroll to ensure that (1) incompatible duties are adequately segregated; (2) supervisors certify time and attendance reports and approve leave on a timely basis; (3) overtime is not paid before regularly scheduled hours are worked; (4) leave is credited to employees at the appropriate rate; and (5) timekeepers maintain appropriate supporting documentation. In a letter dated November 10, 1997, Mr. Thomas H. Normie, Undersecretary, stated that the department is in the final stages of testing a new program edit that will eliminate the problem of paying overtime when an employee has not actually worked the required 40 or 80 hours. Training seminars are being scheduled with timekeepers to stress the importance of signing leave slips and time sheets. Mr. Normie stated that the one error in sick and annual leave accumulation rate was due to a human error in entering the

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adjusted service date. Finally, Mr. Nimmis stated that the payroll section will send a copy of the completed deposit ticket to the worker's compensation clerk for proof of deposit.

**Additional Comments:** Requiring the payroll section to provide a copy of the deposit ticket to the worker's compensation clerk will not appropriately resolve the finding related to incompatible duties assigned to the worker's compensation clerk. The checks should go directly to the deposit unit with a copy of the check and all related paperwork forwarded to the worker's compensation clerk so that she can update the records.

#### Electronic Data Processing Controls Weaknesses

For the fourth consecutive year, the Department of Public Safety and Corrections, Public Safety Services has not established adequate internal control over electronic data processing (EDP). An adequate system of internal control requires that (1) employees are granted access only to files and programs necessary to perform their assigned duties; (2) duties are segregated so that no one employee is in a position to both initiate and conceal errors and/or fraud; and (3) documentation is maintained for system applications and authorization of user access. During the year ended June 30, 1997, the EDP systems processed several million transactions accounting for \$100,258,165 in assets; \$141,854,108 in revenues; and \$1,024,274,097 in major state revenues. Most of the department's 2,000 employees have access to one or more EDP systems.

During our tests of EDP controls, we identified the following weaknesses:

1. The department has not adequately limited user access to EDP systems. Our tests of access controls over the in-house system used to process time and attendance records and other accounting data disclosed that user IDs for 15 former employees had not been denied. In addition, user IDs for 14 former employees with access to the statewide purchasing system had not been denied. The employees had terminated for periods of two weeks to two years. In addition, employees of the Liquefied Petroleum Gas Commission share user IDs and passwords to gain access to the EDP systems used by the commission.
2. Duties of employees with access to EDP applications were not adequately segregated. We noted that four security coordinators in the Office of Motor Vehicles and one security coordinator in the Office of

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Management and Finance have the capability to sign on to the system using another employee's ID and sufficient knowledge of the system to process transactions.

3. The department has not maintained adequate documentation defining in-house system transactions. We selected a sample of computer users and examined the documentation for all transactions codes assigned to the selected users. There was no documentation maintained for 19 of 244 motor vehicle transactions and for 22 of 108 driver management transactions. Therefore, we were unable to determine the capabilities of employees who use the driver management and vehicle registration systems who are assigned these codes.
4. The department did not maintain adequate documentation authorizing access to systems including terminal registration numbers. During a review of authorization of user access, we found no evidence of authorization for four of five employees tested. We were unable to locate documentation of the location of terminal registration numbers. These numbers allow for limiting terminal access to selected locations.

These conditions occurred because management has not placed sufficient emphasis on establishing controls over the EDP function. Failure to establish adequate control over EDP activities could result in the loss of data, inconsistent data entry procedures, and failure to prevent or detect errors and/or fraud in a timely manner.

Management should develop procedures to cancel EDP access by former employees in a timely manner, segregate duties so that no employee would be in a position to both initiate and conceal errors or fraud, and maintain adequate documentation of system transactions and user access authorization. In a letter dated November 10, 1987, Mr. Thomas H. Norville, Undersecretary, stated that the department is researching the possibility of putting a flag in the timekeepers personnel record so that security personnel will be able to remove the timekeepers from the system timely. He stated that eight of the 15 former employees with access to the timekeeping system have now been deleted and that the 14 former employees with access to the statewide purchasing system will be removed. He also stated that employees of the Liquefied Petroleum Gas Commission did share IDs and passwords, but this has been corrected. Mr. Norville stated that the Office of Management and Finance security personnel would be used to process transactions only when another employee was not available and the Director of Finance would sign off on the transactions. Supervisors of the Office of Motor Vehicles will sign off on reports when security personnel process test

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transactions. Regarding documentation of in-house system transactions, Mr. Normie stated that the documentation in question was deleted from the system on April 27, 1997, rebuilt on June 11, 1997, and deleted again on September 8, 1997. Regarding documentation authorizing access to the system, Mr. Normie stated that a letter has been sent to supervisory personnel making it clear that each person's record has to be initialed and that PID numbers are to be verified quarterly. A log will be maintained to ensure that all reports are returned to the security officer.

**Additional Comments:** Mr. Normie's response addressed only eight of the former employees with access to the time and attendance records. The remaining seven former employees should also be removed from the system. Mr. Normie's proposed action to have supervisors certify as necessary all transactions processed by security personnel will not resolve the finding regarding segregation of duties. Security personnel have access to the passwords of all employees and since they also have experience processing transactions, they can sign on the system with another employee's identification and process erroneous transactions. This would not be detected by supervisory review of transactions processed under the security officer's own identification. Although outdated, undefined EDP transactions were deleted from the system near the end of the year audited, those transactions continue to be shown on security reports used by both the department and the auditor to judge EDP access. The value of the security reports is questionable until the reports agree with access actually available to employees.

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 cost, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. The findings relating to the department'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, CPA, CFE  
Legislative Auditor