

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of State Civil Service  
State of Louisiana  
Baton Rouge, Louisiana

May 21, 2003



***Financial and Compliance Audit Division***

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**Albert J. Robinson, Jr., CPA**

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**DEPARTMENT OF STATE CIVIL SERVICE**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

Procedural Report  
Dated April 30, 2003

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.

May 21, 2003



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April 30, 2003

**DEPARTMENT OF STATE CIVIL SERVICE**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Department of State Civil Service. Our procedures included (1) a review of the department's internal control; (2) tests of financial transactions for the years ended June 30, 2003, and June 30, 2002; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ended June 30, 2003, and June 30, 2002; and (4) a review of compliance with prior report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected departmental personnel and 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.

The Annual Fiscal Reports of the Department of State Civil Service were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The department's accounts are an integral part of the State of Louisiana's basic financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior procedural report on the Department of State Civil Service dated May 14, 2001, we reported a finding relating to the failure to update and reconcile movable property records. This finding has been 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.

**Theft of Funds**

The Department of State Civil Service did not report the activity of the Louisiana State Personnel Council (LSPC) on its annual financial report and did not exercise appropriate internal control over the funds of the council. As a result, funds estimated by agency personnel of \$27,173 were stolen. Louisiana Revised Statute 39:79 requires an affidavit that the annual financial statements present fairly the financial position of the department. The department failed to include the activities of the LSPC as an agency fund on the required annual schedule even though the books and records of the LSPC were maintained by a department employee during normal working hours. An adequate system of internal control should include sufficient procedures to safeguard assets and

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to ensure that errors or irregularities, should they occur, would be detected by employees in the normal course of their duties.

The LSPC is an organization of human resource personnel working within the executive branch of government. In recent years, LSPC has sponsored conventions for the purpose of education, training, and the exchange of views and experiences. An employee of the department was appointed by the LSPC Board of Governors to act as treasurer for the organization. However, the duties of the treasurer were reassigned to a second employee within the department who performed the duties of the treasurer during regularly scheduled work hours.

A review of the controls over the LSPC, as well as a review of selected transactions, disclosed the following weaknesses in internal control:

- The council prepared pre-signed checks for the convenience of the treasurer.
- Bank reconciliations were not prepared.
- A credit card was provided for the treasurer, but no review of purchases was required.
- Even though a credit card was provided for business purposes of the council, the treasurer sometimes used her personal credit card for council purposes and reimbursed herself.
- No approvals were required before any transaction was executed.
- No evidence existed that the transactions executed by the treasurer were ever reviewed by management of the department or by the governing board of LSPC.
- Subsidiary records of receipts collected did not agree to amounts deposited. A total of \$3,976 more was deposited than the amount supported by the subsidiary spreadsheets indicating errors.
- Six of the ten cancelled checks requested could not be located.
- Some of the LSPC records were missing and some were purged by either the treasurer or her subordinate.

These conditions occurred because management did not consider the LSPC as part of its department, and, therefore, did not recognize the fiduciary responsibility it was accepting by allowing its employees to perform duties associated with the council during

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normal working hours. Failure to report all activities of the department in its annual financial statements causes errors on the state's financial statements. Failure to exercise appropriate internal control over all funds of the department increases the risk of loss because of errors and/or theft and increases the risk that such losses, should they occur, will not be detected by other employees during the exercise of their normal job duties.

Management has provided this information to the district attorney and it should establish additional controls over funds related to the LSPC to prevent further losses. Furthermore, the funds of LSPC should be reported on the department's annual financial report as an agency fund. Management concurred in part with this finding. Although management agreed to implement the recommendations included in the finding, it does not believe that the financial statements of the Department of State Civil Service were misstated because of the omission of these funds belonging to the LSPC (see Appendix A, pages 1-3).

**Additional Comments:** The department acknowledges in its response that a public employee spent part of her time in support of a private organization. Even though management claims the funds do not belong to the department, any funds belonging to others and held in a fiduciary capacity should be reported in the agency's financial statements as an agency fund.

#### **Work Hours Uncertified and Leave Not Used**

The director of the Division of Administrative Law did not certify her hours worked on time and attendance sheets, which are required to be completed by all other personnel of the Department of State Civil Service. In addition, as of the date of our testing, the director has not taken sick or annual leave since she assumed the position of director in October 1996. E-mail messages supplied by the department indicate that the director was absent from work for a period of 11 days between June and August 2002. A vacation was also taken in 2001, although the duration of the absence from work was not specified. In addition, the director acknowledged one period of extended absence from work associated with the birth of her children. However, there is no assurance that these are the only periods that the director was absent during normal working hours when leave was not taken.

The director is an unclassified appointee of the governor and her use of leave is governed by Executive Order MJF 98-23, as amended by MJF 2001-58. These executive orders specify that executive appointees are on call 24 hours a day and cannot accumulate compensatory leave. Furthermore, an unclassified appointee is only required to apply for leave for those times when the appointee is unavailable to serve the appointing authority. The director is interpreting this to mean that she does not have to apply for annual or sick leave if she can be contacted by telephone or FAX within a reasonable amount of time.

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Failure by the director to use annual or sick leave when not conducting state business during normal working hours may constitute a donation of public funds, which would be prohibited by Article VII, Section 14(A) of the Louisiana Constitution of 1974. Furthermore, without a certified time and attendance record, no logical support exists for the accumulation of sick and annual leave credited to the director's account.

The director of the Division of Administrative Law should take annual or sick leave when she is out of the office for personal reasons during the regular workday. In addition, she should certify her hours worked on a time and attendance sheet. The director of the Division of Administrative Law disagrees with this finding and the assertion that an unclassified appointee is required by the Executive Order to certify hours worked on a time and attendance sheet. She indicated that she would reduce her leave balances by 160 hours of leave out of an abundance of caution to try to address the leave concerns raised (see Appendix A, pages 4-5).

**Additional Comments:** Leave earned is credited to an employee by applying the appropriate fraction based on number of years service to the hours worked by an employee. If an employee does not complete a time and attendance sheet, there is no basis for crediting leave to that employee's account.

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.

This report is intended solely for the information and use of the department 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Grover C. Austin, CPA  
First Assistant Legislative Auditor

BH:MWB:PEP:ss

## Appendix A

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



Allen H. Reynolds  
Director

**STATE OF LOUISIANA  
DEPARTMENT OF CIVIL SERVICE**

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April 17, 2003

Mr. Grover C. Austin, CPA  
First Assistant Legislative Auditor  
Office of the Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

In Re: Reportable Audit Finding

Dear Mr. Austin:

Thank you very much for the opportunity to respond to your preliminary draft of an audit finding relating to the activities of this department. The subject of this audit finding is funds belonging to the Louisiana State Personnel Council.

We are very appreciative of the help of your staff in addressing this issue. The Louisiana State Personnel Council is a private organization that has served the human resources community within state government for almost fifty years. Its membership is composed primarily of state agencies and of individuals employed within the human resources community of state government. The Louisiana State Personnel Council collects dues from these members and expends those funds to provide education and training to its members. We recently had to terminate one of our employees who had been assigned to keep the financial records for this organization as a small part of her duties with us. We felt it was well within the state's interest that a public employee spend part of her time in support of this private organization because the direct beneficiary of the sole activities of this organization was state government.

Your staff has advised that if we are going to continue to assign a public employee to keep the financial records of the Louisiana State Personnel Council, we should establish internal controls to ensure that the monies expended are properly accounted for. We understand that the reason for this recommendation is the responsibility we incur as the result of assuming this duty. We believe this to be a correct and appropriate position, and we are in the process of establishing internal controls in order to accomplish this goal. We expect to have these controls in place within 30 days.

Mr. Grover C. Austin – letter continued  
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Please contact Ms. Anne Soileau of this department on this issue should you desire. Please understand, however, that the Council, itself, may elect not to subject itself to these controls, and may seek bookkeeping services outside of state government.

Your staff has also advised that we should report the revenues and expenditures of the Louisiana State Personnel Council on Schedule 6 of our annual fiscal report. If the Council elects to subject itself to our controls, we will report their revenues and expenditures on Schedule 6.

There is one aspect of your preliminary draft about which I am concerned. The draft appears to indicate that these funds are public funds of this department, affecting our financial position when, in fact, these funds belong to a private organization, i.e. the Louisiana State Personnel Council. This apparent representation appears in the first paragraph of your preliminary draft and in the next-to-last paragraph of that preliminary draft.

It seems to me that the revenues and expenditures of a private entity cannot be said to reflect the financial position of this department, or to impact the financial position of the state. We certainly recognize that liability can result if we fail to properly discharge our responsibility in keeping the books for the Louisiana State Personnel Council, but this is true of all of the activities in which we engage. These activities, however, do not constitute activities reportable as affecting any financial position. I believe your conclusion that we have violated R.S. 39:79 by misrepresenting our financial position is incorrect. That statute requires us to certify all of the monies we have received and all the monies we have expended, and our bookkeeping support of the Louisiana State Personnel Council has not resulted in our receipt or expenditure of any funds. As mentioned above, however, we will report the revenues and expenditures of this private entity on our Schedule 6 in the event we continue to perform these bookkeeping activities for the Council.

In addition, by letter dated January 13, 2003 we advised both your office and the Office of the District Attorney for East Baton Rouge Parish of the facts we had uncovered regarding the theft of the Council's funds by our employee. Since that time, it does not appear as if any action has been taken by the District Attorney, and we are presently making further inquiry to that office on that point. We have made full disclosure to the Council about the theft of the funds. To my knowledge, they have not yet decided on a course of action regarding the recovery of their money, however, we will pursue all legal means available to us to cause recovery of the money.

Mr. Grover C. Austin – letter continued

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In conclusion, we would again like to thank your staff for helping address this difficult issue and in helping us toward the goal of establishing appropriate internal controls and the reporting of the revenue and expenditures of the Louisiana State Personnel Council on Schedule 6. Your staff was both courteous and professional in all that they did.

Sincerely,

A handwritten signature in cursive script that reads "Allen H. Reynolds".

Allen H. Reynolds

Director



*State of Louisiana*  
Division of Administrative Law

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Located at: 654 Main Street, Baton Rouge, La. 70802

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

ANN WISE  
DIRECTOR

**TO:** Grover C. Austin, CPA  
1<sup>st</sup> Asst. Legislative Auditor  
**FROM:** Ann Wise  
Director, Division of Administrative Law  
**DATE:** March 28, 2003

**RE:** Department of State Civil Service-DAL audit finding March 2003

This responds to that section of the Department of State Civil Service audit entitled "Work Hours Uncertified and Leave Not Used" in your letter dated March 17, 2003. This finding raises issues regarding unclassified officers' leave which were addressed in the financial and compliance audit of the Executive Department dated February 12, 2003. A thorough response to these issues from the Office of the Governor dated December 5, 2002, is attached to that audit.

The Director of the Division of Administrative Law (DAL) is the only unclassified employee, appointed by the Governor, in the entire Department of State Civil Service (DSCS). As an unclassified appointee, the record keeping requirements applicable to this position differ from all others in the department, and are governed by Executive Order No. MJF 98-23, as amended. The Director is not supervised by the Director of the DSCS and that department does not oversee or control DAL's program of providing impartial administrative hearings services to state agencies.

I disagree with the finding and the assertion that an unclassified appointee is required by the Executive Order to certify hours worked on a time and attendance sheet. The Director of DAL, like other state agency heads under the Governor, is an annual salaried employee, not an hourly employee, who earns no overtime or compensatory leave, and is required to be on duty twenty four hours a day, seven days a week, without regard to vacations, holidays, or weekends. I do not work only in the office, or only during weekday public office hours.

The Director will take leave when unavailable to serve the Governor, and reduced leave balances by 160 hours of leave prior to the issuance of the auditor's letter, out of an abundance of caution to try to address the leave concerns raised. The Director will follow Executive Order No. MJF 98-23, take leave when unavailable and follow interpretations and directives of the Office of the Governor on leave matters.

It is noteworthy that the Director has for years had installed at her home and at her own personal expense, a fax machine, computers and separate phone line to perform, and has performed her work duties on many nights, weekends, and holidays, without compensatory leave.

cc: Allen Reynolds, Director DSCS