

OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED FEBRUARY 4, 2009

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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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.

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. Six copies of this public document were produced at an approximate cost of \$15.78. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor’s Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 8402 or Report ID No. 80080057 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

December 19, 2008

**OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
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, 2008, we considered the Office of Risk 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 Risk 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 opinions.

In our prior management letter on the Office of Risk Management for the year ended June 30, 2007, we reported findings relating to the unfunded processing costs for the road hazard line of insurance and the lack of an internal audit function. The finding related to unfunded processing costs for the road hazard line of insurance has been resolved by management. The finding related to the lack of an internal audit function 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.

Ineffective Internal Audit Function

For the fourth consecutive year, the Office of Risk Management (ORM) did not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise internal controls. Act 48 of the 2007 Regular Session of the Louisiana Legislature requires ancillary agencies with budgets in excess of \$30 million to include within its existing table of organization positions which perform the function of internal auditing.

The Internal Audit Section of the Division of Administration completed one internal audit at ORM, which is not sufficient to constitute an effective internal audit function. Considering ORM's reported assets of \$268,096,205 and revenues of \$250,400,356, an effective internal audit function is important to ensure that assets are safeguarded and that management's policies and procedures are uniformly applied.

Management should establish an internal audit function to provide assurance that assets are safeguarded and to ensure that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and outlined corrective action (see Appendix A, page 1).

Untimely Deposits of Hurricane Recovery Receipts

ORM did not immediately deposit all hurricane relief funds as required by law. Article 7, Section 9 of the Louisiana Constitution requires the immediate deposit in the State Treasury of all money received by state agencies. The Office of Statewide Reporting and Accounting Policy's *Control Agencies Policies and Procedures Manual* defines "immediately" as within "24 hours of receipt." In addition, good internal control requires that funds be deposited timely to properly safeguard assets.

An analysis of eight checks received by ORM from state agencies for FEMA reimbursements revealed that seven checks, totaling \$132,984, were deposited between three and 26 days after receipt. ORM's accounting section held the checks until all pertinent information regarding the accounting classification of those funds in the Advantage Financial System was known. Failure to deposit the funds timely increases the risk of lost or stolen funds and results in noncompliance with state law.

Management should develop a process to ensure that funds are deposited immediately as required by law. Management concurred with the finding and outlined corrective action (see Appendix A, page 2).

Ineffective Review of Small Claims Payments

ORM did not ensure that supervisors reviewed small claims payments of less than \$5,000 in accordance with established policy. As a result of fraud in small claims payments committed by adjusters in 2001 and 2006, ORM established policies and procedures requiring supervisors to randomly review, on a daily basis, at least one small claims payment per claim adjuster and document the review on a payment review log. For selected payments, the supervisor must review the claim file to ensure the validity of the payment and determine that all required documentation is attached to the payment request. The policy also requires supervisors to conduct the reviews before the end of the next business day.

Three of 11 claim supervisors were randomly selected to review their compliance with office policies and procedures regarding small claims payments less than \$5,000. While all three supervisors were performing some review of small claims payments, audit

procedures revealed that each supervisor did not comply with at least one of the following established policies and procedures:

- Maintain payment review logs to document the review of small claims payments for validity and proper supporting documentation
- Review the supporting documentation for the payment transactions
- Perform the review by the end of the following business day

Management has not enforced its existing policies and procedures over small claims payments. The failure to review small claims payments increases the risk that future errors and/or fraud could occur and go undetected.

Management should ensure that supervisors comply with established policies and procedures for reviewing and validating small claims payments of less than \$5,000. Management concurred with the finding and outlined 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, others within the office, and the Louisiana Legislature 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,



Steve J. Theriot, CPA
Legislative Auditor

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ORM08

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



BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of Risk Management

October 9, 2008

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: No Internal Audit Function

The Office of Risk Management (ORM) concurs with the finding.

ORM does not have the T.O. to fill an Internal Audit position.

ORM management met with representatives from Postlewaite and Netterville, a local CPA firm, early in fiscal year 2008 to solicit a proposal for a contract with that firm to provide audit services to ORM. Prior to receiving the proposal, representatives from the DOA Internal Audit Section met with ORM management and proposed that they take on the responsibility of fulfilling the ORM internal audit requirements. It was agreed that the DOA auditors were to present a plan to complete audits covering all ORM sections over a period of time. Since then, only an audit of a specific vendor providing services to Workers Compensation claimants and an audit of state auto use by a specific employee have been performed by the DOA audit section. These audits were performed as a result of inquiries from private citizens. No audit plan has been presented to ORM.

The DOA Audit Section has now advised that they do not have the resources to perform the internal audit function for ORM. Therefore, ORM will resume contact with the CPA firm.

The contact person for this finding is J. S. "Bud" Thompson, Jr.

Sincerely,

A handwritten signature in black ink, appearing to read "J. S. Thompson, Jr.", written over a white background.

J. S. "Bud" Thompson, Jr.
State Risk Director



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

August 20, 2008

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: Untimely Deposits of Hurricane Recovery Deposits

The Office of Risk Management (ORM) concurs with the finding.

All checks received by ORM are logged into a database and tracked until resolution.

Hurricane recovery checks normally involve multiple claims and often, investigation by the Claims staff revealed that the payments did not belong to ORM. Depositing these checks before gathering the data to classify the funds would have required an extensive reconciliation process that would have been costly and complicated to accomplish. Depositing the checks when able to fully classify the funds simplified the process and eliminated the necessity of issuing checks to agencies for those received in error. ORM returned the checks received in error to the sending agencies for them to deposit.

ORM will deposit all checks within 24 hours of their being received in the Accounting Section with the exception of subrogation payments. Depositing a subrogation check signifies acceptance of the settlement, which if not the correct amount, could be a loss to the state. It is necessary to determine that the amount of the settlement offered by the third party is correct before acceptance.

The contact person for this finding is Tom Averett.

Sincerely,

J. S. "Bud" Thompson, Jr.
State Risk Director

JST/THA/tha

BOBBY JINDAL
GOVERNOR



ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of Risk Management

December 2, 2008

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: Ineffective Review of Small Claims Payments

The Office of Risk Management (ORM) concurs with the finding.

Senior ORM Claims management has met with all claims supervisors in very intense sessions to emphasize the importance of complying with ORM policy regarding the review of claims payments less than \$5,000. Management has established a log that supervisors must sign each month to indicate compliance. Senior claims management will conduct regular follow up to ensure compliance with ORM policy.

The contact person for this finding is Ann Wax.

Sincerely,



J. S. "Bud" Thompson, Jr.
State Risk Director