STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Office of Telecommunications Management
Executive Department
State of Louisiana
Baton Rouge, Louisiana

November 7, 2001

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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OFFICE OF TELECOMMUNICATIONS MANAGEMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated October 31, 2001

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.

November 7, 2001

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
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October 31, 2001

OFFICE OF TELECOMMUNICATIONS MANAGEMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2001, we considered the Office of Telecommunications Management's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the office's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements as required by *Government Auditing Standards*.

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

In our prior management letter on the Office of Telecommunications Management for the year ended June 30, 2000, we reported a finding relating to lack of an internal audit function. The finding has not been resolved and is addressed again in this letter.

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

Lack of Internal Audit Function

For the eighth consecutive year, the Office of Telecommunications Management, a section within the Division of Administration, did not have an effective internal audit function to examine, evaluate, and report on internal control, including data processing, and to evaluate its compliance with the policies and procedures of the control system. An effective internal audit function is necessary to ensure that the office's assets are safeguarded and that state policies and procedures are uniformly applied. Total office assets of $9,092,134 and revenues of $48,859,338 demonstrate the need for an effective internal audit function.

The Office of Telecommunications Management should develop and implement an effective internal audit function. Management of the office concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inaccurate Financial Statements

The Office of Telecommunications Management did not submit accurate and/or complete annual fiscal reports (AFRs) to the Division of Administration in accordance with prescribed law. Louisiana Revised Statute (R.S.) 39:79 requires that a sworn statement be prepared in the format devised and approved by the commissioner of administration, and the affidavit attached to the AFR states that the financial statements present fairly the financial position of the office. The AFR that was submitted to the Office of Statewide Reporting and Accounting Policy (OSRAP) for the year ended June 30, 2001, contained the following material misstatements:

- Statement A (Balance Sheet) did not include receivables or payables related to telecommunication usage that was incurred in June 2001.

- Statement C (Statement of Cash Flows) omitted net cash provided (used) by operating activities, included cash provided from transfers even though no transfers occurred, and included other misstatements to balance Statement C to Statement A.

The AFR was not adequately reviewed before it was submitted to OSRAP. Inaccurate financial reporting by the office could cause material misstatements in the State of Louisiana's Comprehensive Annual Financial Report.

The Office of Telecommunications Management should prepare an accurate AFR to be submitted to OSRAP in accordance with state law. Management of the office concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

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

This letter is intended for the information and use of the office and its management 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,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MMG:WDD:RCL:dl

[OTM01]

Appendix A

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

State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF TELECOMMUNICATIONS MANAGEMENT

M. J. "MIKE" FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

September 11, 2001

Mr. Daniel G. Kyle
CPA, CFE, Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Kyle:

In response to your letter of September 7, 2001 concerning the audit finding on the lack of an internal audit function within the Office of Telecommunications Management (OTM), the following is provided:

- Finding: Lack of Internal Audit Function
- OTM concurs with the finding
- The attached letter dated February 8, 2001 from Commissioner Drennen explains the Divisions position relating to this finding.

Please advise if additional information is required.

Sincerely,

J.A. Lanier
Director

Attachment

C: Nino Salvaggio, OTM

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

M. J. "MIKE" FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

February 06, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

RE: Single Audit Finding – Internal Audit Function

We concur in part with the finding that additional internal audit resources are needed in all departments. However, as stated in prior correspondences, we do not concur with that part of the finding which makes a subjective judgment statement that all entities named within the finding have an ineffective internal audit function. Further, the finding fails to delineate or reference the areas of departmental improvement made over the last reporting period.

This office continues to evaluate current internal audit needs and existing resource levels to ascertain the additional level of funding needed to provide that resource and works to find and provide those resources the agencies. However, due to a lack of financial resources and this administrations' stated objectives to do more with less, it will be incumbent upon each department to identify current resources which can reallocated to be utilized for the internal audit function.

Sincerely,

Mark C. Drennen
Commissioner of Administration

MCD/WJK/sm

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State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF TELECOMMUNICATIONS MANAGEMENT

M. J. "MIKE" FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

October 10, 2001

Mr. Daniel G. Kyle
CPA, CFE, Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Kyle:

In response to your letter of October 5, 2001 concerning the audit finding on the Inaccurate Financial Statements submitted by the Office Of Telecommunications Management (OTM), the following is presented:
- Finding: Inaccurate Financial Statements
- OTM concurs with the finding
- The past two years, usage based receivables and payables were included in OTM's financial statements as an adjustment made by the Legislative Auditor's Office. OTM now understands that these adjustments should be made by OTM prior to submitting financial statement and as such, will ensure that they are made.

The corrective action plan includes the following:

- Nino Salvaggio is responsible for implementing the plan.

- Accurate and complete financial statements, including Statement A (Balance Sheet) and Statement C (Statement of Cash Flow) will be submitted for the 2001/02 Fiscal Year.

- Accurate and complete financial statement will be submitted in accordance with timelines established for state agency financial reporting for the 2001/02 Fiscal Year.

Please advise if additional information is required.

Sincerely,

J.A. Lanier
Director

c: Nino Salvaggio, OTM
Darline Spano, OTM