

DEPARTMENT OF STATE CIVIL SERVICE

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JUNE 21, 2017

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of State Civil Service



June 2017

Audit Control # 80170104

Introduction

The primary purpose of our procedures at the Department of State Civil Service (Department) was to evaluate certain internal controls the Department uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

The agencies included within the Department are State Civil Service, Ethics Administration Program, Division of Administrative Law, and Municipal Fire and Police Civil Service.

The mission of the Department is to provide human resource services and programs that enable state government to attract, develop, and retain a productive and diverse workforce that excels in delivering quality services to the citizens of Louisiana.

Results of Our Procedures

We evaluated the Department's operations and system of internal controls 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 Department's internal controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to movable property, travel expenditures, LaCarte expenditures, and Board of Ethics' processing of late fees. In addition, we performed analytical review procedures of revenues and expenditures between fiscal years 2015 and 2016 and the first six months of fiscal year 2016 to fiscal year 2017.

Current-year Findings

Division of Administrative Law -

Inadequate Controls over Division of Administrative Law Financial Reporting

The Division of Administrative Law's (DAL) annual fiscal report (AFR) for fiscal year 2016 incorrectly reported cash carry-over in operating income and reported investment income in operating revenue and nonoperating revenue resulting in a \$326,079 overstatement of revenues. The Department prepared the DAL AFR. While the Department worked with the Office of Statewide Reporting and Accounting Policy (OSRAP) to prepare the AFR, and OSRAP provided

revisions to the DAL AFR, errors in the operating revenues were not noted or corrected during review by the Department or DAL management.

Good internal controls over financial reporting should include adequate procedures to compile financial data needed to prepare an accurate and complete AFR, and an effective review process to identify and correct errors before submission of the AFR for inclusion in the state's Comprehensive Annual Financial Report. The lack of effective review increases the likelihood that errors and omissions may occur and remain undetected.

Department management should continue to work with OSRAP and develop a plan to ensure the accuracy of the DAL financial reporting process. Management concurred in part and agreed with the error noted in the finding but did not believe that the error resulted from inadequate internal control. Management provided a plan of corrective action (see Appendix A, pages 1-2).

Louisiana Board of Ethics - Weakness over Submitting Delinquent Debt for Collection

The Louisiana Board of Ethics (BOE) did not develop and implement an effective process to ensure that delinquent debts were submitted timely to the Attorney General (AG) for collection. The BOE website noted 1,802 outstanding late fees totaling \$2.2 million from campaign finance disclosure reports, lobbying expenditure reports, and personal financial disclosure statements, with some debts delinquent for up to 15 years. BOE stated these amounts are not all legally collectible.

In a test of 25 late fees, the following was identified:

- Eight late fees were sent for collection 116 to 1,100 days after demand for payment. The late fee origination dates were from 2010, 2011, 2012, and 2014.
- Per BOE staff, five late fees had mail delivery issues resulting in the receipt of the order to pay not being established, and therefore were not sent for collection. The late fee origination dates were from 2002, 2007, 2014, and 2015.
- Five late fees were not sent for collection although the time allowed for appeal or waiver had expired. The late fee origination dates were from 2012, 2013, and 2015.
- Three late fees had no final order to pay established, and therefore were not sent for collection. The late fee origination dates were from 2002, 2004, and 2008.

BOE's process included: (1) sent a certified mail notice/order that entity failed to file and advised of late fees and waited for the return receipt; (2) after verified receipt, waited 30 days and sent a certified mail final order to pay and waited for the return receipt; (3) after verified receipt, waited 60 days to allow for requests for waivers or appeals to expire; (4) sent certified mail demand letter and waited for return receipt; (5) after verified receipt, waited 30 days until debt was considered delinquent; and (6) sent delinquent debts to the AG for collection.

The processing of late fees through these steps was manually tracked by BOE staff. The collections process included designated time delays between the notice/advisement of late fees, the final order to pay, and when debt was considered delinquent in addition to delays for receiving certified mail receipts and allowing appeals or waivers to expire. This manual tracking process created delays in sending required correspondence that ultimately established when a debt was delinquent and sent to the AG for collection.

BOE management should strengthen its internal control process over the tracking of late fees so that the time it takes to send delinquent debts to the AG can be minimized. In addition, BOE management should consider updating the listing of late fees on its website to reflect those that are legally collectible. Management concurred in part and provided a plan of corrective action (see Appendix A, pages 3-4).

Movable Property

We performed procedures to determine that controls over movable property were adequate for the Department's multiple locations. We performed procedures to ensure that property of the State Civil Service, Ethics Administration Program, Division of Administrative Law, and Municipal Fire and Police Civil Service was properly located and safeguarded on site. We also obtained and reviewed the Certifications of Annual Property Inventory for fiscal years 2016 and 2017, totaling approximately \$1.6 million each year for the Department's four agencies, to determine if there was an excessive amount of unlocated property. Our procedures determined that assets were properly safeguarded and recorded and complied with state property regulations.

Travel Expenditures

Travel expenditures include travel for board members, department staff, and in-state and out-of-state conferences and conventions. As of March 2017, travel expenditures totaled \$153,198 for the two years ended June 30, 2017. We traced selected travel reimbursements to supporting documentation and evaluated compliance with laws and regulations. No exceptions were noted. Based on our procedures, the Department had adequate controls to ensure that travel expenditures were supported by a receipt, approved by a supervisor, and were for an appropriate business purpose.

LaCarte Expenditures

As of March 2017, LaCarte expenditures totaled \$108,740 for the two years ended June 30, 2017. We traced selected expenditures to supporting documentation and evaluated compliance with laws and regulations. No exceptions were noted. Based on our procedures, the Department had adequate controls to ensure that LaCarte expenditures were supported by a receipt, approved by a supervisor, and were for an appropriate business purpose.

Board of Ethics Processing of Late Fees

We obtained a basic understanding of the Board of Ethics' process and controls over the assessment and collection of late fees, and the submission of delinquent debts related to the late fees to the Attorney General's Office (AG) for collection. We performed procedures on selected transactions to determine if controls were operating effectively to process late fees and ensure delinquent debts were submitted timely to the AG. Based on the results of these procedures, we determined that the Board of Ethics should strengthen its internal control process over the tracking of late fees to minimize the time it takes to send delinquent debts to the AG (see Current-year Findings section).

Other Procedures – DAL AFR Preparation

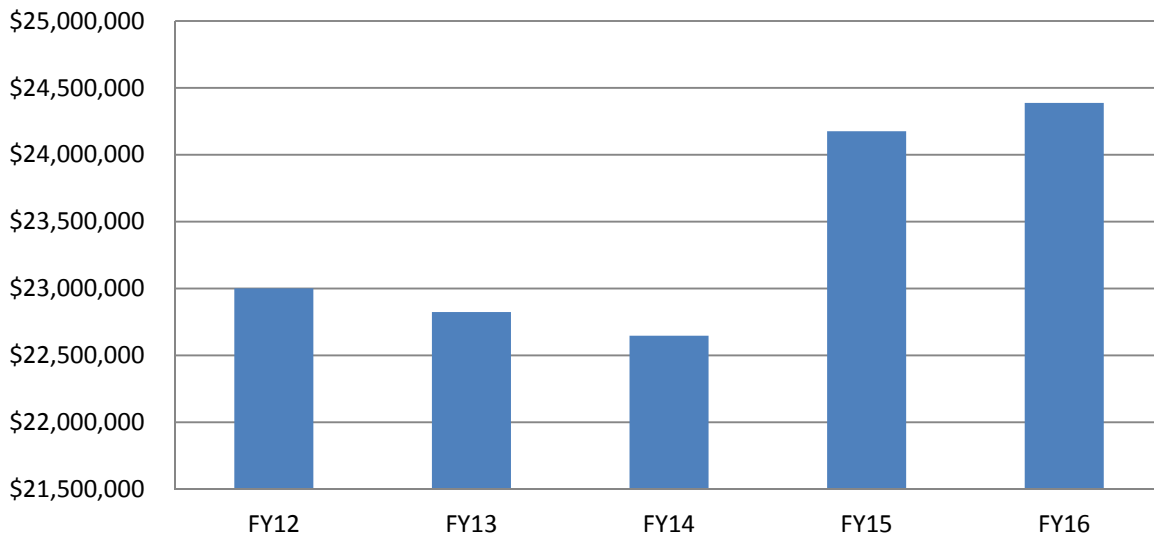
While performing analytical review procedures between fiscal years, errors were noted in the compilation of revenues for the fiscal year 2016 AFR for DAL. Based on the results of additional procedures, there was a finding related to the errors noted (see Current-year Findings section).

Trend Analysis

We compared the most current and prior-year financial activity using the Department'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.

As shown in Exhibit 1, the Department's expenditures have fluctuated over the past five fiscal years. According to management, the \$1.53 million increase in fiscal year 2015 from fiscal year 2014 occurred primarily for two reasons: (1) mid-year budget reductions in fiscal year 2014, and (2) the increase in fiscal year 2015 related to Department employee performance adjustments, increases in related employee benefits due to performance adjustments, and an increase in the contribution rate required by the Louisiana State Employees' Retirement System.

Exhibit 1
Five-Year Expenditures Trend, by Fiscal Year (FY)



Source: Fiscal Year 2012-2016 ISIS Data

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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DSCS 2017

APPENDIX A: MANAGEMENT'S RESPONSES



Louisiana
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State Civil Service

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May 15, 2017

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P.O. Box 94397
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Dear Mr. Purpera:

This letter will serve to advise you that I have reviewed the findings and recommendations contained within your review with respect to the Annual Fiscal Report (AFR) for the Division of Administrative Law. Please accept this official response relating to the reportable audit finding for the Department of State Civil Service.

Re: Finding of Inadequate Controls over Division of Administrative Law Financial Reporting.

Agency Response:

The Division of Administrative Law (DAL) became an Ancillary Agency in FY 2015 effectively reverting their agency from the AFR “cash” basis reporting procedure they had been a part of, to the new Business-Type Activity (AFR-BTA) procedure meaning they report on an “accrual” basis and are allowed and directed to carry-forward their excess funds from one year to the next. As such, in FY 2016, State Civil Service (SCS) was faced with an entirely new procedure for DAL’s annual financial reporting purposes. Since it was such a unique situation in comparison to the other agencies and the way their reporting had previously been done, SCS reached out to the Office of Statewide Reporting and Accounting Policy (OSRAP) for assistance and guidance throughout the entire process. As the governing body over these annual financial reports, SCS felt it necessary to go to the highest authority possible to ensure the accuracy of DAL’s reporting. After extensive communication, the AFR-BTA was completed and submitted with the approval of OSRAP. In FY 2017, as only the second year under this new model, SCS once again sought the guidance and assistance of the highest authority possible to ensure accuracy. Throughout the process, it was determined some items were overlooked; which, required adjustments from the prior year. The recommended adjustments were considered and corrected with many other correspondences and suggestions offered and acted upon. Once final review and approval had been received, DAL’s AFR-BTA for FY 2016 was submitted. Therefore, with regards to this particular finding as written and submitted, SCS respectfully can only concur in part as this particular error was not noted prior to submission (consequently resulting in no known necessary review or corrections by SCS or DAL management) or after by OSRAP. On behalf of SCS and DAL, we would like to commend Cody Henderson, Alanna Davis and the rest of the staff of the Louisiana Legislative Auditor (LLA) for their professionalism and assistance throughout this audit process. As such, this review and finding identifying inaccuracies will finally ensure we have all the proper guidance we have

been seeking regarding the compilation of these AFR-BTA's. However, though SCS can concur there was an error in the reporting, it cannot and should not be labeled as an inadequacy in controls over the DAL's financial reporting or a lack of adequate procedures and review processes to identify and correct errors before submission of the AFR's and AFR-BTA. SCS management contends that is exactly the process that was followed by working in conjunction with the governing body (OSRAP) of those reports to ensure their accuracy prior to submission for inclusion in the State's Comprehensive Annual Financial Report (CAFR).

Corrective Action:

SCS management in concert with DAL management will continue to work with OSRAP throughout the process of the AFR-BTA development, compilation, completion and submission to ensure their accuracy for inclusion in the State's CAFR. Going forward, more time and effort will be spent on additional reporting and sources of data as further checks and balances prior to initial conversations with OSRAP along with an even more extensive Q&A procedure with OSRAP if necessary. Internally, the processes will remain much the same with SCS's Accountant Manager completing the reports, SCS's Deputy Undersecretary reviewing the reports and, ultimately, the Director of DAL signing off on the reports prior to submission to OSRAP.

Should you have any questions or require additional information regarding this correspondence, please do not hesitate to contact Brandon Scivicque, Deputy Undersecretary via e-mail at Brandon.Scivicque@la.gov or by phone at 225-342-0339.

Best Regards,



Byron P. Decoteau, Jr. PHR, SHRM-CP
Director
State Civil Service

BPD/brs

C: Christopher Deer, Deputy Director



May 23, 2017

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
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RE: Weakness over Submitting Delinquent Debts for Collection

Dear Mr. Purpera,

Please accept this as the official response to the reportable audit findings for the Ethics Administration Program.

Legislative Auditor Comment

The Ethics Administration Program did not develop and implement an effective process to ensure that delinquent debts were submitted timely to the Attorney General for collection.

Agency Response

The Auditor suggests that the agency should strengthen its internal control process over the tracking of late fees so that the time can be minimized for delinquent debts to be sent to the AG. While the Agency concurs that all efforts should be taken to minimize any delays to transmit the delays, it does not concur in the suggestion that there was not a process in place. The process in place is the same that was in place in 2015 when a prior audit was conducted where no findings were reported.

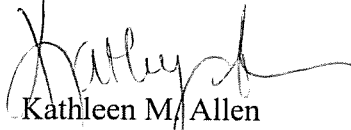
In 2013, Act 399 was enacted with an effective date of June 17, 2013. At that time, the Agency had an agreement with the Attorney General's Office with respect to collection. The Agency continues to maintain that agreement. The Agency is creating a written policy to determine the finality of judgments, as well as setting time frames for the transfer of final debt to the AG's Office. While it is still a manual process to ensure that all required statutory notices have been received, all delays have expired, and all notices pursuant to R.S. 47:1676 have been provided, tools will be developed within the database and additional oversight will be provided to ensure that the process to determine the finality of debt and the transfer of the final debts are made to the AG's Office.

Furthermore, the Agency concurs that the uncollectible debt needs to be reviewed and removed from the agency's website and reports. The Agency is currently reviewing the late fees on the Agency's website. Management understands its duty to ensure that all debts are examined to determine that a debt is owed, that it is final and legally collectible in tandem with its corresponding duty to transfer that final debt to the AG's Office. While the agency has experienced a lack of resources and turnover in a position responsible for such duties, the

Agency is revising its current process for late fees, providing additional administrative assistance to further that process, as well as improving oversight on the procedures.

It is the objective of this Agency to continue to improve its current process and to address the concerns of the Auditor. I or Kristy Gary, Deputy Ethics Administrator, can be contacted at (225) 219-5600 if additional information is needed.

Sincerely,



Kathleen M. Allen

Ethics Administrator

APPENDIX B: SCOPE AND METHODOLOGY

We conducted certain procedures at the Department of State Civil Service (Department) for the period from July 1, 2015, through June 8, 2017. Our objective was to evaluate certain internal controls the Department uses to ensure accurate financial reporting and transparency, compliance with applicable laws and regulations, and to provide overall accountability over public funds. The scope of our procedures, as 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 Department's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The Department'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 Department'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 the Department.
- Based on the documentation of the Department's controls and our understanding of related laws and regulations, we performed limited procedures on selected controls and transactions relating to movable property, travel expenditures, LaCarte expenditures, and Board of Ethics processing of late fees.
- We compared the most current and prior-year financial activity using the Department's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from the Department's management for any significant variances that could potentially indicate areas of risk.

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