

STATE OF LOUISIANA LEGISLATIVE AUDITOR

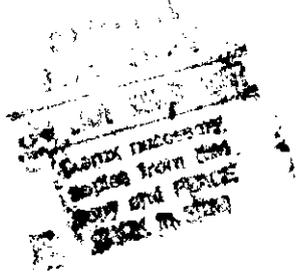
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana

January 8, 1997



Financial and Compliance Audit Division

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



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**DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Management Letter
Dated December 13, 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 office of the Legislative Auditor.

January 8, 1997



OFFICE OF
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December 13, 1996

DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the financial statements of the State of Louisiana for the year ended June 30, 1996, we conducted certain procedures at the Department of Environmental Quality. Our procedures included (1) a review of certain department internal control structures; (2) tests of certain financial transactions; (3) tests of certain laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The June 30, 1996, Annual Fiscal Report of the Department of Environmental Quality 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 department personnel. We also evaluated documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior management letter dated October 23, 1995, we reported internal control structure findings relating to the internal audit function and the Department of Environmental Quality's Waste Tire Loan Program. The finding on the waste tire loan program has been resolved by management. The finding on the internal audit function has not been completely resolved and is addressed 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.

Internal Audit Function

While the Department of Environmental Quality established an internal audit function and filled one internal audit position on May 20, 1996, the department was without an internal audit function for the period July 1, 1995, to May 20, 1996. This is the fourth consecutive year the Department of Environmental Quality has been cited for not having

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DEPARTMENT OF ENVIRONMENTAL QUALITY STATE OF LOUISIANA

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an internal audit function. An internal audit function would provide assurances to management that assets of the department are properly safeguarded, internal control structures 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 irregularities in a timely manner. The total assets of the department at June 30, 1996, are \$105 million and revenues are \$106 million. Given the size of the department, we believe that the lack of an internal audit function within the department results in a significant deficiency in the design of the internal control structure.

The department should continue its efforts to establish an internal audit function by working with its newly hired internal auditor. In a letter dated August 30, 1996, Mr. Thomas G. Hagan, Undersecretary of the Department of Environmental Quality, stated that the department established an internal audit position in the 1996 fiscal year and requested and were approved for six additional positions for the 1997 fiscal year. Along with these internal auditors, the department will continue to use personnel within the department to review the many processes and functions involved in its operations.

Lack of Review of Claims Edit Listing

The Department of Environmental Quality does not have adequate internal controls in place to determine the accuracy and completeness of the Office of Risk Management's (ORM) Claims Edit Listing. In accordance with rules promulgated by ORM, all claims and litigation, with the exception of expropriations, certain contract suits, and civil service matters, must be reported to ORM. ORM requests that each agency review the quarterly Claims Edit Listing for accuracy of the claims reported, including a review for completeness. The majority of claims on the list are being reviewed by the Human Resources Office; however, the department's legal counsel has not reviewed the listing. The Human Resources Office - Safety and Training personnel did not realize that the claims edit listing should be reviewed by the legal section for accuracy and completeness.

Because the claims edit listing has not been reviewed completely, there is the risk that the status of all litigation within the department may not be correctly reported to ORM. There is also the risk that the insurance premiums for the department may be calculated incorrectly because the listing is not being reviewed in its entirety.

The ORM Claims Edit Listing should be routed to all appropriate sections within the department to review for accuracy and completeness, including the department's legal counsel. In a letter dated October 23, 1996, Mr. Thomas G. Hagan, Undersecretary of the Department of Environmental Quality, stated that the department concurred with the finding and has taken steps to have the listing reviewed by the legal staff.

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DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA

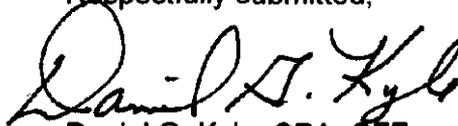
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The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, the implementation costs, and the potential impact on 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 black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

STD:WMB:dl

[DEQ]