

OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 21, 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 \$14.85. 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. When contacting the office, you may refer to Agency ID No. 8402 or Report ID No. 80090051 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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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

March 22, 2010

**OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
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, 2009, we considered the Office of Risk Management's 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 office'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 Report of the Office of Risk Management is not audited or reviewed by us, and, accordingly, we do not express an opinion on this report. The office'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 Office of Risk Management for the year ended June 30, 2008, we reported findings relating to an ineffective internal audit function, untimely deposits of hurricane recovery receipts, and ineffective review of small claims payments. The findings relating to untimely deposit of hurricane recovery receipts and ineffective review of small claims payments have been resolved by management. The finding relating to an ineffective internal audit function is addressed again in this letter.

Based on the application of 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* have been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

Ineffective Internal Audit Function

For the fifth consecutive year, the Office of Risk Management (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 49 of the 2008 Regular Session of the Louisiana Legislature requires ancillary agencies with budgets in excess of \$30 million to

include within its existing table of organization positions which perform the function of internal auditing.

The Internal Audit Section of the Division of Administration completed one internal audit at ORM, which related to an alleged misuse of a state vehicle and designated hours not worked by an employee. This internal audit report was not sufficient to constitute an effective internal audit function. Considering ORM's reported assets of approximately \$248 million and revenues of approximately \$206 million, an effective internal audit function is important to ensure that assets are safeguarded and that management's policies and procedures are uniformly applied.

Management should establish an internal audit function to provide assurance that assets are safeguarded and to ensure that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Inaccurate and Incomplete Annual Fiscal Report

ORM did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2009. As authorized by Louisiana Revised Statute 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, ORM's AFR submitted to OSRAP and the Louisiana Legislative Auditor on August 31, 2009, included the following errors and omissions:

Schedule 14 - Governmental Accounting Standards Board (GASB) 34 Revenue Accruals:

- The Prior Year Full Accrual Adjustments section was not completed. The gross adjustment to revenue/receivables of \$26,964,318 and the allowance amount of \$11,137,011 were omitted.
- The modified accrual agency revenue adjustment of \$12,838,835 was omitted.
- The modified accrual interagency receivable per the statewide computer system (ISIS) of \$1,371,011 was omitted.

Statement A - Other Liabilities:

- The current claims liability and claims expenditures were both overstated by \$20,474,150.

Addendum to the Notes to the CAFR:

- The claim payments and claims and changes in estimate columns included in the changes in aggregate claims liabilities schedule were both understated by \$10,779,160.
- Annuity balances that do not release ORM from future liability were overstated by \$988,187.
- Note DD - Liability for Claims and Claims Expenses:
 - Claims liabilities (long-term gross) and total GASB 34 accruals (gross) were both understated by \$17,350,910.
 - The allowance for estimated recoveries (long-term) was overstated by \$3,123,241.
 - The GASB 34 liability net of estimated recoveries and amount not expected to be paid in one year were both understated by \$20,474,150.

Claims and Liabilities Handled by the ORM in the Letter to the Attorney General:

- Actual cash balance with transit items was overstated by \$38,907,859.
- The liability reserve valuation for claims in litigation was omitted from the original letter. ORM submitted a revised letter reflecting a reserve valuation of \$269,966,233. The revised reserve amount was understated by \$1,805,430.

Department personnel made miscalculations, misclassified transactions, excluded transactions, overlooked prior year audit adjustments, and used inaccurate data in their preparation of the financial statements and the notes to the financial statements. In addition, the supervisory review process was not effective in identifying the errors and/or omissions in the current and long-term claims liabilities, related notes to the financial statements, and the GASB 34 revenue accruals. Failure to submit an accurate AFR can delay the compilation, issuance, and accuracy of the state's CAFR. Furthermore, misstatements from errors or omissions may occur and remain undetected.

ORM management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and the legislative auditor. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the office should be considered in reaching decisions on courses of action. The findings relating to the office's compliance with applicable laws and regulations should be addressed immediately by management.

In addition, we have included a Budgetary Comparison Schedule, which was prepared from the Annual Fiscal Report of ORM and from additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. This schedule is presented as additional information, but has not been subjected to auditing procedures.

This letter is intended for the information and use of the office and its management, others within the office, 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
Legislative Auditor

AOE:WDG:EFS:PEP:dl

ORM09

BUDGETARY COMPARISON SCHEDULE

Page

Agency 804 - Office of Risk Management (Unaudited).....9

UNAUDITED

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

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Internal service fund	\$204,410,498		\$204,410,498	\$138,687,418	\$65,723,080
Internal service fund - interagency transfer	198,962,977		198,962,977	198,531,702	431,275
Future medical care fund	695,692		695,692	10,000,000	(9,304,308)
	<u>\$404,069,167</u>	<u>NONE</u>	<u>\$404,069,167</u>	<u>\$347,219,120</u>	<u>\$56,850,047</u>

APPROPRIATED EXPENDITURES:

	ADMINISTRATIVE	CLAIMS LOSSES AND RELATED PAYMENT	CONTRACT LITIGATION	DIVISION OF RISK LITIGATION	TOTAL
Salaries	\$6,593,259				\$6,593,259
Other compensation	236,860				236,860
Related benefits	2,170,357				2,170,357
Travel and training	100,300				100,300
Operating services	856,410				856,410
Supplies	114,999				114,999
Professional services	137,063	\$2,147,595			2,284,658
Other charges	2,483	214,739,260	\$10,354,001		225,095,744
Capital outlay	21,491				21,491
Major repairs	2,166				2,166
IAT	1,776,738	168,928		\$16,770,788	18,716,454
Total appropriated expenditures before adjustments	12,012,126	217,055,783	10,354,001	16,770,788	256,192,698
System adjustments	(1,818)	(940,916)	(1,144,363)		(2,087,097)
	<u>12,010,308</u>	<u>216,114,867</u>	<u>9,209,638</u>	<u>16,770,788</u>	<u>254,105,601</u>
Total Appropriated Expenditures					
Revised Budget	<u>14,900,621</u>	<u>299,218,480</u>	<u>15,000,000</u>	<u>18,100,019</u>	<u>347,219,120</u>
	<u>\$2,890,313</u>	<u>\$83,103,613</u>	<u>\$5,790,362</u>	<u>\$1,329,231</u>	<u>\$93,113,519</u>
Variance Favorable (Unfavorable)					

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
Plans and Responses to the
Findings and Recommendations



BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of Risk Management

Nov 16, 2009

Mr. Steve J. Theriot
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. Theriot:

Finding: No 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.

ORM management met with representatives from Postlewaite and Netterville, a local CPA firm, early in fiscal year 2008 to solicit a proposal for a contract with that firm to provide audit services to ORM. Prior to receiving the proposal, representatives from the DOA Internal Audit Section met with ORM management and proposed that they take on the responsibility of fulfilling the ORM internal audit requirements. It was agreed that the DOA auditors were to present a plan to complete audits covering all ORM sections over a period of time. In 2009, only an audit of suspected malfeasance in an ORM satellite office was completed by the DOA audit staff. No audit plan has been presented to ORM.

Since a new DOA Internal Audit Administrator has recently been appointed, ORM will again seek guidance from the DOA Audit Section regarding their possible commitment to perform the internal audit function for ORM before resuming contact with the CPA firm.

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

BOBBY JINDAL
GOVERNOR



ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of Risk Management

Nov 16, 2009

Mr. Steve J. Theriot
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. Theriot:

Finding: Inaccurate and Incomplete Annual Fiscal Report

The Office of Risk Management (ORM) concurs with the finding.

ORM Accounting management has taken action to ensure that the errors made preparing and submitting the FY 09 Agency Financial Report and required schedules will not re-occur in future years. Notes have been added to expand existing instructions that will better explain how the various schedules and notes are to be completed.

The contact persons for this finding are Tom Averett and Heidi Israel.

Sincerely,

A handwritten signature in black ink, appearing to read "Bud Thompson, Jr.", written over a horizontal line.

J. S. "Bud" Thompson, Jr.
State Risk Director