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STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Executive Department
State of Louisiana
Baton Rouge, Louisiana

February 24, 1999

Financial and Compliance Audit Division

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

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EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated December 11, 1998

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.

February 24, 1999

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

DANIEL G. KYLE, PH.D., CPA, CFE
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December 11, 1998

HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR
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, 1998, we conducted certain procedures at the Executive Department. 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 prior year report recommendations.

The June 30, 1998, Annual Fiscal Report of the Executive Department was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance 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 an opinion.

Our procedures included interviews with selected 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 improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior management letter dated December 17, 1997, we reported findings concerning internal audit function, inadequate fund balance - Patients' Compensation Fund, Office of Urban Affairs and Development - lack of controls for grant administration, and inadequate Uniform Payroll System controls. The findings relating to the internal audit function, inadequate fund balance - Patients' Compensation Fund, and inadequate Uniform Payroll System Controls - Executive Office have not been resolved and are addressed again in this report. The remaining findings addressed in our previous management letter were 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.

Internal Audit Function

For the seventh consecutive year, the Executive Department does not have an effective internal audit function to examine, evaluate, and report on its internal controls (including data processing) and to evaluate compliance with the policies and procedures of the control system.

Considering the department's reported assets (approximately $101 million) and its operating revenues (approximately $276 million), an effective internal audit function is needed to ensure that the department's assets are safeguarded and that the department's policies and procedures are uniformly applied. Furthermore, the Appropriation Act (Act 18, Section 6C) of the 1997 Regular Session of the Louisiana Legislature states that the budget request of any agency with an appropriation level of $30 million or more must include within its existing table of organization the position of internal auditor. The department did not include the position of internal auditor in its budget request for fiscal year 1998 as required by the appropriation act.

The Executive Department should take the necessary steps to establish an effective internal audit function. Management concurred with the finding and recommendation (see Appendix A, page 1).

**Inadequate Fund Balance -
Patients' Compensation Fund**

For the seventh consecutive year, the Executive Department, Patients' Compensation Fund Oversight Board, did not maintain an adequate surplus in the Patients' Compensation Fund as required by Louisiana law. Louisiana Revised Statute 40:1299.44(A)(6)(a) requires that a surplus of 50% of the annual surcharge premiums, reserves established for individual claims, reserves established for incurred but not reported claims, and expenses be maintained in the fund.

For the fiscal year ended June 30, 1998, the accumulated balance of surcharges, reserves, and expenses is estimated to be approximately $448 million, which under Louisiana law would require a fund balance of approximately $224 million. As of June 30, 1998, the actual fund balance was approximately $74 million, resulting in a shortfall of $150 million. This shortfall resulted from practices in effect before the Patients' Compensation Fund Oversight Board was created, whereby rates for medical malpractice premiums were not set based on experience ratings, including historical losses, interest payments, and future medical amounts.

The board should establish an adequate rate level to achieve the 50% surplus requirement over a reasonable period of time. Management of the department concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

**Electronic Data Processing Control Weaknesses -
Patients' Compensation Fund**

The Patients' Compensation Fund Oversight Board has not established adequate internal controls over the electronic data processing (EDP) system used by the board to process over $60 million in claims-related payments for the Patients' Compensation Fund. General EDP controls are part of an adequate control environment as are control procedures over (1) application program development and maintenance, (2) logical access to programs and data, and (3) segregation of duties. Good general EDP controls are necessary to preserve the integrity and security of the system and to provide reliance on the results produced by the system. Good application EDP controls are necessary to ensure that transactions and financial information are processed completely, timely, and accurately.

During a review of general and application EDP controls, the following control deficiencies were noted:

1. Information system responsibilities of management and staff are not adequately defined either in job descriptions or in agency policies and procedures.

2. Processes or procedures in place are not adequate to ensure that current or new computerized information systems are properly planned, developed, implemented, modified, secured, and supported to meet the Patients' Compensation Fund objectives and user needs.

3. Policies and procedures are not adequate to limit access to the information systems network or to secure the database for claim payments.

4. There is inadequate written documentation of input or output reports available for management to monitor and ensure that all data are processed completely and accurately.

5. Key data elements containing reserve, payable, and paid amounts and related calculations are not documented.

These deficiencies could affect the integrity and security of programs, processing, and data. As a result, there is a risk that programs and data could be accessed and modified without proper authorization, review, and approval.

The Patients' Compensation Board should establish adequate internal controls over EDP to ensure the integrity of programs, processing and data, and the completeness and accuracy of financial data. Management concurred with the findings and recommendations and outlined a plan of corrective action (see Appendix A, page 5).

Inadequate Uniform Payroll System Controls - Executive Office

For the second consecutive year, the Executive Office did not ensure that its timekeeping units complied with existing internal control procedures relating to payroll transactions input to the Uniform Payroll System (UPS). Adequate controls require that employees and supervisors certify the hours of attendance or absence from duty on time and attendance records. In addition, UPS user regulations established by the Division of Administration, Office of State Uniform Payroll, require the timekeeper to maintain signed and approved daily attendance documents, leave slips, and overtime/compensatory approval forms to support time entered for each employee each pay period.

In a test of 19 unclassified employees in six timekeeping units for one pay period, the following exceptions were noted:

1. Five employees had no time and attendance records, including one employee who earned leave while designated as a non-leave earner.

2. One employee's time and attendance sheet had no supervisory approval.

3. Three employees had no leave slips for leave taken.

4. Four employees had no compensatory/overtime approval forms for compensatory time earned or overtime paid.

In addition, the Executive Office did not comply with terms of an interagency agreement with the Louisiana Department of Education for the operation of the State Interagency Coordinating Council. This agreement required adherence to personnel practices prescribed by Civil Service rules and regulations. The executive director, whose salary was funded under this agreement, did not prepare time and attendance records certifying the actual rendering of service, the actual number of hours of attendance on duty, and the number of hours of absence from duty as required by Civil Service Rule 15.1.

Management's lack of emphasis on compliance with existing internal control procedures and state rules and regulations increases the risk that errors and/or irregularities could occur and not be detected timely.

Management should comply with existing internal control procedures and state rules and regulations by ensuring that attendance and leave records are properly maintained for each employee. Management of the office partially concurred with the findings and recommendations. Management stated that it was office policy not to use overtime/compensatory time forms or require leave slips for partial-day leave (see Appendix A, page 7).

Additional Comments: Although the Executive Office does not require overtime/ compensatory time forms or leave slips for partial-day leave, UPS rules and regulations require such documentation.

Weaknesses in Controls Over Claims Payments - Patients' Compensation Fund

The Patients' Compensation Fund Oversight Board has a lack of adequate internal controls over claims-related payments. Good internal controls should provide for adequate segregation of duties and an appropriate system of authorization and approval of transactions to safeguard assets, ensure that accounting data are both accurate and reliable, and ensure that errors and/or fraud are detected in a timely manner. During the year ended June 30, 1998, the board processed approximately $64 million in claims and related contractual payments. The following weaknesses exist in internal controls over claims payments:

1. There is inadequate segregation of duties in that the same person, the claims manager, an employee of the Office of Risk Management, Division of Administration, has access to the blank checks and the signature disk, approves the check payment forms, approves the check register, and reviews invoices and data supporting the payment.

2. There is no dollar limit on the amount of each check that can be signed with the signature disk.

3. Checks are not mailed directly to payees but are returned to the same section that processes the checks before they are mailed.

4. In a test of 21 payments and related claims files:

   - There were no settlement authority forms in the files to document how the settlement amount was determined. These forms list the injured party's demand, the total estimated value of the case, the amount of payment by the primary carrier, the chance of losing the case, and the amount requested (proposed) for settlement.

   - There was no evidence of how the estimated amount to be paid for each claim was computed. Also, there was no evidence of supervisory review of the amount or any adjustments to the amount.

- The individuals who have check signing authority do not receive and review invoices and data supporting the checks before releasing the checks.

Failure to develop and implement adequate internal controls over claims-related payments may result in errors and/or fraud that may not be detected in a timely manner.

Management should establish internal controls that include an adequate segregation of duties and an appropriate system of authorization and approval of transactions. Management generally concurred with the finding and recommendation, but did not outline an adequate plan of corrective action (see Appendix A, page 10).

Additional Comments: (1) There is a lack of segregation of duties in that one person, the claims manager, has access to the blank checks and signature disk. There was no evidence that anyone above the claims manager approves the check payment form, approves the check register, or reviews the invoices and data supporting the payment. (2) Management should establish a dollar limit on the checks that can be signed using the signature disk. (3) The payment clerk should mail the checks to the payee and not return them to the person who made the request for checks. (4) The settlement authority forms were not in the files to document how the settlement amount was determined. There was no evidence that any work requests were completed for establishing or adjusting reserves or any individual review of invoices and data supporting the checks before releasing the checks.

Inadequate Subrecipient Monitoring

The Louisiana Federal Property Assistance Agency (LFPAA) does not have an adequate monitoring system to ensure that subrecipients spending $300,000 or more in federal funds are audited in accordance with *Government Auditing Standards*. Federal regulations [Office of Management and Budget (OMB) Circular A-133] require the LFPAA to ensure that a subrecipient expending $300,000 or more in federal awards in a year has an audit performed that will comply with this circular. The receipt of surplus property is considered a federal award under OMB Circular A-133.

Supporting documentation for 20 property items distributed to subrecipients under the Donation of Federal Surplus Personal Property Program (CFDA 39.003) was reviewed to determine if an audit was required for these subrecipients. The documentation contained no evidence that LFPAA had determined the amount of federal funds expended by any of these subrecipients and whether or not an audit was required.

Failure to ensure that federal subrecipients are audited increases the risk that subrecipients will not expend federal awards in accordance with applicable laws and regulations.

The LFPAA should provide for an adequate monitoring system to ensure that subrecipients spending $300,000 or more in federal funds are audited in accordance with *Government Auditing Standards* and federal regulations. Management of the agency concurred with the finding and outlined a plan of corrective action (see Appendix A, page 12).

Inaccurate Federal Financial Reports

The LFPAA does not have adequate controls in place to ensure that federal financial reports for the Donation of Federal Personal Surplus Property Program (CFDA 39.003) are accurate. The Code of Federal Regulations (41 CFR 101-44.4701) requires that the agency submit a donation report of surplus personal property (Form 3040) each quarter to the General Services Administration (GSA). An adequate system of controls requires accurate reports supported by accounting records and adequate supervision and review to ensure that errors are detected and corrected timely.

Four quarterly donation reports submitted to GSA during the 1998 fiscal year were reviewed and the following deficiencies were noted:

1. There were seven instances where amounts on the reports did not agree to the monthly inventory reports generated from LFPAA's property management system. On one report, the additions did not agree; on four reports, the deletions did not agree; and on two reports, the beginning inventory balance did not agree with the ending inventory balance of the previous report.

2. A master listing of surplus property at June 30, 1998, did not agree to the inventory balance on the June 1998 monthly inventory report or the June 1998 quarterly donation report. The listing totaled $5,413,111, the ending inventory balance on the monthly report was $5,385,472, and the ending inventory balance on the quarterly donation report was $5,466,241, a difference of $27,639 and $53,130, respectively.

These errors were caused by failure to reconcile property items received (additions) and donated (deletions) as listed in the property management system to the amounts recorded on the monthly inventory reports and the quarterly donation reports. Failure to properly supervise and review the federal financial reports increases the risk that errors will occur and not be detected or corrected timely.

The LFPAA should establish adequate controls to ensure that federal financial reports are accurate and that errors are detected and corrected in a timely manner. Management of the agency concurred with the finding and outlined a plan of corrective action (see Appendix A, page 14).

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

This report is intended for the information and use of the Executive Department 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

BMc:WMB:RCL:ss

[EXEC]

Appendix A

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

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

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

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

September 4, 1998

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear ~~Dr. Kyle~~ Dan:

Re: Audit Comment-Lack of Internal Audit Function in the Executive Department

We concur with the finding on this issue. Due to an oversight the request for funding through the budgetary process for FY 98-99 was deleted. It will be included in the FY 99-00 submission. In addition, several issues remain which have prevented implementation within this agency. First, although Civil Service positions have been established, it remains our opinion, that the pay grade allocations provided are inadequate to attract the level of personnel having the qualification to perform this function. Filling of positions with personnel not having the experience and qualifications to perform the functions is not a practical resolution to this issue. We are again submitting a request for reconsideration of the position allocations.

Also, the entire issue of who, what organization is responsible, and how the internal audit function is to be managed remains under consideration. Until this issue is resolved it would be imprudent to attempt to implement a structure that may be changed before it is effectively established.

We agree this issue is vital, not only to this department. but to all departments. More importantly, agreement on the management issue and structure must be resolved between the executive and legislative leadership before any definitive actions occur.

Sincerely,

Mark C. Drennen
Commissioner of Administration

MCD/wjk

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AN EQUAL OPPORTUNITY EMPLOYER

State of Louisiana

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OVERSIGHT BOARD
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August 31, 1998

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

Re: Inadequate Fund Balance - Patient's Compensation Fund

Dear Dr. Kyle:

As requested, the Patient's Compensation Fund Oversight Board (Board) submits herein its response to the above-captioned finding.

The Board concurs with the finding. The corrective action plan is attached. The undersigned is the contact person responsible for the corrective action. At the present time there is no anticipated completion date.

Please call if you have any questions.

Sincerely,

Mike Walsh

Mike Walsh, AIC, Executive Director

RESPONSE BY THE LOUISIANA PATIENT'S COMPENSATION FUND TO THE CONCERN OVER RESERVE LEVELS

In the early 1970's, a crisis arose in medical malpractice liability and coverage in the United States. Louisiana was one of the states facing this problem. In this climate the Louisiana Legislature enacted Act 817 of 1975 which regulated malpractice litigation, including limiting the liability of qualified health care providers, and created the Louisiana Patient's Compensation Fund ("PCF"). The purpose of this legislation was to assure both coverage for health care providers and compensation for claimants.

Under the original legislation, the PCF was jointly administered by the Attorney General and the Commissioner of Insurance. They were responsible for defending claims against the Fund (including appointing attorneys, setting reserves, and paying settlements and judgements), collecting surcharges, keeping records on the qualified status of providers, and much more. Of particular importance, they were charged with setting surcharge rates, subject to the approval of the Louisiana Insurance Rating Commission ("LIRC").

Over the years various modifications were made to the original legislation. In 1990, the Legislature removed the PCF from the control of the Department of Insurance and the Attorney General and created the Patient's Compensation Fund Oversight Board ("Board") to manage the Fund's operations. Act 454 became effective on October 1, 1990. Thus, in late 1990, the current Board inherited a 15-year old Fund with certain deficiencies including no reserves for outstanding claims.

At that time, the Fund's claims and reserve records and its management information systems were significantly inadequate. One of the first tasks which the Board identified was the immediate modernization of these systems in order, among other things, to improve the data base for rate development purposes.

Over the next several years, the Board made great strides toward developing reserves for all outstanding claims. Also during that time, the Board asked for dramatic rate increases in order to address the shortfall in reserves. Between 1991 and 1998, the Fund had surcharge increases on six separate occassions, resulting in a cumulative total of approximately 180% for hospitals and 100% for physicians, as follows:

Effective	Hospitals	Physicians
7/1/91	22.5%	17.5%
7/1/92	56.3%	21.8%
7/1/93	23.0%	7.8%
7/1/94	8.1%	8.1%
1/1/97	9.0%	17.0%
1/198	3.5%	6.0%

These amounts, according to the Fund's actuaries, "are substantially more than those adopted by the medical malpractice industry over the same period."

Of course, the total indicated increases were much greater. In 1995 the Fund asked for increases of 12% for hospitals and 15% for physicians which were rejected by the LIRC. As a result of that disapproval, no rate filing was attempted until the composition of the LIRC was changed. The Fund's 1995 experience illustrates perhaps the biggest single limitation to its ability to meet its statutory reserve responsibility. The Board is not in ultimate control of its own rates and the reality of LIRC review has a limiting effect on potential increases.

In addition to rate increases, the Board continues to utilize its experience rating program, initiated in 1993, which allows for the debiting of qualified health care providers with poor PCF claims experience. Additional surcharge payments of over one million dollars were generated by this program in both 1996 and 1997.

The Board is also in the process of making some changes in its rating structure in hopes of attracting into the Fund health care providers who have previously not found economic incentive to enroll. In particular, we are seeking to devise reasonable rates for nursing homes, rehabilitation hospitals and pharmacists.

The Board is also taking a more active roll in working with local and national groups (specifically, the National Patient Safety Foundation at the AMA) in the area of health care risk management in hopes of finding ways to reduce the incidence of medical error.

In summary, over the last eight years the Patient's Compensation Fund Oversight Board has had a great deal of "catching up" to do. It had, first, to develop systems to accurately track the appropriate reserve amounts. At the same time, it had to address the large deficit which it inherited. It has made significant progress in both of those endeavors, despite resistance from the LIRC, some health care providers, and others. It has increased cash reserves from zero to more than seventy-four million dollars. While it still has much to do, the Board firmly believes that its pace has been as rapid as it could have been.

Despite the problems inherited by the Board, it has always paid each claim, settlement and judgement as required by law, and there has never been a default by the Board nor has there been an unfounded liability as ordered by any court. It has met and will continue to meet its obligations in the future.

State of Louisiana

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September 4, 1998

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

Re: Electronic Data Processing Control Weaknesses

Dear Dr. Kyle:

This will acknowledge receipt of the above-captioned finding. The Patient's Compensation Fund Oversight Board's response to the itemized deficiencies is as follows:

1. The Board agrees that the responsibilities relative to Information Services could be more sufficiently defined. The Patient's Compensation Fund is a relatively small agency. The position of Information Systems Applications Programmer 1 is the only real technically computer literate position in the agency. The job description includes responsibility for the day to day operation of the agnecy's two data base systems -- the Alpha Micro System, which contains health care provider enrollment data and the Risk Vision System, which contains Medical Review Panel and Claims data. Alpha Micro provides support for their system, but Risk Technologies, due to circumstances surrounding the development and installation of the Risk Vision System, does not provide any ongoing, long term support. We call local vendors for trouble-shooting.

However, we are in the midst of a renovation and integration of the current two independent data bases. The defining of responsibilities, and the documentation of such, is being developed in conjunction with this project.

2. It is difficult for the Board to say with certainty that the process it utilized to move forward with the renovation and integration of the current two independent data bases was "adequate". A good deal of thought, time and effort was put into the process. We can simply outline what has occurred to date:

In late 1996, when Risk Technologies terminated the contract they had entered into with the Board for data processing development services, the Board was somewhat gunshy about finishing the job without some technical consulting assistance. In August of 1997 PCF retained a consultant to conduct a review and analysis of the current independent systems. The consultant provided his findings to the Board at the November 1997 meeting. At that time the Board gave approval for the consultant to develop and RFP for data processing services. The RFP was approved by the State Office of Contractual Review's Procurement Support Team in April of this year and the RFP was then advertised. Proposals were submitted and a vendor selected. The vendor, CamSoft Data Systems of Baton Rouge, has been working on the job for a little over two months. Most, if not all, of the concerns listed in this finding will be addressed during the course of this project.

Specifically, the contract specifies that the system development is to be done in stages and each stage has to be demonstrated to users and approved by management before the vendor moves to the next stage. By taking this approach we feel we can be assured of the implementation of a final product that meets PCF objectives and the needs of both users and enrolled health care providers.

3. The Board agrees that there are security concerns. One of the major concerns of the Board and the consultant was the security of the system. We have implemented a number of policies and procedures that aid in limiting access to the network. We keep a close watch on system logon accounts and, whenever an employee leaves the agency, their account is either inactivated or deleted. The server is kept locked at all times to restrict physical access to it, and access to the key is limited to two agency employees. Without a system logon account one's potential for accessing the database for claims payments is limited. This will be greatly enhanced in the new system because of the increased number of security levels. The system will have logon security accounts as well as system security directly on the database itself. Each logon account will contain embedded security codes defining precisely what a user can and cannot access.

4. The Board agrees that reporting capabilites have been deficient and there has been concern about the integrity/credibility of the data. This is the result of Risk Technologies terminating the contract before completion of the prior project. We were recently able to contact the Risk Technology employee who was the project manager for the prior project that was not completed. He helped our IS person located source codes and these are being utilized by the current vendor in development of the new system. The reports that are currently being run appear to be accurate. It is the reports we would like to generate, but have been unable to, that will be available when the new system is complete.

5. The Board agrees. This is being addressed in the development of the new system. The vendor is mandated to provide a complete set of system documentation, along with the total record layout containing all the data elements which should allow the completeness and accuracy of the databases to be determined.

The undersigned is the contact person responsible for corrective action. It is anticipated that the new system will be operational by March 31, 1999.

Sincerely,

Mike Walsh

Mike Walsh, AIC, Executive Director

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

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(504) 342-7015

September 2, 1998

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

In response to the audit findings relative to the Governor's Office, we offer the following:

In response to finding number one, we concur. The five employees who did not have time sheets all have non-leave earning status. After payroll is entered, a fixed time entry sheet is provided for each non-leave earner. From this point forward, all non-leave earning status employees will initial their fixed time entry sheet. Additionally, the employee who was earning leave while on non-leave earning status was simply a paperwork problem, and this issue has already been remedied.

In response to finding number two, we concur. The employee who did not have supervisory approval on his time sheet is the director of an agency which was just transferred under the Governor's Office on January 1, 1998. Under his previous appointing authority, such approval was not needed and his procedure had not changed when he came to the Governor's Office. We have already remedied this problem by appointing a supervisor for the director and all subsequent time sheets have been and will be duly authorized.

In response to finding number three, we do not concur. It is the formal policy for the Governor's Office (see attached) that a leave slip is not required for partial-day leave. According to our office policy, when a supervisor signs a time sheet which reflects under eight hours of leave per day, that serves as complete supervisory approval of leave taken. Only when an employee takes eight hours (an entire day) of leave is he/she required to complete an additional leave form to attach to his/her time sheet

In response to finding number four, we do not concur. Similar to item number three, it is the policy of the Governor's Office that overtime/compensatory time forms are not used. According to our office policy, when a supervisor signs a time sheet which reflects overtime or compensatory time, that duly authorized time sheet serves as the paperwork needed for such compensation.

Dr. Daniel G. Kyle
Page Two
September 2, 1998

In response to the finding regarding the State Interagency Coordinating Council, we concur. This issue has since been remedied. As the supervisor of the SICC employee, the Director of the Children's Cabinet is working closely with the Department of Education to follow all prescribed rules and regulations set forth in the inter-agency agreement.

Finally, in response to your notation regarding management's lack of emphasis on compliance with existing internal control procedures, we do not concur. Senior management of the Governor's office has gone to great lengths to establish and uphold a set of operating policies as well as employee policies. These policies are strongly adhered to within the Governor's Office by management as well as all employees.

Connie Nelson is the individual who handles all payroll issues within our office. Ms. Nelson is currently out on maternity leave but will return to the Governor's Office in October. Any additional inquiries can be directed to my or Ms. Nelson's attention.

Sincerely,

Susan B. Hoffman

Susan B. Hoffman
Director of Administrative Affairs

SBH:jw

Attachment

I N T E R

O F F I C E

MEMO

To: All Governor's Office Staff
From: J. Stephen Perry JSP
Subject: Time Clocks
Date: January 28, 1997

Now that we have successfully completed the transition to using the time clocks, employees will no longer have to sign in and out manually. However, I want to reiterate the importance of clocking in and out whenever you leave the office. As the time clocks are now the sole method of accounting for Governor's Office employees' hours, leaving the office without clocking out is not acceptable.

If you leave the office on official business, you are still required to clock in and out. When you receive your time sheet for that week, simply make a notation stating your official business, and the time will be credited subject to the approval of your supervisor.

Also, supervisors were notified last week that compensatory time and leave forms will no longer be required for day-to-day time accounting. The time sheet you are given every two weeks will be all the paperwork that is necessary. If leave is used in smaller than eight-hour increments, simply make a notation on your time sheet of what kind of leave should be charged (i.e. sick, annual, compensatory, etc.). However, leave forms must be completed if you take-off an entire day or more.

Thanks for your patience in working out the details of this system. Your attention and suggestions have been greatly appreciated.

sbh

State of Louisiana

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FAX (225) 342-6053

November 6, 1998

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

Re: Weaknesses in Controls Over Claims Payments

Dear Dr. Kyle:

This will acknowledge our receipt of the above-captioned finding dated November 3, 1998. The response of the Patient's Compensation Fund Oversight Board is as follows:

Response to #1 - It is essentially correct that the Claims Manager is the only person with access to the blank checks and the signature disk. The Executive Director also has access, but being housed in a separate location and having no involvement in the claims operation, it would be a significant impediment to the claims process if those items were kept in the Executive Director's location.

As to the check payment forms (actually it is called the "claims payment form") the Claims Manager is <u>not</u> the only person to approve these forms. The form is initially completed by the claims adjuster and approved by the Claims Supervisor, the Claims Manager and the Executive Office. The Executive Director approves any claims payments of $400,000 or above.

As to the check register, it is reviewed by the Claims Manager, but it is also reconciled between the Information Systems Programmer and the Staff Accountant. The Executive Director also reviews the register at the time payments are approved on the state-wide system.

As to data supporting the payment, these materials are reviewed initially by the adjuster and then by the Office of Risk Management Claims Council (the State Risk Director and Claims Manager). The Claims Council then refers settlement recommendations to the PCF Oversight Board's Claims Committee via a Narrative and Request for Settlement Approval. For claims settlements in excess of $300,000 the approval of a quorum of the full Board is required. The Narrative is provided to the Board at the monthly meetings.

Response to #2 - It is correct that there is no dollar amount on checks that can be payed with the signature disk. Again, due to the geographical distance between the claims office and the individuals with check signing authority it has been felt that the signature disk would suffice. Also, as noted in the response to #1 above, there are numerous individuals who approve the "claims payment forms" that must precede the issuance of any settlement check. Does the Legislative Auditor strongly suggest that checks over a certain amount be individually signed? Please advise.

Response to #3 - It is correct that in most cases a settlement check is not mailed to the payee. It is sent to either the attorney representing the PCF, the attorney representing the health care provider or their primary carrier, or the claimant. However, a payment clerk processes the check and the check is then mailed with attachments by the adjuster or the Contracts Officer. In regard to Future Medical benefits, the payment is mailed to the payee.

Response to #4 - It is agreed that the Request for Settlement Approval form has not been completed in every case. The Narrative is now utilized in lieu of this form in most cases. This Narrative is completed in every case involving a proposed claim settlement. It provides a very detailed account of all factors relative to the issues of liability and damages.

A "Work Request" should be completed when establishing initial reserves or when adjusting reserves. Reserves are established whenever a claim file is transferred from an examiner to an adjuster. This is done whenever sufficient information is received indicating the case has the potential to impact the Fund's layer of coverage. Adjusters have authority to set reserves up to $25,000, supervisors up to $100,000 and the claims manager for anything over $100,000. The dollar amount of the reserve is based upon the knowledge and experience of the claims personnel as it relates to the nature and extent of the injury involved. The range of awards for specific injuries, as published Louisiana case law and other national jury verdict studies, gives an estimate of the "judgement value" of the case. The "settlement value" is less than the "judgement value" since it takes into consideration the time value of a trial and the liklihood that the case can be successfully defended. The opinions of the defense counsel for the primary carrier/health care provider and the PCF (when applicable) are also taken into consideration when establishing or changing reserves.

The Claims Committee of the Oversight Board review supporting documentation on all settlements before approving settlement authority. For settlements over $300,000 the Narrative is read to the entire Board at the monthly meetings before the full Board approves the settlement.

Please contact the undersigned if there are any follow-up questions or concerns. Thank you.

Sincerely,

Mike Walsh

Mike Walsh, AIC, Executive Director

State of Louisiana
DIVISION OF ADMINISTRATION
LOUISIANA PROPERTY ASSISTANCE AGENCY

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

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

November 16, 1998

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

Dear Dr. Kyle:

We are in receipt of the letter which outlines the audit findings relative to the Federal Property Assistance Agency. A separate response for the two findings is attached.

I appreciate the courteous manner in which Ms. Debra Zundel conducted the audit and exit interview.

Sincerely,

Irene Babin
Director

Attachments

c: Mr. Whitman Kling, Jr., Deputy Undersecretary
Mr. Edgar Jordan, Assistant Commissioner
Mr. Jack Liuzza, Manager

LOUISIANA PROPERTY ASSISTANCE AGENCY • P.O. BOX 94095 • BATON ROUGE, LA 70804-9095
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AN EQUAL OPPORTUNITY EMPLOYER

EXECUTIVE DEPARTMENT

Inadequate Subrecipient Monitoring

The Louisiana Federal Property Assistance Agency does not have an adequate monitoring system to ensure the subrecipients spending $300,000 or more in federal funds are audited in accordance with Government Auditing Standards. Federal regulations [Office of Management and Budget (OMB) Circular A-133] require the LFPAA to ensure that a subrecipient expending $300,000 or more in federal awards in a year has an audit performed that will comply with this circular. The receipt of surplus property is considered a federal award under OMB Circular A-133.

The Louisiana Federal Property Assistance Agency concurs with this audit finding. Mr. Jack Liuzza, Manager of the program is responsible for corrective action relative to this finding.

Through an oversight, when the computer program for this agency was planned, the listing for subrecipients spending $300,000 or more in federal funds was not requested. This error has been corrected and all future reports will reflect the required information.

A listing of those subrecipients spending $300,000 or more in federal funds for this audit period is attached. Letters will be sent to the Donees by December 20, 1998 reminding them that these funds must be audited and that a copy of the completed audit is to be submitted to this office upon completion of said audit. The manager and/or the assistant manager will monitor this process in the future to ensure that proper procedures are being followed.

State of Louisiana
DIVISION OF ADMINISTRATION
LOUISIANA PROPERTY ASSISTANCE AGENCY

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EXECUTIVE DEPARTMENT

Inaccurate Federal Financial Reports

The Louisiana Federal Property Assistance Agency (LPFAA) does not have adequate controls in place to ensure that federal financial reports for the Donation of Federal Personal Surplus Property Program (CFDA 39.003) are accurate. The Code of Federal Regulations (41CFR 101-44.4701) requires that the agency submit a donation report of surplus personal property (Form 3040) each quarter to the General Services Administration (GSA). An adequate system of controls requires accurate reports supported by accounting records and adequate supervision and review to ensure that errors are detected and corrected timely.

The Louisiana Federal Property Assistance Agency concurs with this audit finding. Mr. Jack Liuzza, Manager is responsible for corrective action in this matter.

The four quarterly reports covered by this audit period are being corrected and revised reports will be sent to the General Services Administration (GSA) by December 20, 1998.

The employee that has been assigned to prepare the reports in the future will be thoroughly trained and monitored to ensure that all future submissions to GSA are correct.