

LOUISIANA BOARD OF DRUG AND DEVICE
DISTRIBUTORS (FORMERLY LOUISIANA BOARD OF
WHOLESALE DRUG DISTRIBUTORS)

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED OCTOBER 7, 2015

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

October 7, 2015

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Bob Broadus, Chairman
Louisiana Board of Drug and Device Distributors
(Formerly Louisiana Board of Wholesale Drug Distributors)

Dear Senator Alario, Representative Kleckley, and Mr. Broadus:

This report provides the results of our procedures at the Louisiana Board of Drug and Device Distributors (formerly Louisiana Board of Wholesale Drug Distributors) (Board) for the period from July 1, 2014, through June 30, 2015. Our objective was to evaluate certain controls that the Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds. I hope this report will benefit you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of the Board for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

REW:JPT:WG:EFS:aa

LBDDD 2015

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Board of Drug and Device Distributors (formerly Louisiana Board of Wholesale Drug Distributors)

October 2015

Audit Control # 80150155

Introduction

The primary purpose of our procedures at the Louisiana Board of Drug and Device Distributors (Board) was to evaluate certain controls that the Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds.

The Board was created within the Department of Health and Hospitals as provided by Louisiana Revised Statute (R.S.) 37:3463. The Board is responsible for licensing all suppliers of legend drugs and devices that ship into or within Louisiana; inspecting all wholesalers and distributors domiciled in Louisiana; and certifying that out-of-state suppliers who ship into Louisiana are properly licensed in their respective states. Licenses are renewed by December 31 each year.

Results of Our Procedures

We evaluated the Board's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of the Board's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to cash, credit cards, travel expenses, contracts, payroll, and budget.

Follow-up on Prior-year Findings

We reviewed the status of the prior-year findings reported in the Agreed-Upon Procedures report dated September 10, 2014. We determined that management has resolved the prior-year finding related to a contract that was made for development software that was not submitted to the Office of Contractual Review as required by R.S. 39:1483.

The finding relating to segregation of duties regarding the cash collections and accounts receivable processes has not been resolved and is addressed again in this report.

Current-year Findings

Lack of Segregation of Duties Related to Cash Collections and Deposits

As noted in the prior year, the Board continues to lack segregation of duties regarding cash collection, deposit preparation, and the posting of deposits and accounts receivables into the accounting system. One employee collects payments for license fees and renewals, prepares deposits for the bank, and posts the deposits and accounts receivable into the accounting system.

Proper segregation of duties requires cash collection, deposit, and accounts receivable posting to be performed by separate individuals. Improper segregation of duties increases the risk of employee error or fraud, although no such errors or fraud were identified. The Board only has two employees, which limits its ability to segregate cash collection responsibilities.

The Board should work to segregate the duties of the collection and recording process to the extent possible. If proper segregation cannot be achieved, the Board should design and implement compensating controls such as reconciling license renewal revenues to deposits. Compensating controls should be performed by an individual who is not responsible for cash collections and deposits. Board management maintained that, "... segregation of duties has been adequately addressed and properly assigned as best as possible among a two-person office." The Board also designed a procedure for reconciling license renewals (see Appendix A).

Other Results of Our Procedures

Cash

The Board maintains an operating account and certificates of deposits, which are used for general operations. The executive assistant participates in cash collection, disbursement, and reconciliation activities. Cash balances totaled \$1,402,258 at June 30, 2015. We performed procedures to reconcile cash transactions to the Board's general ledger, evaluated the segregation of duties between Board staff, and confirmed the timely preparation of bank account reconciliations. During our review of segregation of duties, we noted that the executive assistant collects payments for license fees and renewals, posts deposits and accounts receivables, and prepares the deposit for the bank. This issue was reported as a finding in the prior year and was repeated as a finding this year. See Current-year Findings above.

Credit Cards

The Board has two credit cards, which are used by the director and executive assistant for travel and small purchases. We traced selected credit card purchases to supporting documentation and evaluated compliance with laws and regulations. We further confirmed the timely review of credit card statements. No exceptions were noted.

Travel Expenses

Travel expenses include reimbursement of travel expenses for board members to attend meetings and inspector travel expenses incurred while onsite at licensees for inspections. Travel expenses totaled \$19,388 for the year ended June 30, 2015. We traced travel expense reimbursements to supporting documentation and evaluated compliance with laws and regulations. No exceptions were noted.

Contracts

The Board entered into contracts for the performance of legal services, accounting services, and license inspection services in fiscal year 2015. Expenditures on these contracts totaled \$27,295 for the year ended June 30, 2015. We traced selected contract payments to contract terms and evaluated compliance with laws and regulations. No exceptions were noted.

Payroll and Personnel

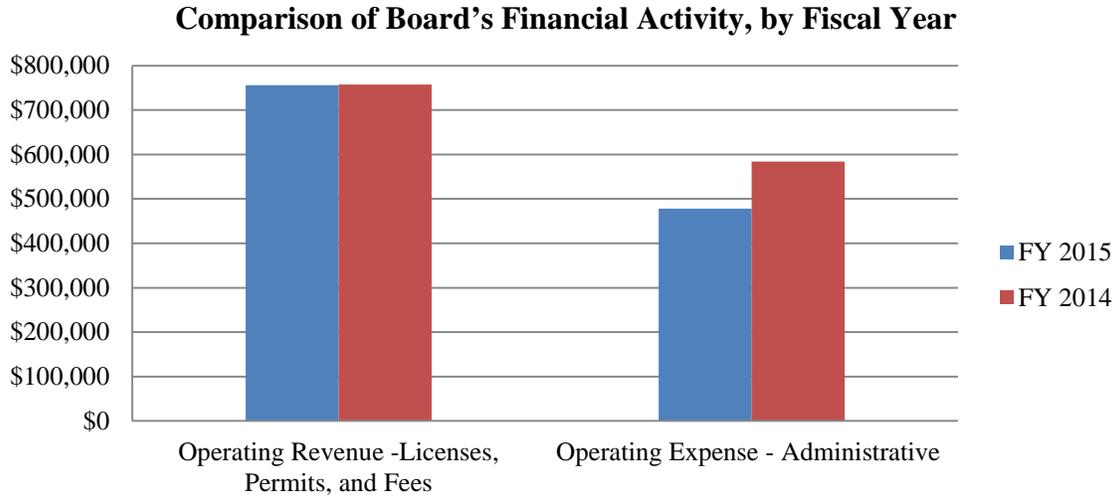
Approximately 69.5% of the Board's expenditures relate to payroll costs. Board personnel include the executive director and an executive assistant. We traced employees' salaries to contract terms or pay structure, evaluated controls over time and attendance records, and evaluated termination payments. No exceptions were noted.

Budget

The Board annually adopts a budget by majority vote of its board of directors. The budget for the year ended June 30, 2015, was approximately 9% lower in expenditures than the previous year because of decreases in payroll costs for the loss of one of the three full-time positions. We confirmed the adoption of the Board's budget and evaluated variances greater than 10% between budgeted amounts and actual revenues and expenditures for reasonableness. The expenditures (12%) had a variance greater than 10% due to the budgeting of a director position that was not permanently filled until June 2015. No exceptions were noted.

Comparison of Activity between Years

We compared the most current and prior-year financial activity using the Board's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from management for any significant variances that could potentially indicate areas of risk. Management provided reasonable explanations for all significant variances.



Note: FY14 Non Operating Revenue - Use of Money and Property is \$1,059 and for FY15 it is \$1,313.

Source: Revenue and Expense amounts obtained from fiscal year 2015 and fiscal year 2014 Board Annual Financial Reports

Under R.S. 24:513, this report is a public document, and it has been distributed to appropriate public officials.

APPENDIX A: MANAGEMENT'S RESPONSE



LOUISIANA BOARD OF DRUG AND DEVICE DISTRIBUTORS

12091 Bricksome Avenue, Suite B

Baton Rouge, LA 70816

(225) 295-8567 Fax (225) 295-8568 Lsbwdd@Lsbwdd.org www.Lsbwdd.org

September 18, 2015

Mr. Daryl G. Purpera, CPA, CFE, Legislative Auditor
LOUISIANA LEGISLATIVE AUDITOR
PO BOX 94397
Baton Rouge, LA 70804-9397

Mr. Daryl G. Purpera:

I am in receipt of Mr. John Thiebaud's letter dated, September 9, 2015. This letter requests a response to the Louisiana Legislative Auditor "draft findings" no later than September, 23 2015.

First of all, I would like to thank Ms. Rachel Westbrook and Mr. John Thiebaud for their professionalism while executing their duties and responsibilities on behalf of the Louisiana Legislative Auditor. Their effective time management, communication, and knowledge of the Financial Attestation process were appreciated by the Board's Staff.

Below is our response to your request.

• **A response to the finding.**

Our current segregation of duties related to cash collections, deposits, and accounts receivable provide strong and effective financial controls among a two person office. We are a small self funded Board currently with two Full Time Employees, and one part time (seasonal) clerk. The positions are as follows:

- 1.) Executive Director (Also is Board Inspector requiring about 40% "Field Work")
- 2.) Executive Assistant
- 3.) Part Time Clerk – 20 hours/week (Seasonal for renewals Oct – Dec)

The Board does not facilitate "walk-in" cashier type of transactions. The Board Office does not accept payments in cash. All transaction requests to the Board are made in writing and usually include fee payment via check or money order. Recently the Board implemented an "on-line" renewal system and now accepts credit card payments for renewals only. Our financial control process provides reasonable assurance that all transactions processed are reviewed by one or more competent individual(s) for errors, misappropriation and fraud prevention. Licenses Issued, and other income generated by the Board are prepared by the Executive Assistant and approved by the Executive

Bob Broadus
Chairman

Michael Davis
Vice-Chairman

Randall Brooks
Secretary/Treasurer

Wayne Gremillion
Board Member

Kenneth Dugas
Board Member

Chad Gielen
Board Member

Jacob Dickson
Board Member

Kimberly B Barbier
Executive Assistant

George Lovecchio
Executive Director

Director. All deposits are prepared by the Executive Assistant and deposited by the Executive Director. All checks are prepared by the Executive Assistant then reviewed and signed by the Executive Director; and reviewed and approved again by the Board Treasurer. Bank Statements are reviewed and balanced by a third party contracted CPA for further segregation of duties. These are just a few examples of current segregation of duties principles followed by the Board that utilize Board Employees, Board Members and outside Accounting Professionals.

- **A Reference to the finding by title....**

Lack of Segregation of Duties Related to Cash Collections and Deposits.

- **A statement as to whether you concur....**

I would agree with the findings in principle: a three or four person environment creates a much better scenario for segregation of duties. However, taking into consideration the make-up of this Board and the utilization of the Executive Director, Executive Assistant, Board Treasurer and outside contractors, it is my belief that the "segregation of duties" has been adequately addressed and properly assigned as best as possible among a two person office.

- **A corrective action plan....**

The "draft finding" suggests that the board should "design and implement compensating controls for reconciling license renewal revenues to deposits". After careful discussion and review of current procedure for license renewal processing, we have decided to add license renewal reconciliation to the procedure.

License Renewal Reconciliation Procedure

Effective immediately, the Executive Director will reconcile license renewal revenue in comparison to license renewals issued during the annual renewal period. The reconciliation report shall be a documented comparison, on a Board Form, of actual renewal revenue amounts vs. actual licenses renewed in the Boards' License Management System during the renewal period. The report shall be filed at the end of each renewal period ending, January 1st; and shall become a permanent part of records maintained by the Board.

September 18, 2015

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Please see the attached Procedure.

End of Response.

Thank you for your cooperation in this matter. I hope that I have properly addressed the draft findings to your satisfaction. If you have any other suggestions or recommendations, please contact me at (225) 678 0218.

Sincerely,



George Lovecchio
Executive Director

PROCEDURES
LICENSING
Annual License Renewals
Reconciliation

Louisiana drug and device distributor licenses expire annually on December 31. The annual Louisiana drug and device distributor license renewal period runs from October 1 through December 31 annually.

- A. At the end of the license renewal period annually, the executive director shall:
- 1) Review a listing from the Board's accounting program of revenue received during the renewal period for licenses renewed.
 - 2) Review the deposit slips and check copies of manually received and processed license renewals and the ACH fee payment reports of electronic renewal fee payments received during the renewal period for licenses renewed electronically.
 - 3) Review a listing from the license management system (LMS) database of all licenses renewed during the license renewal period.
- B. Using the data in number A, the executive director shall make a comparison as to verify the revenues to deposits of moneys collected versus number of licenses renewed during each annual renewal period in order to verify all moneys for license renewals are accounted for.

APPENDIX B: SCOPE AND METHODOLOGY

We conducted certain procedures at the Louisiana Board of Drug and Device Distributors (Board) for the period from July 1, 2014, through June 30, 2015. Our objective was to evaluate certain internal controls the Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We did not audit or review the Board's Annual Fiscal Report, and, accordingly, we do not express an opinion on that report. The Board's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated the Board's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Board.
- Based on the documentation of the Board's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to cash, credit cards, travel expenses, contracts, payroll, and budget.
- We compared the most current and prior-year financial activity using the Board's annual fiscal reports and/or system-generated reports and obtained explanations from the Board's management for any significant variances.

The purpose of this report is solely to describe the scope of our work at the Board and not to provide an opinion on the effectiveness of the Board'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 purpose.