3325
98300518

STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Department of Economic Development
State of Louisiana
Baton Rouge, Louisiana

July 15, 1998

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
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. Fifty-six copies of this public document were produced at an approximate cost of $62.72. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. A copy of this document is available on the Legislative Auditor's Web site at www.lla.state.la.us.

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, Director of Administration, at 504/339-3800.

DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated June 11, 1998

July 15, 1998

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

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

June 11, 1998

DEPARTMENT OF ECONOMIC DEVELOPMENT
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, 1998, we conducted certain procedures at the Department of Economic Development. Our procedures included (1) a review of the department's internal controls; (2) tests of financial transactions for the years ending June 30, 1998, and June 30, 1997; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1998, and June 30, 1997; and (4) a review of compliance with prior audit report recommendations.

The Annual Fiscal Reports of the Department of Economic Development were not audited or reviewed by us, and, accordingly, we offer no opinion or any other form of assurance on these reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on the Department of Economic Development dated April 29, 1996, we reported findings relating to the internal audit function, time and attendance records, cash collection and reporting, and racing commission identity badges. Management has resolved the findings on cash collection and reporting and racing commission identity badges. The findings relating to internal audit function and time and attendance records have not been resolved by management and are addressed again in this report.

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

Inadequate Support for Payroll Disbursements

Time worked by one inspector for the Louisiana State Board of Cosmetology was not supported by inspection reports or other evidence of work performed, inspection reports submitted by the inspector were apparently falsified, and money collected by this inspector for booth rental licenses was not remitted to the board. Good internal controls dictate that the board has documentation to support time worked and subsequent payroll disbursements and that funds collected be reconciled to funds deposited.

While reviewing the inspector's weekly inspection summary reports for August 1997, the Assistant Executive Director of the board determined that there was no documentation to support some payroll disbursements made to the inspector. There were no individual inspection reports to support some of the inspections listed on the weekly inspection summary report.

In addition, during the inspector's annual performance evaluation process, the board contacted salon owners to obtain feedback on the inspector's performance. During the evaluation process, the board supplies the shop owners with copies of their most recent inspection reports on file. Many of the salon owners who were contacted stated that they had not been inspected for an extended period of time. Furthermore, six salon owners stated that they had not been inspected on the dates represented on the reports and that their signatures on the inspection reports had been forged. Those six inspection reports were dated in May and July 1997. Previously, in April 1997, this inspector was suspended without pay for 20 working days for various policy violations including falsification of documents and inconsistencies between payroll records and hours worked as reported to the supervisor.

In addition to insufficient support for time worked, there was no evidence that license renewal fees, totaling $110, collected by the inspector during July 1997, were submitted to the board. The inspector resigned from the board on September 10, 1997. Another inspector resigned from the board in May 1997 because of a lack of documentation of work performed and allegations of falsified inspection reports.

This condition occurred because, before August 1997, the Louisiana State Board of Cosmetology did not reconcile inspection reports submitted by cosmetology inspectors to time and attendance records, travel expense reports, and funds collected. This results in increased risk that errors and fraud could occur.

The State Board of Cosmetology should conduct an investigation of the inspectors' activities to determine the full extent of the discrepancies among the various records, and if warranted, turn over the results of the investigation to the district attorney's office. In the future, all inspection reports should be reconciled to time and attendance records and travel expense reports, and funds collected should be reconciled to prevent and/or detect errors and/or fraud. In a letter dated April 29, 1998, Mr. Kevin P. Reilly, Sr., Secretary, concurred with the management response to the finding provided by Mr. Billy Yelverton, Executive Director of the Louisiana State Board of Cosmetology. In a letter dated April 28, 1998, Mr. Yelverton concurred with the finding and recommendation and outlined a corrective action plan. The letter further stated that the board would conduct an investigation to determine the extent of the payroll and/or revenue discrepancies regarding the two inspectors. The investigation is anticipated to be completed by December 31, 1998.

Electronic Data Processing Control Weaknesses

The Department of Economic Development has not maintained adequate control over the electronic data processing (EDP) systems used by the department. Adequate control requires that (1) employees be granted access only to files and programs necessary to perform their assigned duties; (2) access for employees who terminate or transfer is removed timely; (3) an audit trail is maintained; (4) duties are segregated so that no one employee is in a position to both initiate and conceal errors and/or fraud; and (5) systems allow for review of user access.

During our review of the department's EDP controls, the following weaknesses were identified:

1. Access to EDP systems is not limited to current employees and to files and programs necessary to perform their duties.

    - Access to the Advanced Governmental Purchasing System (AGPS) by one former employee and to the Government Financial System (GFS) by two former employees was not removed timely because the department was not reviewing on-line security records and reports.

    - Access to AGPS was not removed when one employee transferred to another section of the department.

    - Access to the Louisiana Racing Commission (LRC) system was not deleted for one former employee. The LRC system allows the department to issue badges and licenses, collect fees, and pay awards.

    - Update access to master payroll files in the Office of Statewide Uniform Payroll system (OSUP) was not removed for three human resources employees who are no longer responsible for updating these records.

2. Duties of employees with access to EDP applications were not adequately segregated.

    - In the Contract Financial Management System (CFMS), three employees can enter and amend professional service contracts as well as approve payments for those contracts.

    - In OSUP, there was one instance in which the employee who made an adjustment to master payroll records also approved the report showing the adjustment.

3. The audit trail is not always maintained. Two employees share an AGPS user ID issued to an employee who transferred to another section. In OSUP, one employee has multiple user IDs that allow the same access, which obscures the audit trail.

4. The department did not develop adequate provisions for reviewing access to the LRC system. We were not able to determine what access was provided to employees either on-line through the computer or through printed documentation. Furthermore, Requests for Access forms, which document authorization of user access, are not retained and available for review.

These conditions occurred because management has not placed sufficient emphasis on establishing controls over the EDP function. Failure to establish adequate control over EDP activities could result in the loss of data, inconsistent data entry procedures, and failure to prevent or detect errors and/or fraud in a timely manner.

Management should establish written procedures to ensure that all EDP access is periodically reviewed. This includes ensuring that access is granted only to current employees and only to files and programs necessary to perform their assigned duties, that the audit trail is maintained, and that duties are segregated so that no one employee is in a position to both initiate and conceal errors and/or fraud. In a letter dated March 20, 1998, Mr. Kevin P. Reilly, Sr., Secretary, concurred with the management response to the finding provided by Mr. Ron J. Henson, Undersecretary. In a letter dated March 23, 1998, Mr. Henson concurred with the finding and stated that appropriate corrective action has been taken for all items in the finding except for that related to security access to the LRC system. The anticipated date for completion of all corrective action is December 30, 1998.

DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
Management Letter, Dated June 11, 1998
Page 5

Inadequate Controls Over Movable Property Reporting

The Department of Economic Development does not have adequate controls to ensure that movable property is reported properly and accurately to the Louisiana Property Assistance Agency (LPAA). The state property control regulations, which are defined in the Louisiana Administrative Code (LAC) 34:VII.307, require that all acquisitions of qualified property be tagged and all pertinent inventory information about the property be sent to LPAA within 45 days of receipt of the property. Louisiana Revised Statutes 39:324-325 require that each agency's property manager conduct a complete physical inventory each fiscal year and report the results to the LPAA and the Legislative Auditor. Movable property transactions at the Department of Economic Development and the agencies under its authority for the fiscal years 1997 and 1998 were examined and the following conditions were noted.

- The Office of Financial Institutions acquired 93 items totaling $134,569 that were not reported to the LPAA until 100 days to 7.5 years after the property items were received.
- The Louisiana State Board of Cosmetology acquired 6 items totaling $2,204 that had not been tagged and reported to the LPAA although 51 to 77 days had elapsed since the items were received.
- The Louisiana State Board of Cosmetology did not file Certification of Annual Property Inventory with LPAA for the 1997 fiscal year.

These conditions occurred because the department has not placed sufficient emphasis on compliance with the state's property control regulations. Failure to establish adequate control over movable property increases the risk of loss arising from unauthorized use of state property.

The Department of Economic Development should implement procedures to ensure that movable property is reported to the LPAA within 45 days of receipt and annual property certifications are filed with the LPAA. In a letter dated March 20, 1998, Mr. Kevin P. Reilly, Sr., Secretary, concurred with the management responses to the finding provided by Mr. Ron J. Henson, Undersecretary, and Ms. Doris B. Gunn, Deputy Commissioner of the Office of Financial Institutions. In a letter dated March 23, 1998, Mr. Henson concurred with the finding and recommendation pertaining to the state Board of Cosmetology and outlined a corrective action plan with a completion date of September 30, 1998. In a letter dated March 16, 1998, Ms. Gunn concurred with the finding and recommendation pertaining to the Office of Financial Institutions and outlined a corrective action plan that was effective as of March 16, 1998.

Noncompliance With Payroll Internal Controls

For the second consecutive audit period, the Board of Cosmetology has not adhered to the Department of Economic Development's internal control procedures on payroll. The Department of Economic Development policy manual states, in part, that employees are to initial the time entry form in ink at the close of each pay period, and the timekeeping unit manager is to review all items paying particular attention to the leave and attendance. The time entry forms are then approved and returned to the timekeeper. The manual also provides that all leave taken must be supported by a leave slip signed by the employee and approved by the employee's supervisor. Furthermore, good internal controls dictate that the fixed time entry sign-in sheet be reconciled to the time entry worksheet and the time entry listing to ensure that time worked by employees was input correctly into the computer system.

Of the 12 employees' time and attendance records examined, 11 contained one or more deviations from the department's policies. In a test of the payroll records, the following conditions were noted:

- Seven employees did not initial their fixed time entry sign-in sheet.
- Eleven employees' supervisors did not sign their fixed time entry sign-in sheets.
- Five employees did not have leave slips to support leave taken on the fixed time entry sign-in sheets.
- For three employees, the leave register did not agree to the fixed time entry sign-in sheet.
- One employee's time entry worksheet did not agree to the fixed time entry sign-in sheet.
- One employee's time entry listing did not agree to the fixed time entry sign-in sheet.

The above conditions occurred because the Board of Cosmetology has not placed sufficient emphasis on controls over time and attendance reporting.

The Board of Cosmetology should comply with the Department of Economic Development's policies and procedures regarding the processing of time and attendance records. In a letter dated March 20, 1998, Mr. Kevin P. Reilly, Sr., Secretary, concurred with the management response to the finding provided by Ms. Toni Ibert, Chairman, Louisiana State Board of Cosmetology. In a letter dated

March 23, 1998, Ms. Ibert acknowledged the importance of time and attendance reporting and outlined a corrective action plan with a completion date of June 30, 1998.

Lack of an Internal Audit Function

For the third consecutive audit period, the Department of Economic Development does not have an effective internal audit function to serve management of the department by examining, evaluating, and reporting on internal controls (including the data processing center) and to evaluate compliance with the policies and procedures that comprise internal controls. Given the size of the department, its assets ($19,453,096) and operating budget (revenues of $40,254,711), an effective internal audit function is important to ensure that the department's assets are safeguarded and the department's policies and procedures are uniformly applied.

Although the department did establish an internal audit function during the 1997-98 fiscal year, the internal audit function has not been in place long enough to provide management with information about the department's operations.

The Department of Economic Development should continue its efforts to establish an effective internal audit function. In a letter dated March 20, 1998, Mr. Kevin P. Reilly, Sr., Secretary, concurred with the management response to the finding provided by Mr. Ron J. Henson, Undersecretary.

In a letter dated March 23, 1998, Mr. Henson related the sequence of events and action taken to establish an internal audit function and develop an internal audit plan. Internal audit work is scheduled to begin on April 1, 1998.

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. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
Management Letter, Dated June 11, 1998
Page 8

This report is intended for the information and use of the Department of Economic Development and its management. By provisions of state law, this report 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

SRT:JR:dl

[DED]