

GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 27, 2011

**LEGISLATIVE AUDITOR
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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.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$15.10. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 7430 or Report ID No. 80100026 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Administration Manager, at 225-339-3800.

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Our procedures at the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for the period July 1, 2009, through June 30, 2010, disclosed the following:

- For the fourth consecutive year, GOHSEP did not submit an accurate annual fiscal report and Schedule of Expenditures of Federal Awards to the Division of Administration.
- GOHSEP did not submit accurate federal financial reports (SF-425) to the Federal Emergency Management Agency (FEMA) for the Public Assistance (CFDA 97.036) and Hazard Mitigation Grant (CFDA 97.039) programs.
- GOHSEP did not draw federal funds for the Public Assistance program in a timely manner or submit accurate related information to the Office of Statewide Reporting and Accounting Policy, resulting in delays in state reimbursements and potential lost interest revenue.
- Other than the findings previously noted, no significant control deficiencies, errors, or noncompliance were identified in our procedures on nonpayroll expenditures, federal revenue, receivables, payables, deferred revenue, prepaid expenses, cooperative endeavors, and critical information systems that would require reporting under *Government Auditing Standards*.
- Other than the findings previously noted, no significant control deficiencies or noncompliance that would require reporting under *Government Auditing Standards* and Office of Management and Budget Circular A-133 were identified for the following federal programs for the year ended June 30, 2010:
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
 - Hazard Mitigation Grant (CFDA 97.039)
 - Homeland Security Cluster (CFDA 97.004/97.067)

This report is a public report and has been distributed to state officials. We appreciate GOHSEP's assistance in the successful completion of our work.

Mission

The mission of GOHSEP is to lead and support Louisiana and its citizens in the preparation for, response to and recovery from all emergencies and disasters.

Vision

The vision of GOHSEP is to be a center of excellence for emergency management and homeland security known for leadership, innovation and service for the benefit of Louisiana, its citizens and all other stakeholders.

Goals

The goals of GOHSEP include the following:

- Prepare the state to respond to and recover from emergencies and disasters by developing disaster independence at the individual, local, and state levels.
- Reduce the vulnerability of Louisiana by supporting the detection, deterrence and mitigation of terrorist threats.
- Lead and coordinate Louisiana's response to natural disasters, acts of terrorism and other emergencies.
- Administer and coordinate all aspects of disaster recovery.
- Provide a positive work environment for our work force.
- Establish and maintain an infrastructure that provides an interoperable environment at the local, state, and federal level.
- To administer and provide effective and efficient support and resources to accomplish program objectives.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 30, 2011

**GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2010, we conducted certain procedures at the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for the period from July 1, 2009, through June 30, 2010.

- Our auditors obtained and documented an understanding of GOHSEP's operations and system of internal controls, including internal controls over major federal award programs administered by GOHSEP, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations related to GOHSEP.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using GOHSEP's annual fiscal reports and/or system-generated reports and obtained explanations from GOHSEP management for any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior report on GOHSEP, dated April 29, 2010, we reported findings relating to noncompliance with subrecipient monitoring requirements; inadequate LAPA program change management; lack of information technology audits; lack of proper LAPA access and segregation of duties; inadequate reconciliation between project database and financial records; Homeland Security grants not obligated timely; deficiencies in internal control over payroll; and lack of controls to ensure completeness of quarterly progress reports, which have all been resolved by management. The prior year finding relating to inadequate preparation of the annual fiscal report has not been resolved. In addition, portions of the prior year finding on noncompliance with the CMIA Treasury-State Agreement have not been resolved. These unresolved findings are addressed again in this letter.

- Our auditors considered internal control over financial reporting and examined evidence supporting GOHSEP's nonpayroll expenditures, federal revenue, receivables, payables, deferred revenue, prepaid expenses, cooperative endeavors, and critical information systems and related user access controls. We also tested GOHSEP's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, in accordance with *Government Auditing Standards*.
- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2010, as a part of the Single Audit of the State of Louisiana:
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
 - Hazard Mitigation Grant (CFDA 97.039)
 - Homeland Security Cluster (CFDA 97.004/97.067)

The Annual Fiscal Report of GOHSEP was not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. GOHSEP's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have findings related to inadequate preparation of the annual fiscal report, inaccurate federal financial reports, and untimely draws and inaccurate reporting of draws to OSRAP that are required to be reported by *Government Auditing Standards*. The findings related to inadequate preparation of the annual fiscal report and inaccurate federal financial reports were also included in the State of Louisiana's Single Audit Report for the year ended June 30, 2010. Other than the findings noted below, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures, including our procedures on federal programs, which should be communicated to management.

The following significant findings are included in this report for management's consideration.

Inadequate Preparation of the Annual Fiscal Report

For the fourth consecutive year, GOHSEP did not submit an accurate Annual Fiscal Report (AFR) and Schedule of Expenditures of Federal Awards (SEFA) to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP). Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format of each agency's AFR and requires a signed affidavit that the AFR presents fairly the financial position of the agency. Good internal control over financial

reporting should include adequate procedures to record, process, and transmit financial data needed to prepare an accurate and complete AFR, including the SEFA; adequate training and supervision of staff; and a review process that will identify preparation errors and correct those errors before submitting the reports to OSRAP for inclusion in the state's Comprehensive Annual Financial Report (CAFR) and the Single Audit.

Audit procedures revealed that the AFR contained significant and material errors in the accruals and note disclosures that were corrected with audit adjustments.

<u>Account Balances/Notes</u>	<u>Original AFR</u>	<u>Audit Adjustments</u>	<u>Final Adjusted AFR</u>
Receivables:			
Modified Accrual	\$65,145,895	(\$9,270,955)	\$55,874,940
Adjustment to Full Accrual	812,564,736	99,803,119	912,367,855
Payables:			
Modified Accrual	92,818,539	(9,224,831)	83,593,708
Adjustment to Full Accrual	812,564,735	99,803,119	912,367,854
Prepayments (Advances) - note Z	361,014,910	(6,405,448)	354,609,462
Deferred Revenue (2010 Activity) - note G	197,071,744	6,711,006	203,782,750
Deferred Revenue Balance	333,837,103	20,772,359	354,609,462
Cooperative Endeavors - Schedule 16			
Net Liability	1,000,940,532	(67,935,760)	933,004,772
Disallowed Costs Amount - note I	26,320,205	7,818,947	34,139,152

Audit procedures revealed that the SEFA contained the following errors: (1) the amount reported for the Public Assistance program was understated by \$120 million; (2) Schedule 8 and recap of Schedule 8 were not prepared in accordance with OSRAP's instructions; (3) federal program clusters were not properly identified; and (4) the reconciliation between the SEFA and the financial statements included unsupported adjustments.

Management has not adequately trained its accounting staff in the OSRAP format, Governmental Accounting Standards Board (GASB) requirements, and OMB A-133 reporting requirements. In addition, management has not developed an adequate review process to ensure that the AFR is accurately presented. The lack of adequate review may allow misstatements from errors or fraud to occur and remain undetected. The failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR.

GOHSEP management should (1) enhance its written compilation procedures to include all steps in the compilation process; (2) ensure its AFR and SEFA are properly prepared and reviewed to identify and correct errors before submitting these reports to OSRAP;

and (3) ensure its accounting staff is adequately trained in OSRAP, GASB, and OMB A-133 reporting requirements. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inaccurate Federal Financial Reports

GOHSEP did not submit accurate federal financial reports (SF-425) to the Federal Emergency Management Agency (FEMA) for the Public Assistance (CFDA 97.036) and Hazard Mitigation Grant (CFDA 97.039) programs. A review of quarterly reports revealed that GOHSEP used reimbursement information from the federal SmartLink system to compile expenditure amounts instead of using the expenditures in GOHSEP's accounting system, resulting in an understatement in federal expenditures on the reports. Also, GOHSEP did not accurately report federal authorized amounts for three reports issued for the quarter ending June 30, 2010, including a \$25 million understatement of the federal authorized amount on the Public Assistance report for Hurricane Katrina.

OMB Circular A-133 *Compliance Supplement*, Part 3, Section L states that reports for federal awards shall include all activity of the reporting period, be supported by applicable accounting records, and be fairly presented in accordance with program requirements. Inaccurate federal financial reporting increases the risk that FEMA and GOHSEP management will not be able to effectively monitor GOHSEP's funding levels and may result in a loss or delays of future funding.

Management has not developed a formal process or adequately trained staff how to prepare these reports. GOHSEP management should develop written procedures to prepare the financial reports, review the prepared reports to identify and correct errors before submitting to FEMA, and provide training to its accounting staff on the SF-425 reporting requirements. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

Untimely Draws and Inaccurate Reporting of Draws to Office of Statewide Reporting and Accounting Policy

GOHSEP did not draw federal funds for the Public Assistance program in a timely manner or submit accurate related information to OSRAP, resulting in delays in state reimbursements and potential lost interest revenue. In a test of 60 federal draws, seven (12%) draws to reimburse payroll costs were between six and 275 days late and did not follow the monthly clearance pattern in the Cash Management Improvement Act (CMIA) Treasury-State agreement. In addition, a review of the monthly forms submitted to OSRAP revealed that 31 draws were inaccurately reported.

The Treasury-State agreement establishes the clearance pattern and funding technique necessary to ensure draws of federal funds are interest neutral to the state and federal government. For OSRAP to accurately calculate interest, OSRAP policy requires GOHSEP to report the date and amount of funds disbursed and received each month. However, GOHSEP has not established adequate internal procedures to ensure that draws are

performed timely and accurate information is reported to OSRAP on the monthly report. A contributing factor is the late approval of payroll costs by FEMA in September 2009 and the related disruption in routine monthly draws.

GOHSEP should begin performing routine monthly draws and should clarify its written procedures on the preparation of monthly draw reports. To avoid disruptions in monthly draws, GOHSEP should work closely with FEMA to limit future delays in funding approval. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of GOHSEP. The nature of the recommendations, their implementation costs, and their potential impact on the operations of GOHSEP should be considered in reaching decisions on courses of action. The findings relating to GOHSEP's compliance with applicable laws and regulations should be addressed immediately by management.

The Recovery Assistance Services (RAS) division of the Louisiana Legislative Auditor issued 14 reports in fiscal year 2010 based on agreed-upon procedures designed to assist GOHSEP in evaluating the documentation submitted by sub-grantees for reimbursement under the Public Assistance program and Hazard Mitigation Grant program and fulfilling its responsibility for programmatic closure under the Public Assistance program. These agreed-upon procedures were considered during our financial audit of these programs and the results of those procedures are not included in this management letter. The related RAS reports, including any exceptions and management's responses, can be found on the Louisiana Legislative Auditor's Web site at www.la.gov.

The Performance Audit Services (PAS) division of the Louisiana Legislative Auditor performed procedures evaluating the effectiveness of GOHSEP's monitoring of the Hazard Mitigation Grant program, which encompassed our fiscal year 2010 engagement. The results of the performance work were considered during our financial audit of the program and are not included in this management letter. The related PAS report, including any recommendations for improvement and management's responses, will be available on the Louisiana Legislative Auditor's Web site at www.la.gov upon issuance.

GOVERNOR'S OFFICE OF HOMELAND SECURITY AND EMERGENCY PREPAREDNESS__

This letter is intended for the information and use of GOHSEP and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

LMN:DG:BDC:kg

GOHSEP 2010

Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

MARK A. COOPER
DIRECTOR

December 22, 2010

Mr. Daryl G. Purpera, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Letter dated November 22, 2010
Inadequate Preparation of the Annual Fiscal Report

Dear Mr. Purpera:

I have reviewed the finding in the letter dated November 22, 2010 from your office, which covers activities of the Governor's Office of Homeland Security and Emergency Preparedness for Fiscal Year 2010.

In accordance with your guidance, we are providing separate letters for each of the findings.

Inadequate Preparation of the Annual Fiscal Report

Finding: For the fourth consecutive year, the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) did not submit an accurate Annual Fiscal Report (AFR) and Schedule of Expenditures of Federal Awards (SEFA) to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP).

Response: GOHSEP management concurs with this finding. Accurate and timely completion of the Annual Financial Report and the Schedule of Expenditures of Federal Awards are critical for the State's Comprehensive Annual Financial Report and the proper accounting of funds expended for Federal programs. Staff transition and process changes contributed to data integrity issues and errors in the execution of the forms. Due to the time constraints of the process and the complexity of the data, the process for completing and reviewing the submission did not function effectively.

Corrective Action: Additional staff has been hired and additional training is planned to ensure that multiple layers of review are implemented. Additional emphasis will be placed on planning and ongoing data integrity efforts to reduce the quantity of manual adjustments required. Due to the complexity of the process and the short period of time to complete and review the calculations, an

Mr. Daryl Purpera
Page 2
December 22, 2010

extension of the deadline for submission is anticipated. GOHSEP will work with OSRAP in advance, to determine the appropriate length of the extension. Staff will complete a run through of the process including data compilation and execution of the appropriate forms prior to year-end to identify issues and validate formulas in advance.

I thank you for providing this information on GOHSEP's preparation of the annual fiscal report.

If you have any questions or need further assistance, please contact me at (225) 925-7345 or our Internal Auditor, Bruce J. Janet at (225) 922-1479.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Cooper". The signature is written in a cursive, flowing style.

Mark A. Cooper

MAC:ct:krs



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

MARK A. COOPER
DIRECTOR

February 15, 2011

Mr. Daryl G. Purpera, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Letter dated January 31, 2011
Inaccurate Federal Financial Reports

Dear Mr. Purpera:

I have reviewed the finding in the letter dated January 31, 2011 from your office, which covers activities of the Governor's Office of Homeland Security and Emergency Preparedness for Fiscal Year 2010.

In accordance with your guidance, we are providing separate letters for each of the findings.

Inaccurate Federal Financial Reports

Finding: The Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) did not submit accurate federal financial reports (SF-425) to the Federal Emergency Management Agency (FEMA) for the Public Assistance (CFDA 97.036) and Hazard Mitigation Grant (CFDA 97.039) programs.

Response: GOHSEP management concurs with this finding. The methodology used to report expenditures on the quarterly SF-425 reports was not accurate. Although, the methodology was consistent with that used in prior years, the process was lacking with respect to the expenditure portion of the reports. In addition, for the quarter ending June 30, 2010, the authorized award amount was reported incorrectly on 3 grants. Due to the nature of the disaster funding, the authorized award amount is subject to frequent and significant fluctuations and the Federal awarding agency has access to this information.

Corrective Action: The process used to complete the quarterly SF-425 reporting will be changed to ensure that reports are completed accurately. Written procedures will be developed that describe the process for compiling the data needed to complete the reports and staff will be trained on the procedures. The reporting methodology has already been changed in response to this finding for the most recent SF-425 submission.

Mr. Daryl G. Purpera, CPA
Page Number 2
February 15, 2011

I thank you for providing this information on GOHSEP's preparation of federal financial reports.

If you have any questions or need further assistance, please contact me at (225) 925-7345 or our Internal Auditor, Bruce J. Janet at (225) 922-1479.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Cooper". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark A. Cooper

MAC:CT:cld



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

MARK A. COOPER
DIRECTOR

March 14, 2011

Mr. Daryl G. Purpera, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Letter dated March 1, 2011
Untimely Draws and Inaccurate Reporting of Draws to OSRAP

Dear Mr. Purpera:

I have reviewed the finding in the letter dated March 1, 2011 from your office, which covers activities of the Governor's Office of Homeland Security and Emergency Preparedness for Fiscal Year 2010.

In accordance with your guidance, we are providing separate letters for each of the findings.

Untimely Draws and Inaccurate Reporting of Draws to OSRAP

Finding: GOHSEP did not draw federal funds for the Public Assistance program in a timely manner or submit accurate related information to the Office of Statewide Reporting and Accounting Policy (OSRAP), resulting in delays in state reimbursements and potential lost interest revenue.

Response: GOHSEP management concurs with the finding.

Corrective Action: Additional review procedures have already been implemented for CMIA draws and reporting. Staff members have been trained on the requirements of the Treasury State Agreement and OSRAP's CMIA procedures. Procedures and ongoing training will be updated to address the OSRAP reporting issues and the timely drawdown of payroll costs noted in the current finding.

Mr. Daryl G. Purpera, CPA
Page Number 2
March 14, 2011

I thank you for providing this information on GOHSEP's CMIA draws and reporting.

If you have any questions or need further assistance, please contact me at (225) 925-7345 or our Internal Auditor, Bruce J. Janet at (225) 922-1479.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Cooper". The signature is written in a cursive style with a large initial "M".

Mark A. Cooper

MAC:CT:cld