

DEPARTMENT OF TREASURY

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Management Letter
Issued February 21, 2024

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Department of Treasury



February 2024

Audit Control # 80230074

Introduction

As a part of our audit of the State of Louisiana's Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2023, we performed procedures at the Department of Treasury (Treasury) to provide assurances on financial information that is significant to the state's Annual Comprehensive Financial Report; evaluate the effectiveness of Treasury's internal controls over financial reporting and compliance; and determine whether Treasury complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Untimely Bank Reconciliations

Treasury did not timely complete, review, and approve bank reconciliations during fiscal year 2023. Failure to complete and review bank reconciliations in a timely manner increases the risk that errors and/or fraud could occur and not be detected in a timely manner and increases the risk of inaccurate financial reporting.

We reviewed the following bank reconciliations and noted issues with timely completion:

- The September 2022, November 2022, and March 2023 reconciliations for the central depository bank account were not completed, reviewed, and approved timely. These reconciliations were not completed, reviewed, and approved until May 2023, between 52 and 229 days after the relevant month-end.
- Eight regional bank account reconciliations reviewed for various months between July 2022 and May 2023 were not completed, reviewed, and approved until July 2023, between 37 to 354 days after the relevant month-end.
- The reconciliation of the state's 2023 cash balance per the LaGov system to the various bank and investment account balances was not

completed, reviewed, and approved until December 15, 2023, 168 days after the fiscal year-end.

Good internal control requires accurate and timely reconciliation of bank balances to the accounting records. Bank reconciliations provide management with a basis to ensure that all transactions that affect both the bank accounts and the accounting records agree. Reconciliations are also helpful in identifying misappropriations.

At the beginning of fiscal year 2023, all state agencies transitioned from the state's previous financial accounting system to the current financial accounting system, LaGov, for all deposit and revenue transactions. According to Treasury, it worked closely with the Office of Technology Services' LaGov team throughout the fiscal year on developing the necessary system reporting to accurately complete the monthly bank reconciliations. Because of ongoing changes to available LaGov reporting and the reconciliation process throughout the year, Treasury did not finalize these monthly reconciliations and could not provide evidence that these reconciliations had been performed throughout the fiscal year.

In addition to the monthly reconciliations performed by Treasury, monthly reconciliations are also performed by state agencies with bank accounts held by these agencies. At year end, Treasury uses the reconciliations performed by these state agencies in identifying reconciling items for the state's year-end cash balance compared to the year-end bank balances. However, during this process for fiscal year 2023, Treasury identified that the LaGov system balances being used by state agencies in these reconciliations were not accurate. The LaGov team then worked on identifying the corrections needed to system balances. Subsequently, the state agencies were required to re-perform the year-end reconciliations to appropriately identify the reconciling items for Treasury's use in completing the overall reconciliation of the state's cash balance. According to both Treasury and the LaGov team, these state agencies did not identify the issue with their system balances at any point during the fiscal year to prompt investigation and correction in a timely manner.

Ultimately, a lack of adequate communication and understanding of LaGov system operations amongst all parties involved appears to have led to the control deficiency identified.

Management should ensure that bank reconciliations are completed, reviewed, and approved in a timely manner and that evidence supporting these actions is maintained. Management concurred in part with the finding and stated that they will complete, review, and approve all bank reconciliations in a timely manner (See Appendix A).

Annual Comprehensive Financial Report – State of Louisiana

As a part of our audit of the Annual Comprehensive Financial Report for the year ended June 30, 2023, we considered internal control over financial reporting and examined evidence supporting cash, investments, and bonds.

Based on the results of these procedures, we reported a finding related to Untimely Bank Reconciliations, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2023, we performed certain procedures as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on information submitted by Treasury to the Division of Administration's Office of Statewide Reporting and Accounting Policy on the status of the fiscal year 2021 finding for the preparation of the state's Summary Schedule of Prior Audit Findings.

Based on the results of these procedures, we did not report any findings. In addition, Treasury's information submitted for the state's Summary Schedule of Prior Audit Findings is materially correct.

Trend Analysis

We compared the most current and prior-year financial activity using Treasury's Annual Fiscal Reports and/or system-generated reports and obtained explanations from Treasury's management for any significant variances.

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of Treasury. The nature of the recommendation, its implementation costs, and its potential impact on the operations of Treasury should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

DG:CST:BH:BQD:aa

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APPENDIX A: MANAGEMENT'S RESPONSE



TREASURER OF THE STATE OF LOUISIANA

John C. Fleming, MD
State Treasurer

P.O. Box 44154
Baton Rouge, LA 70804
(225) 342-0010
www.latreasury.com

February 2, 2024

Mr. Michael J. Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Untimely Bank Reconciliations

Dear Mr. Waguespack:

As per your staff's request on January 22, 2024, please accept this letter as our official response to the Louisiana Legislative Auditor's finding titled "Untimely Bank Reconciliations." The Department of Treasury concurs in part that the Department did not timely complete, review, and approve bank reconciliations on a timely basis.

As stated in the finding, the State transitioned from the previous financial accounting system, AFS, to the current financial accounting system, LaGov, at the beginning of fiscal year 2023, for all bank deposit and revenue transactions. The Department worked diligently with the LaGov team to ensure a smooth transition. During this collaboration, numerous unforeseen issues were identified and eventually resolved. Throughout this process, all state funds were properly accounted for.

Despite the LaGov team working with the Department throughout the year, the Department was unable to prepare for this transition prior to full implementation. Due to the lack of available specialized training in anticipation of the transition, the Department did not have the ability to properly reconcile daily transactions to complete monthly bank reconciliations in a timely manner. While working with the LaGov team to identify and correct system issues, it was found that programming revisions affected previously completed monthly reconciliations. This caused a delay in finalizing the monthly reconciliations due to the inefficient processes related to required revisions in LaGov.

The Department has since completed, reviewed, and approved all outstanding bank reconciliations referenced in the finding. The Department will continue to complete, review, and approve all bank reconciliations in a timely manner using the LaGov accounting system.

Thank you for the opportunity to respond to this finding. If we can be of further assistance, please do not hesitate to contact our office.

Sincerely,

A handwritten signature in black ink that reads "John Fleming". The signature is written in a cursive, flowing style.

John Fleming, MD
State Treasurer

JCF/LS

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Treasury (Treasury) for the period from July 1, 2022, through June 30, 2023, to provide assurances on financial information significant to the State of Louisiana's Annual Comprehensive Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2023.

- We evaluated Treasury's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to Treasury.
- Based on the documentation of Treasury's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Annual Comprehensive Financial Report.
- We performed procedures on the status of the fiscal year 2021 finding for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2023, as a part of the 2023 Single Audit.
- We compared the most current and prior-year financial activity using Treasury's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from Treasury's management for significant variances.

The purpose of this report is solely to describe the scope of our work at Treasury and not to provide an opinion on the effectiveness of Treasury's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review Treasury's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. Treasury's accounts are an integral part of the State of Louisiana's Annual Comprehensive Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.