

# STATE OF LOUISIANA

**Public Safety Services**  
**Department of Public Safety and Corrections**  
**State of Louisiana**  
Baton Rouge, Louisiana

December 24, 2003



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**LEGISLATIVE AUDITOR**

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

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**PUBLIC SAFETY SERVICES**  
**DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

Management Letter  
Dated December 9, 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.

December 24, 2003



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December 9, 2003

**PUBLIC SAFETY SERVICES  
DEPARTMENT OF PUBLIC SAFETY  
AND CORRECTIONS  
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, 2003, we considered the Department of Public Safety and Corrections, Public Safety Services' 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 department'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 Reports of the Department of Public Safety and Corrections, Public Safety Services are 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 financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Public Safety and Corrections, Public Safety Services for the year ended June 30, 2002, we reported findings relating to ineffective internal audit function, lack of verification of time and attendance, lack of a written disaster recovery plan, and theft of funds. The findings relating to verification of time and attendance, lack of a written disaster recovery plan, and theft of funds have been resolved by management. The finding relating to ineffective 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. 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, 2003.

**Ineffective Internal Audit Function**

For the third consecutive year, the Audit Services Section of the Department of Public Safety and Corrections, Public Safety Services did not conduct a sufficient number of audits to be considered an effective internal audit function. The internal audit function should provide management with assurances that assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations, and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner. Although the Audit Services Section conducted

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### **PUBLIC SAFETY SERVICES DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS STATE OF LOUISIANA**

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limited audits within the department, the number and scope of audits were not sufficient to constitute an effective internal audit function. Considering the department's reported assets (\$76,125,432) and the revenues it collects (\$1,145,808,510), an effective internal audit function is needed to ensure that the department's assets are safeguarded and that management's policies and procedures are uniformly applied.

The department should take the necessary steps to ensure that the Audit Services Section conducts a sufficient number of audits by either reallocating or increasing available internal audit resources or by pursuing other alternatives to accomplish this objective. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

#### **Inadequate Auditing of Casino Revenue Internal Controls and Financial Data**

During fiscal year 2003, the Gaming Audit Division of the Department of Public Safety and Corrections, Office of State Police did not conduct all critical internal control and financial audits of the state's casino licensees and did not always review those that were conducted in a timely manner. Louisiana Revised Statute 27:20 authorizes the Office of State Police to conduct audits to assist the Louisiana Gaming Control Board (board) in determining compliance with all gaming laws, rules, and regulations on gaming activities and operations under the board's jurisdiction. Furthermore, the Office of State Police shall perform all other duties and functions necessary for the efficient, effective, and thorough regulation and control of gaming activities and operations under the board's jurisdiction.

The Gaming Audit Division (division) has designed and established critical audit inspections of specific casino internal controls and financial data that, if performed, will provide adequate assurance that license and franchise fees remitted by the casino licensees to the State of Louisiana are accurate and complete. Our review of the division's internal control and financial data inspections during fiscal year 2003 included the riverboat casinos in the Shreveport/Bossier, Lake Charles, Baton Rouge, and New Orleans areas, as well as the New Orleans land-based casino. Although the division's inspections in Lake Charles and Baton Rouge were conducted and reviewed timely, our review disclosed that the division did not conduct 33 out of 78 (42%) critical inspections on the New Orleans riverboat casinos, 11 out of 26 (42%) critical inspections on the New Orleans land-based casino, and 28 out of 130 (22%) critical inspections on the Shreveport riverboat casinos. Furthermore, we noted that 17 of 153 (11%) critical and other inspections conducted on the New Orleans riverboat casinos were not reviewed by the audit supervisor until 60 to 123 days after the completion date of the inspection.

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AND CORRECTIONS  
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Failure to conduct and review all critical audit inspections reduces the division's effectiveness in assisting the board in its determination of the casino licensees' compliance with gaming laws, rules, and regulations and increases the risk that license and franchise fees remitted to the State of Louisiana will be inaccurate and incomplete.

Management should develop and implement a comprehensive system that will ensure the completion and timely review of all critical audit inspections. Management concurred in part with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 2-4).

**Additional Comments:** The division is charged with the responsibility to perform all duties and functions necessary for the efficient, effective, and thorough regulation and control of gaming activities and operations. To fulfill this charge, the division established a comprehensive system to ensure completion and timely review of audit inspections. The audit manager of the division identified for us those inspections that the division considers critical for ensuring that license and franchise fees are accurate and complete. We concurred with his assessment.

While we recognize management's privilege to exercise professional judgment in conducting its audit inspections, the extent of critical inspections that were not performed in fiscal year 2003 was significant. In addition, the audit manager was not aware of the magnitude of the deficiencies and did not begin taking corrective action until we brought it to his attention. Management is responsible for monitoring its staff's needs and providing the personnel needed for conducting the inspections.

A significant number of critical inspections directly relate to the fair presentation of license and franchise fees on the department's annual fiscal report. Therefore, it is imperative that the division complete those inspections within the established time frame to reduce the risk of inaccurate and incomplete reporting.

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.

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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,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

MMG:WDD:THC:ss

[DPS-PSS03]

## Appendix A

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



# Department of Public Safety and Corrections

## Public Safety Services

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

CHRISTOPHER A. KEATON  
UNDERSECRETARY

DPS-02-469  
August 20, 2003

Mr. Grover C. Austin, CPA  
First Assistant Legislative Auditor  
State of Louisiana  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

The following is our official response to the audit finding "Ineffective Internal Audit Function" as well as our proposed corrective action plan.

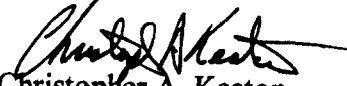
The Department of Public Safety concurs with your finding that we did not conduct a sufficient number of audits to be considered an effective internal audit function. This is due to the staff reductions that have occurred over the last several years. Additional audit resources are needed. The audit finding should not be read to imply that the audits performed are ineffective. We feel the audits performed are effective. Due to limited internal audit resources, we are not able to conduct as many audits as we would like.

We have chosen to audit the activities with the greatest potential for harm to the department and the state, those where a majority of the revenues are collected, in the Office of Motor Vehicles. The department feels that we do have proper procedures and internal controls in place that are operating within applicable laws and regulations. Specific efforts are dedicated to ensure that the internal audit staff is extensively involved in any procedures that ultimately safeguard the state's resources.

The department's corrective action plan will once again include a request for additional internal audit positions. We have, in prior years requested additional staffing through the budget process but have not been successful in that effort. Our budget request for fiscal year 2004-05 will include a request for 4 additional internal audit positions.

If you should have any questions or need further information, please feel free to contact me.

Sincerely,

  
Christopher A. Keaton  
Undersecretary



# Department of Public Safety and Corrections

## Public Safety Services

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

CHRISTOPHER A. KEATON  
UNDERSECRETARY

DPS-02-489

November 12, 2003

Grover Austin, CPA  
First Assistant Legislative Auditor  
State of Louisiana  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

The following is our official response to the audit finding "Inadequate Auditing of Casino Revenue Internal Controls and Financial Data" as well as our proposed corrective action plan.

The Department of Public Safety concurs in part with the Legislative Auditors' finding and recommendation. The Department concurs with the statement that the Gaming Audit Section of the Department of Public Safety and Corrections, Office of State Police did not complete certain inspections in accordance with the timeline, and did not review some New Orleans inspections timely. Conversely, the Department does not concur that the Gaming Section inadequately audited the Casino Revenue Internal Controls and Financial Data. Further, the Department does not concur with the statement that the Gaming Section identified certain inspections as critical. The Legislative Auditors' identification of certain inspections as "critical" implies it is absolutely necessary that the section complete 100% of these inspections within the timeline. While the section places more emphasis on certain inspections, it is not critical that the section conduct all these inspections according to the timeline. Therefore, the Department does not concur with the conclusion that all inspections must be performed in strict adherence to the timeline to provide reasonable assurance that the licensees' and casino operator's license and franchise fees (state revenues) are accurate and complete.

Failure to conduct all inspections in the audit program in accordance with the timeline alone may impact the section's effectiveness in assisting the Board in determining if state revenues are accurate and complete. Alternatively, rote performance of all inspections does not necessarily provide reasonable assurance that state revenues are accurate and complete. Therefore, as the section identifies areas of weakness, it is necessary to tailor inspections and the timeline to provide reasonable assurance of the accuracy and completeness of state revenues. The audit section's in-depth knowledge of the licensees' past operational and financial performance, management philosophy, and their adherence

to internal controls allows audit supervisors to exercise professional judgment in modifying audit inspections.

Shreveport's staffing levels affected the section's ability to perform all audit inspections in accordance with the timeline. Therefore, based on historical data and past performance, the audit supervisor adjusted the timeline and inspections to obtain the highest degree of reasonable assurance that the licensees accurately and completely reported license and franchise fees. Due to the nature of the Louisiana Integrated Gaming History Tracking System (LIGHTS) to General Ledger and Net Win inspections, the Shreveport Audit Supervisor tailored the timeline to conduct them by calendar year end, and outlined her projected plan to perform these inspections to the Legislative Auditor in July 2003. The Legislative Auditors acknowledged that the Shreveport Audit Supervisor tailored the audit inspection timeline to achieve the highest degree of reasonable assurance possible with the given staff levels.

Due to resignations, illness, and an inability to recruit qualified candidates, the New Orleans office operated understaffed for the majority of the fiscal year. These factors contributed to a low number of inspections performed in New Orleans; however, in some instances, the New Orleans auditors perform additional audit procedures. For example, they do not just observe the drops; they also reconcile the drops observed to the actual Gaming Revenue Summary and the amount actually posted to the licensee's general ledger.

It is not critical that the auditors observe drops and counts every month to determine reasonable assurance that the licensees' and casino operator's license and franchise fees are accurate and complete. It is not critical that the section perform all LIGHTS to General Ledger inspections and daily fee tie out inspections within the timeline. Drop and count inspections require real time observation, unless performed by reviewing surveillance tapes. There are no such constraints when conducting LIGHTS to General Ledger and daily fee tie out inspections; it is easy to conduct these inspections in future periods. Further, the independent CPA's provide additional assurance that the license and franchise fees are accurate and complete through their quarterly net win reconciliations.

### **Corrective Action**

Management developed and implemented a comprehensive system to ensure completion and timely review of audit inspections in 1999 by increasing the number of supervisors, and putting supervisors in all field offices. The system works, except under unusual circumstances. During this past fiscal year, staffing level fluctuations diminished the system's usual effectiveness. To counter these effects in New Orleans, the section increased management input and management oversight in the New Orleans office, and reemphasized the importance of timely review. Since one New Orleans supervisor is out for the remainder of the calendar year, the audit manager is utilizing auditors from other field offices to conduct certain outstanding inspections.

The Gaming Audit Section is currently conducting interviews in New Orleans and Shreveport to increase audit personnel. The section plans to conduct interviews in Baton Rouge and Lake Charles in the near future. Civil Service's recent reassessment of the salary structure of audit positions should serve to enhance the section's ability to recruit and retain qualified candidates. These factors should increase the audit section's ability to perform the scheduled audit inspections and provide for their timely review.

If you should have any questions or need further information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher A. Keaton", with a long horizontal flourish extending to the right.

Christopher A. Keaton  
Undersecretary