

OFFICE OF RISK MANAGEMENT  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA



MANAGEMENT LETTER  
ISSUED DECEMBER 15, 2010

**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. Five copies of this public document were produced at an approximate cost of \$14.35. 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](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 8402 or Report ID No. 80100090 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, Administration Manager, at 225-339-3800.

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Our procedures at the Office of Risk Management (ORM) for the period July 1, 2009, through June 30, 2010, disclosed:

- For the sixth consecutive year, ORM does not have an effective internal audit function to ensure that assets are safeguarded and that management's policies and procedures are uniformly applied.
- The finding identified in the prior year report regarding inaccurate and incomplete annual fiscal report has been resolved by management.
- No significant control deficiencies or errors relating to our procedures on current and long-term claims liability, claims and litigation handled by ORM, annuities, and claims liability for state risk programs were identified.

We did not audit the Annual Fiscal Report of ORM; however, we did perform certain procedures in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States as part of our audit of the State of Louisiana's financial statements. This report is a public report and has been distributed to state officials. We appreciate ORM's assistance in the successful completion of our work.

### **Mission and Description**

ORM was created within the Division of Administration by Louisiana Revised Statute 39:1527, et seq., to provide a comprehensive risk management program for the state.

The mission of ORM is to develop, direct, achieve and administer a cost effective comprehensive risk management program for all agencies, boards and commissions of the State of Louisiana and for any other entity for which the state has an equity interest, to preserve and protect the assets of the State of Louisiana.

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

December 10, 2010

**OFFICE OF RISK MANAGEMENT  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements for the fiscal year ended June 30, 2010, we conducted certain procedures at the Office of Risk Management (ORM) for the period from July 1, 2009, through June 30, 2010.

- Our auditors obtained and documented an understanding of the ORM operations and system of internal controls through inquiry, observation, and review of the office's policies and procedures documentation including a review of the related laws and regulations applicable to the office.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using the office's annual fiscal reports and/or system-generated reports and obtained explanations from office management of any significant variances.
- Our auditors reviewed the status of all findings identified in the prior year engagement. In our prior report on ORM, dated March 22, 2010, we reported two findings relating to inaccurate and incomplete annual fiscal report and ineffective internal audit function.
- Our auditors considered internal control over financial reporting, examined evidence supporting ORM's current and long-term claims liability, claims and litigation handled by ORM, annuities, and claims liability for state risk programs, and 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 part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, in accordance with *Government Auditing Standards*.

- Our auditors prepared a Budgetary Comparison Schedule for ORM for the fiscal year ended June 30, 2010, using the Annual Fiscal Report of ORM and additional data in the Integrated Statewide Information System, the state's accounting system. This schedule is presented as additional information but has not been subjected to auditing procedures.

The Annual Fiscal Report of ORM was 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 financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, the prior year finding regarding ineffective internal audit function has been repeated in this report. The prior year finding on inaccurate and incomplete annual fiscal report has been resolved. We found no significant control deficiencies or errors relating to our analytical procedures or our procedures on the office's current and long-term claims liability, claims and litigation handled by ORM, annuities, and claims liability for state risk programs that should be communicated to management.

The following significant finding is included in this report for management's consideration.

#### **Ineffective Internal Audit Function**

For the sixth consecutive year, 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 40 of the 2009 Regular Session of the Louisiana Legislature requires ancillary agencies with budgets in excess of \$30 million to include within their existing tables of organization positions which perform the function of internal auditing. An effective internal audit function should identify high risk areas and evaluate and report on whether internal controls have been implemented to properly safeguard assets and prevent or detect errors and fraud.

The Internal Audit Section of the Division of Administration (DOA) is responsible for the internal audit function of 26 agencies under the DOA, including ORM. The audit administrator position of the DOA Internal Audit Section was vacant for approximately 5 months during fiscal year 2010. As a result, the Internal Audit Section did not prepare a detailed audit plan, perform risk assessments, or complete any internal audits at ORM. Considering ORM's reported assets of approximately \$79 million and revenues of approximately \$233 million, an effective internal audit function is important to ensure that assets are safeguarded and that management's policies and procedures are uniformly applied. Failure to provide an effective internal audit function increases the risk that errors and/or fraud could occur and remain undetected.

Management of DOA should continue to provide resources to and develop an effective internal audit function for all agencies within the division, including ORM, to ensure that assets are safeguarded and that management's policies and procedures are applied consistently in accordance with management's intentions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

The recommendation in this letter represents, in our judgment, that most likely to bring about beneficial improvements to the operations of ORM. The nature of the recommendation, its implementation cost, and its potential impact on the operations of the office should be considered in reaching decisions on courses of action.

This letter is intended for the information and use of ORM and its management, others within the entity, 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,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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ORM 2010

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\_\_\_\_\_ BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

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UNAUDITED

**ANCILLARY FUNDS  
AGENCY 804 - OFFICE OF RISK MANAGEMENT**

**Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2010**

**APPROPRIATED REVENUES:**

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$4,029,332		\$4,029,332	\$4,029,332	
Self-generated - ISF	160,984,564		160,984,564	162,434,001	(\$1,449,437)
Interagency transfers - ISF	215,624,505	\$568,757	216,193,262	232,083,166	(15,889,904)
Future medical care fund	623,558		623,558	10,000,000	(9,376,442)
<b>Total Appropriated Revenues</b>	<b>\$381,261,959</b>	<b>\$568,757</b>	<b>\$381,830,716</b>	<b>\$408,546,499</b>	<b>(\$26,715,783)</b>

**APPROPRIATED EXPENDITURES:**

	ADMINISTRATIVE	CLAIMS LOSSES AND RELATED PAYMENT	CONTRACT LITIGATION	DIVISION OF RISK LITIGATION	TOTAL
Salaries	\$6,844,242				\$6,844,242
Other compensation	247,937				247,937
Related benefits	2,208,543				2,208,543
Travel & training	75,053				75,053
Operating services	928,548				928,548
Supplies	59,392				59,392
Professional services	250,358	\$2,580,299			2,830,657
Other charges	746	316,773,641	\$11,770,596		328,544,983
Capital outlay	(1,120)				(1,120)
Interagency transfers	1,845,743	195,967		\$17,060,903	19,102,613
Total appropriated expenditures before adjustments	12,459,442	319,549,907	11,770,596	17,060,903	360,840,848
System adjustments		(296,366)	(1,227,919)		(1,524,285)
<b>Total Appropriated Expenditures</b>	<b>12,459,442</b>	<b>319,253,541</b>	<b>10,542,677</b>	<b>17,060,903</b>	<b>359,316,563</b>
Revised Budget	15,020,552	360,425,928	15,000,000	18,100,019	408,546,499
<b>Variance Favorable (Unfavorable)</b>	<b>\$2,561,110</b>	<b>\$41,172,387</b>	<b>\$4,457,323</b>	<b>\$1,039,116</b>	<b>\$49,229,936</b>

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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Management's Corrective Action  
Plan and Response to the  
Finding and Recommendation



BOBBY JINDAL  
GOVERNOR



PAUL W. RAINWATER  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Risk Management**

October 15, 2010

Mr. Daryl G. Purpera, CPA  
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. Purpera:

**Finding: Ineffective 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 and relies on the Internal Audit Section of the Division of Administration (DOA) to provide this function. For fiscal year 2010-2011, the DOA is on track to provide an effective internal audit of ORM, fulfilling the internal audit requirements. An internal audit is currently underway with this objective.

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