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July 20, 2004

To the Board of Directors
Louisiana Partnership for Technology & Innovation
Post Office Box 14787
Baton Rouge, Louisiana 70898

Dear Board Members:

In accordance with our engagement letter dated June 25, 2004, we have completed our procedures designed to assist the Louisiana Partnership for Technology & Innovation (the "Partnership") in its investigation of alleged fraudulent transactions within the organization. These procedures were carried out in accordance with the Standards for Consulting Services of the American Institute of Certified Public Accountants. Our report summarizes the following:

- Background and scope of services
- Specific procedures and findings
- Summary comments and conclusions

BACKGROUND AND SCOPE OF SERVICES

The Partnership typically employs only four people, one of whom functions as a secretary/accounting clerk. Because of the limitations on achieving an appropriate segregation of duties inherent in a four person staff, the Partnership used an independent CPA firm to prepare monthly financial statements and reconcile monthly bank statements. Accounting information and bank statements were delivered periodically to the CPA firm by the secretary/accounting clerk.

On May 7, 2004, the secretary/accounting clerk, Schelly Betts, committed suicide following a domestic dispute, and in the course of reviewing financial records after her death, management discovered certain irregularities. On Friday, May 21, 2004, we were contacted by Donna Mayeaux, Board Chair, and asked to conduct an investigation. On Wednesday, May 26, a representative of our firm visited the Partnership offices to ascertain what procedures had been undertaken to identify the irregularities and to suggest additional procedures to evaluate the potential for other fraudulent actions.

The fraudulent schemes perpetrated by Ms. Betts fell into one of the following three categories:

- Stealing checks from the supply of blank check stock and issuing such checks in her own name to substitute for older outstanding checks (Bank One bank statements were altered and forged using scanning equipment to conceal the out-of-sequence check numbers).
- Diverting check receipts made payable to the Partnership to an unauthorized account at another bank (Regions) which she had fraudulently established with herself as the designated check signer.

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-25-04

- Issuing checks to herself and forging the signatures of an authorized check signer. The payee of the check was falsified for purposes of preparing the check register.

The following procedures were carried out by Partnership personnel to identify misappropriations:

1. Obtain authentic bank statements directly from Bank One for all months in the current fiscal year ending June 30, 2004.
2. Review bank statements to ensure that all cleared items have support (i.e. cancelled checks). Obtain copies if a supporting document is not available.
3. Compare check register to items shown as cleared on bank statements and note any discrepancies in amount, payee, or other relevant details.
4. Review vendor files for missing invoices, obtain copies if necessary.
5. Review vendor files for the larger vendors to determine if all checks per the check register have been appropriately credited to accounts.
6. Inspect the supply of unissued check stock to account for all check sequence and issue stop payments for any check not accounted for, or for indicated voids for which a voided check is not available.
7. Review billings to determine if all expected collections have been received.
8. Have the office manager account for all payroll checks written to her over the previous 18 months to determine whether such checks were deposited in her personal account or were missing and used to perpetrate the substitution of fraudulent checks.
9. Review several bank statements applicable to the prior fiscal year ended June 30, 2003 to determine whether they exhibit indications of forgery and if so, investigate using procedures similar to those summarized above.

Rather than reperforming all of the above procedures, our approach was to refine the work plan to be executed by Partnership personnel and then to test the thoroughness of the procedures by performing the specific procedures summarized below.

SPECIFIC PROCEDURES AND FINDINGS

The procedures that we performed, as agreed to in our engagement letter of June 25, 2004, and our findings are as follows:

1. *Review management's procedures for identifying the extent of the fraudulent activities and the dollar value to ascertain the adequacy and completeness of management's procedures.*

During our initial work in late May we suggested additional procedures which were incorporated into the work plan noted above. Except for the items identified in procedure 6 below, our procedures did not identify any fraudulent transactions not already identified by Partnership personnel.

2. *Perform an independent reconciliation of the operating bank account to the general ledger cash balances for at least four months in FY 2004 using authentic bank statements.*

We performed independent reconciliations for the four month period of July – October 2003 and found no questionable transactions that had not previously been identified by Partnership personnel.

3. *Review a selection of vendor files to review for proper application of payments per the check register and review for the validity of any refunds issued in order to determine if amounts were obtained fraudulently from vendors as a result of inappropriate duplicate payments.*

No exceptions were noted in our testing of vendor files applicable to three of the larger vendors.

4. *Review funding commitments for FY 2004 under grants and contracts. Billed amounts will be agreed to the contract (where applicable). Billed amounts will be compared to receipts and traced into the bank statement and general ledger.*

No exceptions were noted other than the \$15,498 of diverted receipts previously identified by Partnership personnel.

5. *Review the check register and compare to canceled checks returned by the bank (for a selection of months in FY 2004) to examine the accuracy of the check register.*

We compared the check register to the underlying canceled checks for the four month period of July – October 2003 and we were not able to identify any questionable items not previously identified by Partnership personnel.

6. *Examine at least three bank statements for periods prior to June 30, 2003 to review for the appearance of forgery.*

We discovered two instances of forgery in the bank statements whereby a fraudulent check was issued in the same amount as an older outstanding check for payroll and the bank statement was altered to make it appear that the older outstanding check had cleared. The amounts totaled \$3,372.92. As a result of these identified errors we expanded our testing to include all twelve monthly bank statements in the year ended June 30, 2003. No other items affecting the fiscal year ended June 30, 2003 were noted.

SUMMARY COMMENTS AND CONCLUSIONS

Based on the procedures performed by Partnership personnel and tested by us, the amount of cash misappropriated from the Partnership totals \$38,231.42. Of this amount, four diverted receipts deposited in an unauthorized account at Regions Bank totaled \$15,498. These receipts were from State universities which had contractual relationships with the Partnership. A total of 13 forged checks were identified totaling \$22,733.42. Eight of the 13 checks represented amounts equal to undeposited payroll checks which were concealed through falsification of monthly bank statements. The amount of fraudulent checks related to payroll totaled \$13,491.68. The Partnership has initiated negotiations with the banks involved to pursue recovery.

Neither the Partnership personnel nor we were able to review all bank statements applicable to the unauthorized account at Regions Bank in which diverted receipts were deposited. Bank One was to be granted access to such data to assist them in their investigation of the fraud. Management should request a representation from Bank One that based on its review of the Regions account activity, they are not aware of any Partnership funds diverted to such account other than the \$15,498 identified by Partnership personnel.

The fraudulent scheme was enabled in part by a lack of segregation of duties that is the result of the small size of the staff. The perpetrator was responsible for checking the mail, delivering information to the external CPA for preparation of financial reports (including bank statements, checks and other information) and mailing signed checks. She also had obtained access to the supply of unissued check stock and abstracted several out-of-sequence checks to use in her fraudulent activities. Consequently, she was able to control the distribution of signed checks and receive directly the bank statements she would alter before delivering them to the CPA.

The insufficient segregation of duties is an inherent risk in any small organization. The two most effective controls to mitigate such risks are: 1) an independent preparation of the bank reconciliation by someone who is not involved in authorizing or handling checks and 2) a thorough review of monthly income and expenses by a knowledgeable member of management. We recommend that bank reconciliation procedures be changed to provide that the bank statement be picked up from the bank (rather than mailed to the Partnership) by an authorized person who has limited involvement in the accounting process. The completed bank reconciliation should be reviewed by the external CPA as well in the course of completing the monthly accounting work.

Because most of the fraudulent activity with disbursements involved the substitutions of fraudulent checks for older outstanding checks, a more thorough review of monthly income and expense reports may not have detected these errors more timely. Furthermore, several of the larger transactions occurred in February 2004, a month that had not been finalized by the external CPA and reported to the Board before the fraud was detected. The diversion of revenues most likely would have been detected in connection with the completion of the year-end audits due to the limited number of funders.

We were not engaged to, and did not, conduct an examination, in accordance with the attestation standards, the objective of which is the expression of an opinion on the extent of fraudulent transactions within the Partnership or the design or operations of the Partnership's system of internal controls. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP