

CORRECTIONS SERVICES
DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 16, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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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 \$13.14. 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. 3342 or Report ID No. 06401697 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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April 25, 2007

CORRECTIONS 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, 2006, we considered the Department of Public Safety and Corrections, Corrections Services' (department) 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 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, for the year ended June 30, 2005, we reported findings relating to weaknesses in controls over subrecipient monitoring of the Temporary Assistance for Needy Families program, unlocated movable property, weaknesses in controls over Angola Rodeo funds and Inmate Banking funds, misuse of a state vehicle, and lack of an internal audit function. The findings related to weaknesses in controls over subrecipient monitoring of the Temporary Assistance for Needy Families program, weaknesses in controls over Angola Rodeo funds and Inmate Banking funds, and misuse of a state vehicle have been resolved by management. The findings relating to unlocated movable property and lack of an internal audit function are 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, 2006.

Unlocated Movable Property

The department did not place sufficient emphasis on locating items reported as unlocated in previous years. As required by state movable property regulations, the 14 correctional facilities and budget units under the control of the department conducted physical inventories and reported unlocated movable property items totaling \$836,699 for the four-year period from fiscal year 2003 to fiscal year 2006. Of that amount, items totaling \$267,716 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on the physical inventory certifications, the amount of unlocated computers and computer-related equipment totaled \$314,933. Management strengthened its control structure and as a result the current year unlocated balance (2006) decreased significantly; however, the previous years' balances only decreased by \$14,350. The certifications of property inventory disclosed \$59,255,637 in total movable property administered by the 14 units under the control of the department.

The annual certifications of property inventory were submitted to the Louisiana Property Assistance Agency on dates ranging from July 1, 2005, to June 21, 2006. Good internal control and the Louisiana Administrative Code prescribe that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. Assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

Failure to thoroughly secure, locate, and account for movable property increases the risk of loss arising from unauthorized use of the property and could subject the department to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise the department's data integrity.

Management of the department should continue its efforts to strengthen internal controls over movable property, including its procedures for securing movable assets and conducting physical inventory, and should devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Weaknesses in Controls Over Sheriff Housing Payments

The department did not have written procedures and did not always follow its unwritten procedures for making payments to local facilities for the housing of state inmates. According to the procedures described by management, every invoice for the housing of state inmates must be notarized before the department makes payment, and at least 10% of every invoice's list of names must be verified through the department's computer system (CAJUNII).

In our tests of invoices for sheriff housing payments, we found that six out of 27 (22%) invoices tested were not properly notarized, and five out of 35 (14%) invoices tested did not show evidence of checking 10% of the names to CAJUNII. Failure to follow procedures when verifying sheriff housing invoices increases the risk that the department may overpay state funds for this purpose.

Management should adopt written procedures and ensure that those procedures are followed for verifying sheriff housing invoices. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

Lack of Internal Audit Function

As reported in previous audits, the department does not have 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. Considering the department's reported assets of approximately \$50 million and its revenues of approximately \$630 million, an effective internal audit function is needed to ensure the department's assets are safeguarded and management's policies and procedures are uniformly applied. Act 16 of the 2005 Regular Session requires any agency with an appropriation level of \$30 million or more to have the position of internal auditor included within its existing table of organization.

Although the department has administrative monitors who provide management with assurances on the field operations of the various prison facilities in accordance with departmental regulations, this function was not sufficient to constitute an effective internal audit function. Management has made efforts to develop a risk-based internal audit plan, but a plan has yet to be finalized or implemented.

Management should establish an effective internal audit function to provide assurance that assets are safeguarded, internal controls are established and operating in accordance with laws and regulations, and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner. Management concurred with the finding and recommendation and outlined a plan of 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 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 compliance with state and federal laws and regulations should be addressed immediately by management.

CORRECTIONS SERVICES

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

BH:ES:PEP:ss

[DPSCS06]

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

DEPARTMENT OF
PUBLIC SAFETY AND CORRECTIONS

KATHLEEN BABINEAUX BLANCO, GOVERNOR



RICHARD L. STALDER, SECRETARY

March 30, 2007

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

RE: Moveable Property

Dear Mr. Theriot:

The Department concurs that good internal control and the Louisiana Administrative Code prescribes that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. We also agree that assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

Management will continue its efforts to strengthen internal controls over movable property, including its procedures for securing its movable assets and conducting its physical inventory. Additional efforts will be devoted to locating movable property reported as unlocated in previous years. However, the shortcomings noted in the past resulted in some property that is simply unlocatable due to the circumstances. These shortcomings have been addressed; staff changes have occurred; and additional emphasis placed on this responsibility. Since these changes cannot fully correct for deficiencies in the past, it may take some time for the current improvements being made to be fully reflected in the numbers.

Sincerely,

A handwritten signature in black ink, appearing to read "BEB".

Bernard E. "Trey" Boudreaux, III
Undersecretary

BEB:RLG:lor

c: Richard L. Stalder, Secretary
Johnny Creed, Chief of Operations
Ronald L. Granier, Chief Fiscal Officer
Suzanne Sharp, Procurement Director

DEPARTMENT OF
PUBLIC SAFETY AND CORRECTIONS



KATHLEEN BABINEAUX BLANCO, GOVERNOR

RICHARD L. STALDER, SECRETARY

March 30, 2007

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

RE: Sheriff's Housing Payments

Dear Mr. Theriot:

The Department concurs that procedures regarding the processing of payments to local facilities for the housing of state inmates were unwritten. The procedures noted in the finding regarding the notarization of invoices and the 10% verification through the Department's information system, CAJUNII, were being followed. The Department is of the opinion that the method of handling the invoices and the steps taken in verifying the 10% may account for a large percentage of the instances of noncompliance which were discovered in the samples.

A percentage of the invoices which appeared to have not been notarized is due to the fact that several parishes have multiple housing invoices. The invoices were submitted as one package with one notarization. However, the individual invoices were separated by housing area for processing, and therefore the notarization of the individual invoices may not have been evident when tested.

Regarding the 10% verification, the number of inmates was used to calculate the number of items to verify versus the number of lines on the invoice, since this number was readily available. Additionally, notations on the invoices to document the verification were not always clearly indicated. These factors helped to contribute to the appearance of non compliance with procedures.

To relieve these and other concerns noted in the area of housing payments to local facilities and to improve the efficiency and effectiveness of this process, the Department has spent a great deal of time and effort in implementing a new method of payment. The new method utilizes the department's information system, CAJUNII, to generate the monthly housing invoices, rather than relying on the information submitted by the local facilities. It has required close communication with and the cooperation of the local entities. It was implemented in July 2006 and the project has been very successful. The 10% verification is no longer necessary on regular invoices. Supplemental invoices submitted for payment of transactions not reflected in CAJUNII at the time of the regular invoicing are checked 100% against the information contained in CAJUNII and the paid invoices on file to insure that no duplicate payments are made.

Management has also adopted new written procedures regarding the processing of these payments and will ensure that they are followed. Through these actions, the prior weaknesses will be overcome and concerns relieved.

Sincerely,

A handwritten signature in dark ink, appearing to read "JB" followed by a flourish.

Bernard E. "Trey" Boudreaux, III
Undersecretary

BEB:RLG:lor

C: Richard L. Stalder, Secretary
Johnny Creed, Chief of Operations
Ronald L. Granier, Chief Fiscal Officer

DEPARTMENT OF
PUBLIC SAFETY AND CORRECTIONS



KATHLEEN BABINEAUX BLANCO, GOVERNOR

RICHARD L. STALDER, SECRETARY

March 30, 2007

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

RE: Internal Audit

Dear Mr. Theriot:

The Department agrees with your finding that an adequate internal audit function is needed. The Department began the establishment of an internal audit function on October 17, 2006 with the hiring of an individual in a "while actually employed" (WAE) position. The individual hired is a former full time employee of the Department who has many years of experience as an internal auditor and is a certified fraud examiner.

The first audit project undertaken was to conduct compliance audits of the procurement cards at all units of the Department, including Headquarters, Probation and Parole, and Prison Enterprises. Following this project, the unit heads were surveyed to gather input for the formulation of an internal audit plan for the remainder of the fiscal year based on their risk assessment. With the results of the survey, a prioritized list of audits has been developed and will be undertaken.

The Department has also resumed its operational audits in accordance with Department Regulation No. C-05-003. These audits were suspended last fiscal year due to the impact of Hurricanes Katrina and Rita. The audit teams include representatives from the Office of Adult Services and the Office of Management and Finance—Human Resources, Fiscal and Budget Services Divisions. Scopes of these audits include cash handling and management, moveable property, inmate organization funds, accounting system reconciliations, budgeting, medical co-pay, indigent supplies and services, and warehouse inventories. These audits are effective in providing assurances to management that assets are properly safeguarded, internal control structures are established and operating in accordance with applicable laws and Department Regulations, and procedures are sufficient to prevent and detect errors or irregularities in a timely manner.

The Department has requested additional staff and related items for fiscal year 2008 to further develop this function. We are currently negotiating the budget adjustments needed to accomplish this with the Division of Administration, Office of Planning and Budget, and are hoping for a successful outcome.

Sincerely,

A handwritten signature in black ink, appearing to read "Trey Boudreaux".

Bernard E. "Trey" Boudreaux, III
Undersecretary

BEB:RLG:lor

c: Richard L. Stalder, Secretary
Johnny Creed, Chief of Operations
Ronald L. Granier, Chief Fiscal Officer