DEPARTMENT OF LABOR
STATE OF LOUISIANA

LOUISIANA
LEGISLATIVE
AUDITOR

MANAGEMENT LETTER
ISSUED APRIL 19, 2006

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

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.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3352 or Report ID No. 05401598 for additional information.

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

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

April 4, 2006

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, 2005, 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 Reports of the Department of Labor are not audited or reviewed by us, and, accordingly, we do not express an opinion on those 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 Labor for the year ended June 30, 2004, we reported findings relating to fraudulent travel reimbursements, inaccurate and incomplete annual fiscal report, insufficient monitoring of Workforce Investment Act subrecipients, deficient memorandums of understanding, and noncompliance with the department's cost allocation plan. The finding on insufficient monitoring of Workforce Investment Act subrecipients has not been resolved and will be addressed in this report. The remaining findings have been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. The 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, 2005.

Noncompliance With Established Internal Controls Over Time and Attendance

The Department of Labor (DOL) has not fully enforced its established policies and procedures to ensure that time and attendance records are certified and approved, that leave taken is adequately supported by approved leave slips, and that employee time and attendance is entered accurately and adequately supported for the Unemployment Insurance Program (UI - CFDA 17.225). Civil Service Rule 15.2 requires classified employees and their supervisors to certify the number of hours of attendance or absence from duty on the time and attendance records. Furthermore, Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 8(h), states that payroll costs charged to federal programs are to be documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official of that governmental unit.

In our test of 20 employee records, we noted the following instances of noncompliance:

- Hours entered in the payroll system did not agree with time sheets for six employees (30%).

- Leave entered in the payroll system did not agree with the time sheets for three employees (15%), one of whom was the timekeeper.

- Three time sheets (15%) were not approved by the employees' supervisors.

- Supporting documentation for time entered in the payroll system was not kept by the timekeeper for four employees (20%).

Failure to ensure that documentation supporting payroll costs is adequate subjects the department to noncompliance with federal regulations and may result in federal questioned or disallowed costs. In addition, DOL has not complied with state regulations for maintaining adequate support for time and attendance, and errors and/or fraud could occur and not be detected timely.

DOL management should enforce and monitor its established procedures to ensure compliance with the requirements of OMB Circular A-87 and with civil service rules and regulations. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 1).

Unlocated Movable Property

DOL identified unlocated movable property items totaling $670,760 as a result of physical inventory procedures, and the department has not maintained accurate records of property items' locations. In its certifications of property inventory, which were submitted to the Louisiana Property Assistance Agency (LPAA) from March 4, 2005, through June 10, 2005, the department reported that it administers $15,270,565 in total movable property.

Louisiana Revised Statute 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets be properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted.

Of the amount reported as unlocated, items totaling $50,361 were removed from the property records because they had not been located for three consecutive years. Also, the amount of unlocated computers and computer-related equipment totaled $580,740 or 86.6% of the unlocated property reported. Furthermore, our test of 25 property items disclosed that nine of the items were not in their locations as indicated in the property records.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the department to noncompliance with state laws and regulations. Because of the nature of the services provided by the department, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

DOL management should strengthen its procedures for conducting the physical inventory of movable property and devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 2).

Inadequate Subrecipient Monitoring for Workforce Investment Act Cluster

For the second consecutive year, DOL did not adequately monitor subrecipients of the Workforce Investment Act (WIA) Cluster (CFDA 17.258, 17.259, and 17.260) for compliance with federal laws and regulations. The Code of Federal Regulations, 20 CFR 667.410(b)(2), requires that the department's monitoring system provide for annual onsite reviews of subrecipients' compliance with the department's uniform administrative requirements and include reviews of the subrecipients' fiscal and administrative functions.

DOL has developed a subrecipient monitoring guide and requires that it be used by staff performing the reviews. In addition, the guide requires supervisory review of the review working papers upon their completion. As a part of the monitoring process, the department's monitors are instructed to compare 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.

Our test of the working papers for eight of the department's reviews of subrecipients disclosed the following:

- Seven reviews (88%) did not include documentation indicating that the department had tested all of the applicable compliance requirements.

- Six reviews (75%) did not indicate that the reviewers used the WIA subrecipient expenditure reports, which are submitted to the department, for the tests.

- Six reviews (75%) did not include a reconciliation of the WIA subrecipient expenditure reports to the subrecipients' accounting records for the review period.

- Four reviews (50%) did not include documentation that the reviews considered the size of the awards, the complexity of compliance requirements, internal control, or the scope and results of audits conducted in accordance with OMB Circular A-133 as risk factors in developing the monitoring procedures.

Management has not ensured that its staff are adequately performing and documenting subrecipient reviews. Failure to adequately monitor subrecipients and document subrecipient reviews increases the risk of noncompliance with federal laws and regulations applicable to the WIA Cluster programs and increases the risk that funds may not be expended in accordance with program requirements.

DOL management should ensure that all reviews of subrecipients are complete and adequately documented to ensure its compliance with the WIA Cluster requirements. Management concurred in part with the finding and recommendation and outlined a corrective action plan (see Appendix A, pages 3-4).

Inadequate Subrecipient Monitoring for the Temporary Assistance for Needy Families Program

DOL has not performed adequate monitoring reviews of its subrecipients of the STEP Program, a sub-program of the Temporary Assistance for Needy Families Program (TANF - CFDA 93.558). In accordance with OMB Circular A-133 and the memorandum of understanding (MOU) between DOL and the Department of Social Services (DSS), DOL is required to conduct an annual onsite review of its subrecipients that carry out the STEP Program activities. These reviews should include all applicable OMB Circular A-133 compliance requirements and all program and administrative requirements of the MOU.

However, the department's STEP Program subrecipient monitoring procedures do not include tests to ensure that:

- Subrecipient activities, including specific TANF requirements outlined in the MOU, are allowed as required by OMB Circular A-133 and the MOU.

- Subrecipient cash management is tested to ensure that funds are not drawn prior to services being delivered or expenditures being incurred as required by OMB Circular A-133 and the MOU.

- MOU job readiness requirements concerning participant performance, the core curriculum, physical resources, staffing, and workshop room size criteria are met.

Failure to adequately monitor STEP subrecipients results in the department's noncompliance with federal regulations and with the MOU and increases the risk that funds may not be expended in accordance with program requirements.

DOL management should establish subrecipient monitoring procedures for the STEP Program that include all applicable requirements of OMB Circular A-133 and the MOU between DOL and DSS. Management concurred in part with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 5).

Noncompliance With Cash Management Improvement Act

DOL recertified the check clearance pattern for the Unemployment Insurance Program (UI - CFDA 17.225) without testing and verifying the accuracy of the pattern, which is required under the Cash Management Improvement Act (CMIA). The Code of Federal Regulations, 31 CFR 205.22(b), requires that an authorized state official must certify that a clearance pattern corresponds to the clearance activity for a specific federal program and the official must recertify the accuracy of a clearance pattern every five years. The requirements of 31 CFR 205.22 have been incorporated into the Treasury State Agreement (TSA) between the U.S. Department of the Treasury and the State of Louisiana, to include the UI Program.

During our tests of the CMIA, we determined that under the TSA, the state is required to recertify the clearance pattern for the UI Program effective for the fiscal year ended June 30, 2005. However, our tests disclosed that the department recertified its UI clearance pattern to the Division of Administration, who is responsible for ensuring the state's compliance with the TSA, without retesting the pattern as required in the CFR and TSA. After we brought the matter to DOL's attention, management retested the clearance pattern. Management's tests, conducted subsequent to the fiscal year-end, indicated that the UI clearance pattern had changed, increasing the number of days over which checks clear.

Failure to retest the UI clearance pattern before recertification results in noncompliance with federal regulations and the TSA and subjects the state to potential interest charges for funds drawn using an inaccurate clearance pattern.

DOL management should establish controls to ensure that the UI clearance pattern is tested and recertified as required by 31 CFR 205.22 and the TSA. Management should contact the Division of Administration to calculate any interest charges due as a result of DOL's failure to retest the UI clearance pattern and its subsequent use of an inaccurate clearance pattern. Management concurred with the finding and recommendation and is waiting on the Division of Administration's approval of its new clearance pattern (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 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. The findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter 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 letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

BSL:CGEW:THC:ss

[DOL05]

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

OFFICE OF THE SECRETARY

February 24, 2006

Mr. Steve J. Theriot, CPA
Legislative Auditor, State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804

Dear Mr. Theriot:

In response to the audit finding regarding Noncompliance with Established Internal Controls Over Time and Attendance, we concur with this finding.

This agency has consistently worked to rectify timekeeping errors. Extensive training is given to timekeepers, and the human resource staff runs several reports prior to the processing of the payroll to identify obvious errors.

As your finding indicated, this finding is a result of persons not following agency prescribed procedures.

The Department will implement the following corrective measures:

1. Eliminate negative time entry. This will require every time keeper to enter every single hour worked as well as the correct leave taken.

2. Periodically, self audit various problem cost centers to identify inadequacies such as missing time sheets or leave not recorded properly.

3. Since all time sheets are no longer received in our Administrative Office, we will require bi-weekly certification from supervisors to Human Resources that they have reviewed the time and attendance as reported to the timekeeper. This will serve as a reminder as well as a basis for an additional step to certify that time has been properly reviewed.

4. We will work with the Office of State Uniform Payroll to ensure that we comply with state regulations.

We intend to implement all of these changes fully before June 30, 2006. If you require additional information, please let us know.

Sincerely,

John W. Smith

John Warner Smith
Secretary of Labor

1001 North 23rd Street • Post Office Box 94094 • Baton Rouge, LA 70804-9094
Phone 225-342-3011 • fax 225-342-3778 • www.LAWORKS.net

LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

February 24, 2006

Mr. Steve J. Theriot, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804

RE: Response to Audit Report

Dear Mr. Theriot:

The following is a response to the audit finding "Unlocated Movable Property" as presented by the Legislative Auditor.

The Department concurs with the finding and has initiated immediate corrective action.

To date, $71,232.84 of the unlocated movable property submitted in the report to the Louisiana Property Assistance Agency (LPAA) has been located. The Office of Management and Finance is committed to the protection of the agency's assets and maintaining our integrity with regard to the LPAA guidelines as set forth in state law. The agency has begun to address the deficiencies in the controls by formulating and implementing a new Tagged Property Asset Management Policy that outlines specific timelines and steps for handling all movable property transfers and will continue to do so by implementing any additional controls necessary to assure accurate accounting of this agency's entire inventory.

Sincerely,

John Warner Smith
Secretary of Labor

1001 North 23rd Street • Post Office Box 94094 • Baton Rouge, LA 70804-9094
Phone 225-342-3011 • fax 225-342-3778 • www.LAWORKS.net

LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

February 24, 2006

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:

This is in response to Mr. Steve J. Theriot's letter of January 30, 2006, concerning your office's audit of the Louisiana Department of Labor's Workforce Investment Act (WIA) program. We have undertaken significant improvements in our monitoring program during the past year. These include implementation of an extensive subrecipient risk evaluation used to plan reviews, and improvements made in our review process. Actions to accomplish these improvements will be coordinated by Ms. Claudette Nickerson, WFD Manager 1.

While we generally concur with the audit finding regarding inadequate monitoring, we have addressed the specific issues as follows:

- The monitors did utilize the OMB Circular A-133 with the exception of the Cash Management Section with respect to Pass-Through Entities, which was a routine practice of the unit. However, we concur in part that this compliance requirement was not tested. The monitors were instructed in a meeting conducted on August 10, 2005, to test this section of the circular in the future. Additionally, this section has been updated to ensure it receives adequate emphasis.

- Although the proper report(s) were used to test the sub-recipient's expenditures, the monitors failed to obtain and note the exclusion of the initials, which resulted in expenditure reports being used that lacked the proper approval. We concur in part with this and specific instructions were given to the monitors during training on August 10, 2005 and October 24, 2005. The monitors were reminded and instructed again to obtain and utilize expenditure reports initialed by a member of the Fiscal Unit. If they are unable to obtain said reports, they are to advise their superior of the exclusion.

1001 North 23rd Street • Post Office Box 94094 • Baton Rouge, LA 70804-9094
Phone 225-342-3011 • fax 225-342-3778 • www.LAWORKS.net

- The monitor performed a cursory test of the subrecipients' expenditures. However, the test was not for one complete month, we concur with this finding. A spreadsheet was created and added to the OMB Circular 133 to match actual reported expenditures to actual book expenditures. Additionally, the monitors were instructed in a meeting conducted on August 10, 2005, and a conference call October 24, 2005, to select expenditure reports for a complete month of all Adult, Dislocated Worker, Youth and Administrative Costs.

- A formal risk assessment was conducted on all subrecipients' contracts and reviews were scheduled based on these undocumented assessments. We concur with this finding and agree that this process can be better documented. As a result of this finding, our monitors are now required to conduct and document a risk assessment of all subrecipients prior to and after each review. The information obtained will be the basis for scheduling future reviews.

In summary, we have made and continue to make improvements to our monitoring process based on our experiences and on input from others, including the Legislative Auditors. The process of continuous improvement is a necessary part of all activities carried out by the Louisiana Department of Labor.

We take our oversight responsibility serious and strive to correct all deficiencies identified. Based on the extent of our review process, the corrective actions we have taken in response to the auditor's finding, and the fact that the auditor did not identify in these findings any unallowable expenditure of WIA funds, we feel we have conducted adequate reviews.

Sincerely,

John W. Smith

John Warner Smith
Secretary

Enclosure

LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

February 23, 2006

OFFICE OF THE SECRETARY

Mr. Steve J. Theriot
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This is in response your letter of February 9, 2006, concerning the audit of the Louisiana Department of Labor's Strategies to Empower People (STEP) Program. The STEP monitoring tool has been revised with the inclusion of OMB Circular A-133.

While we generally concur with the audit finding regarding inadequate subrecipient monitoring, we have addressed the specific issues as follows:

- The monitors now utilize OMB Circular A-133 with the revised monitoring tool to test our subrecipient's activities, including specific TANF requirements outlined in the Memorandum of Understanding (MOU) between this department and the Department of Social Services. We concur with this finding and feel that the inclusion of the circular will ensure that funds are expended in accordance with program requirements.

- The subrecipient's cash management is now being tested with the inclusion of OMB Circular A-133 and the MOU to ensure that funds are not drawn prior to delivery of services or expenditures being incurred.

- Although the monitors did not test the subrecipient's MOU in its entirety, please note that in previous reviews, the physical resources, staffing and workshop room dimensions were included in the review process. Included in the revised monitoring tool are specifics to address the following job readiness components: participant performance, the core curriculum, physical resources, staffing, and workshop room size.

In summary, we will make every effort to improve our monitoring process based on our experiences and on input from others, including the Legislative Auditors. We take our oversight responsibility serious and strive to correct all deficiencies identified. I hope the above information satisfactorily resolves these findings.

If additional information is needed, please contact me.

Sincerely,

John Warner Smith
Secretary

JWS:BJS:cn

Enclosure

1001 North 23rd Street • Post Office Box 94094 • Baton Rouge, LA 70804-9094
Phone 225-342-3011 • fax 225-342-3778 • www.LAWORKS.net

LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

February 15, 2006

Mr. Steve J. Theriot, Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804

Dear Mr. Theriot:

We would like to offer the following response with regard to the audit finding "Cash Management Improvement Act" as presented by the Legislative Auditor.

We concur with the finding. As result of staffing issues, the position in charge of Unemployment Tax Accounting unit was vacant for a period of months prior to the end of the fiscal year. A manager was hired on May 16th, 2005 but was unaware of the obligation to update the check spread percentages by June 30, 2005 until the Legislative Auditor brought it to his attention in August 2005.

At that time the manager took immediate action to recalculate the percentages. Because of the Annual Financial Reports being due on August 29, 2005, as well as Hurricane Katrina shutting down state government for a period of days, the calculations were not sent to the Office of Statewide Accounting and Reporting (OSRAP) until September 2, 2005.

The program is not subject to prepare new spread calculations if the percentage of paper checks drops below 5%. The program is approaching that threshold. Thus, OSRAP has not approved the new percentages. The program is bound to continue using the old percentages until OSRAP either approves the new calculations or eliminates the requirement to use spread calculations. We have contacted the Division of Administration and are awaiting a response concerning whether the Department owes additional interest.

Subsequently, the Department has also change its method of payment thus further decreasing the percentage of paper checks that will clear. We anticipate that this will affect the determination of whether the Department will have to meet the requirement of yearly basis to assure that it is done. Therefore, every five years when it is required, it will be a part of normal year end procedures.

Sincerely,

John W. Smith

John Warner Smith
Secretary of Labor

JWS:DH

1001 North 23rd Street • Post Office Box 94094 • Baton Rouge, LA 70804-9094
Phone 225-342-3011 • fax 225-342-3778 • www.LAWORKS.net
An Equal Opportunity Employer/Program "Auxiliary aids and services are available upon request to individuals with disabilities" TDD#: 800-259-5154