

DEPARTMENT OF MILITARY AFFAIRS
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



PROCEDURAL REPORT
ISSUED MAY 6, 2009

**LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 23, 2009

DEPARTMENT OF MILITARY AFFAIRS
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
New Orleans, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Department of Military Affairs from July 1, 2007, through June 30, 2008. Our procedures included (1) a review of the department's 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 the prior year report recommendation. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected departmental personnel and evaluated selected 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.

The Annual Fiscal Report of the Department of Military Affairs was not audited or reviewed by us, and, accordingly, we do not express an opinion 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 opinions.

In our prior report on the Department of Military Affairs, dated April 22, 2008, we reported a finding relating to an inaccurate and incomplete annual fiscal report. That finding has been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Lack of Internal Audit Function

The Department of Military Affairs does not have an internal audit function. The internal audit position has been vacant since June 19, 2006. The internal audit function should provide management with assurances that assets of the department are properly

safeguarded; internal controls are established and operating in accordance with applicable laws and regulations; and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner. Considering the department's reported assets of approximately \$178 million and its revenues of approximately \$93 million, an effective internal audit function is needed to ensure the department's assets are safeguarded and management's policies and procedures are uniformly applied. Act 18 of the 2007 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of \$30 million to use existing program resources to establish an internal auditor position within its table of organization.

Management should establish an effective internal audit function to (1) provide assurance that assets of the department are properly safeguarded, (2) ensure compliance with applicable laws and regulations, and (3) ensure controls are sufficient to prevent or detect errors and/or fraud in a timely manner. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Controls Over Payroll Documentation

The Department of Military Affairs failed to ensure that payroll transaction source documentation was properly completed and maintained. State Military Department *Policies and Procedural Manual* Chapter 1 Section 4-1-b requires that all leave must be requested and approved on Standard Form (SF) 6. Chapter 1 Section 4-3-a (2) of the manual requires that employees be responsible for recording daily attendance on prescribed attendance forms and verifying and signing biweekly payroll time and attendance sheets. In addition, good internal controls require supporting documentation for all transactions.

In a test of 20 employees, the following exceptions were identified:

- Six employees (30%) did not certify their time worked.
- Four employee folders (20%) did not contain either the federal I-9 form (U.S. Department of Justice Immigration and Naturalization Service "Employment Eligibility Verification") and/or the W-4 forms (Employee Withholding Certificate).

In a test of 10 employees for leave request/approval documentation, one employee (10%) did not request and obtain approval for leave used.

The Department of Military Affairs did not consistently enforce its existing policies and procedures related to payroll documentation. The department's gross payroll during fiscal year 2008 totaled approximately \$31 million. Lack of adequate documentation of payroll transactions increases the risk of fraud and errors and is not in compliance with the department's policies and procedures.

Management should ensure that payroll transaction source documentation is properly completed and maintained as required by departmental policies and procedures. Management concurred in part with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-4).

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 costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. The finding relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended solely for the information and use of the department and its management, others within the department, 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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



DEPARTMENTS OF THE ARMY AND AIR FORCE

JOINT FORCE HEADQUARTERS-LOUISIANA
OFFICE OF THE ADJUTANT GENERAL
CAMP BEAUREGARD
PINEVILLE, LOUISIANA 71360

14 January 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

REFERENCE FINDING: Lack of Internal Audit Function

Dear Mr. Theriot:

The Department of Military Affairs concurs with the finding. The Department's previous internal auditor was utilized at the Office of Emergency Preparedness (OEP) during the post Katrina period to provide appropriate controls in the processing of the enormous back log of project worksheets related to reimbursements for claims from the Military Department. Simultaneously, the Blanco Administration and the Legislature enacted legislation to create the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) thus separating from the Military Department. The incumbent elected to seek employment with GOHSEP at that time and was transferred as part of the reorganization.

Since that time, the Military Department has continuously endeavored to hire a qualified internal auditor. The position was originally announced on 19 Oct 06 and closed on 2 Nov 06. No qualified applicants applied. The position was re-advertised on 22 Nov 06 and closed on 6 Dec 06 with similar results. The position was then advertised as open until filled. In the subsequent period of time, no qualified applicants have responded to the vacancy. It should be noted that all of the employees of the Military Department are in the unclassified service, i.e. at-will employees. This represents a significant disincentive for classified employees from other departments of state government to apply for the position. In addition, two Administration imposed hiring freezes have further complicated the hiring effort.

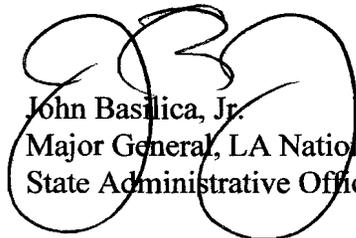
On 1 Aug 08 we began negotiation with a qualified individual and planned to hire him upon his release from Active Duty military service (Oct 08). The individual would not accept the salary offered. The Department increased the offer to over 50% of the range but the individual ultimately declined the offer in Nov 08.

Mr. Steve J. Theriot
14 January 2009
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On 6 Jan 09 the decision was made to assign the most qualified on-board employee in the agency to the position. The individual is in the process of transition to the internal auditor position and will be operating as such by the end of Jan 09.

If you have any questions or require further information, please contact COL John P. Catalanotte, Fiscal Manager, at (504) 278 8071.

Sincerely,



John Basilica, Jr.
Major General, LA National Guard
State Administrative Officer

Attachment

cf: MG Bennett Landreneau
COL John Catalanotte



State of Louisiana

MILITARY DEPARTMENT

OFFICE OF THE ADJUTANT GENERAL
304 F STREET
CAMP BEAUREGARD
PINEVILLE 71360-0613

BENNETT C. LANDRENEAU
MAJOR GENERAL
THE ADJUTANT GENERAL

BOBBY JINDAL
GOVERNOR

March 20, 2009

Louisiana Legislative Auditor
Attn: Stephen J. Theriot, CPA
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Response to Finding – Inadequate Controls
Over Payroll Documentation

Dear Mr. Theriot:

I concur in part with the finding. In my opinion the exception regarding four employee folders not containing a Federal Form 1-9 and/or W-4 Forms is not a valid exception/observation. These employee folders were established after the original folders were destroyed by Hurricane Katrina. The W-4's were used to enter withholding in the pay system and the Form 1-9's are an absolute prerequisite for hiring. Doesn't make sense to use this exception as a basis for a finding. Would you have us go back and reconstruct these forms for 200 plus employees? What would that prove? What about other forms?

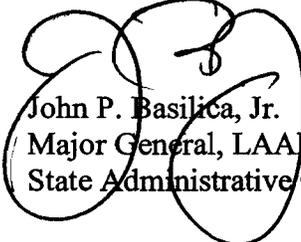
Corrective Action Plan

Responsible Contact Person: Colonel Louis B. May, Human Resources Manager

Corrective Action Planned:

1. Use the finding and exceptions identified to re-emphasize existing control measures contained in the Policy and Procedures Manual to employees and timekeepers.
2. Solicit the support of supervisors and program managers to ensure compliance with policy and procedures related to payroll documentation.
3. Meet with Employee Assistants to ensure they do not process any actions without full documentation and that all actions are in compliance with policy and procedures.

4. Follow-up meetings with Employee Assistants as required to ensure that all are in compliance.
5. Anticipated completion date: 23 June 2009.



John P. Basilica, Jr.
Major General, LAARNG
State Administrative Officer