

DEPARTMENT OF LABOR
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MARCH 30, 2005

**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. Three copies of this public document were produced at an approximate cost of \$7.47. 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.state.la.us. When contacting the office, you may refer to Agency ID No. 3352 or Report ID No. 04502054 for additional information.

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 225/339-3800.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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BATON ROUGE, LOUISIANA 70804-9397

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March 15, 2005

DEPARTMENT OF LABOR
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, 2004, we considered the Department of Labor's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Department of Labor is not audited or reviewed by us, and, accordingly, we do not express an opinion 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 opinions.

In our prior management letter on the Department of Labor, dated February 26, 2004, for the year ended June 30, 2004, we reported findings relating to Louisiana employers overcharged for the Workforce Development Training Account (WDTA), deficient memorandums of understanding, inaccurate and incomplete annual fiscal report, noncompliance with the state's movable property regulations, and unallowable membership dues. The findings concerning the employer overcharges for the WDTA, noncompliance with the state's movable property regulations, and unallowable membership dues have been resolved by management. The findings relating to deficient memorandums of understanding and inaccurate and incomplete annual fiscal report have not been resolved and are addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2004.

Fraudulent Travel Reimbursements

On September 29, 2004, the Department of Labor notified the East Baton Rouge Parish District Attorney and the United States Attorney for the Middle District of Louisiana that a departmental employee apparently filed false travel expense reports and received travel reimbursements to which she was not entitled. The Division of Administration's Policy and Procedures Memorandum (PPM) 49, Travel Rules and Regulations, states that traveling expenses are limited to those expenses necessarily incurred by them in the performance of a public purpose. The PPM also states that whoever receives a reimbursement by means of false claim shall be subject to severe disciplinary action as well as being criminally and civilly liable within the provisions of state law.

The travel expense reports submitted by the employee show that in a 16-month period she traveled 84,279 miles in Louisiana using her personal vehicle. She received \$30,458 in travel reimbursements. The expense reports revealed inflated mileage from location to location, awkward and unusual travel paths, and other suspicious inconsistencies such as using the same odometer readings more than once and traveling more than 20 hours per day. The employee also claimed travel reimbursements for days that the daily sign-in sheets show that she was in her office in Baton Rouge. The department has determined that at least \$10,120 of the amount reimbursed appears to be fraudulent and thus is questioned costs. This employee resigned August 30, 2004.

This situation occurred because the employee's supervisor did not examine the travel reimbursement documentation before approving the expense reports as required by departmental policy. In addition, employees that processed the travel reimbursements did not question the suspicious inconsistencies.

Management of the department should review travel reimbursements over a set amount more thoroughly. Travel reimbursement reports from the Travel Management System should be examined periodically for unusual reimbursement amounts or mileage claimed. Management concurred with the finding (see Appendix A, page 1).

Inaccurate and Incomplete Annual Fiscal Report

For the second consecutive year, the Department of Labor did not submit an accurate and complete Annual Fiscal Report (AFR) for the Office of Workforce Development (OWD) to the Division of Administration by the prescribed due date. Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format for obtaining each agency's financial information. The Office of Statewide Reporting and Accounting Policy (OSRAP) designed an AFR to obtain this information and requires a signed affidavit from each agency that the financial statements present fairly the financial information of the agency. OSRAP uses the department's AFR during its compilation of the state's annual financial report. The completed AFR was due to OSRAP on August 30, 2004. Good internal control includes establishing formal written procedures for compiling financial information included in the AFR and developing an adequate review process to ensure that financial statements are accurately prepared and timely submitted.

The department's AFR for the OWD that was submitted on August 30, 2004, included the following errors:

1. Schedule 6-1 (Schedule of Revenues, Expenditures, and Changes in Fund Balance - Escrow Fund) overstated the ending balance by \$41,260 because of mathematical errors.
2. Schedule 8 (Schedule of Expenditures of Federal Awards) total disbursements were understated by \$1,811,822. An amended schedule was submitted to OSRAP on September 10, 2004, or 10 days after the due date.
3. Schedule 8-4 (Schedule of Non-State Agency/University Subrecipients of Major Federal Programs) and Schedule 8-5 (Schedule of State Agency/University Subrecipients of all Federal Programs) were not accurate because they included expenditures for only 11 months.
4. The Deposits with Financial Institutions note was incomplete. The agency did not include the balance per agency books as required by OSRAP. In addition, the note excluded the Employment Security Administration Account bank account balance that belonged to OWD and included a bank account balance that belonged to the Unemployment Insurance Trust Fund for a difference of \$23,159.
5. The Judgments, Claims, and Similar Contingencies note reported the amount of disallowed (settlement) costs at \$24,342,494 and the amount of claims and litigation costs incurred during the current year at zero. The correct amounts were \$1,095,296 and \$275,074, respectively.
6. The Cooperative Endeavors note reported contracts totaling \$78,715,654. Based on departmental records, the amount reported was overstated by \$11,979,462 because it included \$1,288,325 for contracts that had ended before June 30, 2004, and \$10,691,137 for contracts that started after June 30, 2004.

Management has not placed sufficient emphasis on ensuring that the AFR is properly prepared and reviewed for errors or omissions. Failure to submit an accurate and timely AFR to OSRAP could delay the compilation and issuance of the state's Comprehensive Annual Financial Report (CAFR) and result in a misstatement of the state's CAFR.

Management should develop procedures to include written instructions and high-level supervisory review of financial information and note disclosures to detect and correct errors before submitting information to OSRAP. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 2).

**Insufficient Monitoring of Workforce
Investment Act Subrecipients**

The Department of Labor did not adequately monitor subrecipients for compliance with federal laws and regulations. The Code of Federal Regulations [20 CFR 667.410(b)(2)] requires the department's monitoring system to provide for annual onsite monitoring reviews, including monitoring fiscal and administrative functions, of subrecipients' compliance with the department's uniform administrative requirements.

As part of the monitoring process, the department's monitors are instructed to compare the subrecipients' expenditure reports to their accounting records. An expenditure report is a subrecipient's certification of the monthly expenditures for a particular federal program by grant year and supports the amounts reimbursed to the subrecipient. A test of six subrecipient monitoring reviews, including approximately 500 Workforce Investment Act (WIA) subrecipient expenditure reports, disclosed the following:

- Two (33%) of the monitoring reviews did not examine any WIA subrecipient expenditure reports.
- Four (66%) of the monitoring reviews examined only one or two of the WIA subrecipient expenditure reports for the review period.

Since the department's management did not stress the importance of performing the comparison procedure, the monitors did not ensure that the subrecipients' accounting records supported the expenditure reports submitted to the department.

The monitors should review a sufficient number of monthly WIA subrecipient expenditure reports to ensure that the accounting records support the expenditure reports submitted. Management concurred in part with the finding and has outlined a corrective action plan (see Appendix A, page 3).

Deficient Memorandums of Understanding

For the second consecutive year, the Department of Labor has executed Memorandums of Understanding (MOUs) that do not meet WIA regulations (20 CFR 662.300) and has not fully implemented all MOUs. Entities (One-stop partners) responsible for administering separate workforce investment, educational, and other human resource programs coordinate to create a seamless system of service delivery that addresses the needs of employers and job seekers. The Code of Federal Regulations requires that an MOU be developed and executed between the One-stop partners relating to the operation of the One-stop delivery system in the local area. The MOU must specify the services to be provided through the One-stop delivery system and the funding of the services and the operating costs of the system. The Code [20 CFR 662.100(d)] states that the One-stop delivery system must have at least one comprehensive center and may also have affiliated sites that can provide one or more partners' programs, services, and activities at each site. Furthermore, the Code (20 CFR 662.270) states that each partner must contribute a fair

share of the operating costs of the One-stop delivery system that is proportionate to its use.

A review of six of 18 MOUs disclosed the following:

- For three MOUs (50%), only the One-stop centers were listed. The MOUs did not include the entire One-stop delivery system that consists of the One-stop center, affiliated sites, and linked sites.
- For two MOUs (33%), the cost allocation plan (CAP) had not been implemented or was only partially implemented. A CAP is the part of the MOU that is used to allocate operating costs proportionately between each partner.
- For all six MOUs (100%), the department had not received documentation for the total actual costs incurred for the One-stop centers. As a partner, the department's management should review this information for compliance with the MOUs.

Because the department failed to ensure that the MOUs contained all required information and were fully implemented, some federal programs that are paying the operating costs of the One-stop delivery systems may be paying an unfair share of the costs.

Management of the department should ensure that all MOUs for the WIA One-stop delivery systems contain all the required information and that the related cost allocation plans are fully implemented. Management concurred with the recommendation but does not concur with the finding because the requirements cited are not mandated by federal law (see Appendix A, pages 4-5).

Additional Comment: We believe that the requirements cited are mandated by federal law. The WIA of 1998 (Public Law 105-220) authorizes the Secretary of the U.S. Department of Labor to prescribe rules and regulations to administer the program and ensure compliance with the WIA's requirements. These rules and regulations are established in the Code of Federal Regulations under Title 20, sections 660 through 671, and have the force of law.

Noncompliance With Cost Allocation Plan

The Department of Labor did not perform quarterly reconciliations of overhead costs between its cost allocation system and the state accounting system as required by the department's cost allocation plan (CAP) approved by the U.S. Department of Labor. The CAP also requires the department to reallocate these overhead costs so that the overhead rate is uniform for all federal grants at fiscal year-end. The CAP requires this reallocation to be done no later than August 14 of each year.

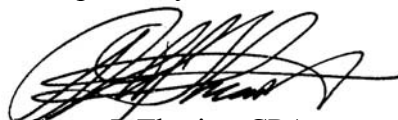
At June 30, 2004, the department's cost allocation system and the state accounting system did not reconcile by \$1,007,180 and the amount of overhead costs requiring reallocation among the department's federal programs totaled \$1,028,070. Although none of the required quarterly reconciliations were performed, the department did reconcile its overhead costs for fiscal year 2004 on September 10, 2004. However, the department did not reallocate overhead costs among its federal programs until October 2004. By not performing the required reconciliations and reallocating overhead costs timely, the department is in noncompliance with its federally approved CAP.

Management of the department should perform quarterly reconciliations of the department's cost allocation system and the state accounting system and should reallocate overhead costs among federal programs by August 14 of each year as required by its approved CAP. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 6).

The recommendations in this letter 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 letter is intended 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 letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

BL:STD:THC:dl

DOL04

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



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

December 3, 2004

OFFICE OF THE SECRETARY

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

Dear Mr. Theriot:

Please accept this as our written response to your letter regarding **Fraudulent Travel Reimbursements**. The department concurs with the finding.

The Department of Labor, Office of Workforce Development, discovered possible fraudulent activities of one of its employees. The LDOL Internal Audit (IA) Unit investigated the alleged fraudulent transactions and forwarded its report to the Louisiana Legislative Auditor and the East Baton Rouge Parish District Attorney's office for investigation and/or prosecution. The LDOL/OWD management team has emphasized the importance of every supervisor's responsibility to thoroughly review and monitor all staff travel authorizations and expense reports.

If you have any questions or would like additional information, please contact Benny Soulier at 342-3110.

Sincerely,

John Warner Smith
Secretary



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

December 3, 2004

OFFICE OF THE SECRETARY

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

Dear Mr. Theriot:

The Department of Labor concurs with the finding entitled **Inaccurate and Incomplete Annual Fiscal Report**.

The fiscal staff will prepare reconciliation worksheets quarterly and conduct periodic meetings to ensure that the information in the ISIS accounting system at June 30 is more accurate and that no major adjustments will be necessary. Preparation of the financial report will begin in July to allow more time for review and corrections before submitting the report. Management will review the reports more carefully to ensure accuracy.

If you have any question or would like additional information, please contact Benny Soulier at 342-3110.

Sincerely,

John Warner Smith
Secretary



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

December 3, 2004

OFFICE OF THE SECRETARY

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

Dear Mr. Austin:

Please accept this as our written response to your letter regarding **Insufficient Fiscal Monitoring of WIA Sub recipients**. The Department of Labor concurs in part with the auditor's finding.

The monitoring review process requires that subrecipient expenditure reports be sampled. Although the monitoring unit ordinarily reviews subrecipient expenditure reports, the monitoring reports did not include any evidence or documentation to show that a review was conducted. The monitors have been directed to expand their monitoring reports to include a specific section on fiscal monitoring.

The Monitoring Unit will also increase the number of expenditure reports reviewed during each monitoring event. At a minimum, the monitor will review all expenditure reports for one month during the review period and a financial analysis will be included as part of the monitoring report.

If you have any questions or would like additional information, please contact Benny Soulier at 342-3110.

Sincerely,

John Warner Smith
Secretary



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

December 3, 2004

OFFICE OF THE SECRETARY

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

Dear Mr. Theriot:

Please accept this as our written response to your letter regarding the **Deficient Memorandums of Understanding (MOUs)**. The department concurs with the auditor's recommendations for strengthening the MOUs. However, we disagree with the auditor's finding that the agreements do not comply with Workforce Investment Act (WIA) regulations since none of the requirements cited by the auditor are mandated by federal law.

The agency has an MOU checklist that requires a listing of affiliated and linked sites that provide benefits and share costs with the one-stop partners. However, those linked and affiliated sites, which are staffed entirely by one of the partners and merely provide only electronic connection and referral to the others, may not be included in a CAP as no costs are shared.

While it is noted that CAPs had not been implemented, or only partially implemented in some of the MOUs, this problem is addressed through the requirement of quarterly MOU and CAP reviews by the Local Workforce Area as noted in LDOL Instruction No. 75, attached. Further, new CAPs will continue to be executed as affiliated sites begin participating in the sharing of services and benefits.

Each LWIA has an assigned Program Advisor who receives the signed statement from the One Stop Operator concerning the CAP and ensures that documentation exists for the total cost incurred for the operation of the center.

If you have any questions or would like additional information, please contact Benny Soulier at 342-3110.

Sincerely,

John Warner Smith
Secretary



November 18, 2004

WORKFORCE INVESTMENT ACT
INSTRUCTION NUMBER 75

TO: All LWIA Areas
FROM: Larry St. Amant, Assistant Secretary
SUBJECT: Required Quarterly Reviews of Memorandums of Understanding and Cost Allocation Plans

Section I-4-8 of the July 2002 One-Stop Comprehensive Financial Management Technical Assistance Guide concerning reconciliation and adjustment process states:

“At a minimum, this reconciliation and adjustment process should be conducted on a quarterly basis to coincide with the Federal financial reporting requirements. It is best to reconcile both the cost allocation process and the resultant adjustments to resource sharing at the same time.”

It is therefore incumbent upon us to insure that such review and modification to both the Cost Allocation Plans (CAPs) and Memorandum of Understanding (MOUs) if such are determined to be necessary based on expenditures occur. In order to insure such action takes place, a signed quarterly statement from the Workforce Investment Board Director or Chief Elected Official will be required for MOUs along with a similar statement signed by the One-Stop Lead Agency Manager concerning any CAPs. A copy of each statement should be maintained by the local area, with the original provided to the assigned Program Advisor for review and forwarding to the Office of Workforce Development Manager. Should a change to the CAP or MOU be required, a copy of such change will suffice for the required letter. This information must be provided to your program advisor by the fifteen working day of the second month following each quarter change.

Quarter changes are as follows: First quarter ends September 30 with report due in November. Second quarter ends December 31 with report due in February. Third quarter ends March 31 with report due in May. Fourth quarter ends June 30 with report due in August.

LS:GD:CS:jr



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanc
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

February 3, 2005

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

Dear Mr. Theriot:

Please accept this as our written response to your letter regarding the audit finding entitled **Noncompliance with Cost Allocation Plan**.

We concur with the finding. The fiscal staff will be preparing allocation reconciliation worksheets quarterly to ensure that the information in the ISIS system at June 30 is more accurate and that no major adjustments will be needed. The reconciliation for December 2004 should be completed this week. Monitoring allocation in this manner will enable the unit to have time during the forty-five day closing period to analyze the Administrative Services and Technology cost and make the equalization adjustment to all programs in the agency.

If you have any questions or would like additional information, please contact Benny Soulier at 342-3110.

Sincerely,

John Warner Smith
Secretary of Labor

JWS/BS/GS