



State of Louisiana

**OFFICE OF
STATE INSPECTOR GENERAL**

STATE SUPPLEMENTAL PAY SYSTEM

Report by

Inspector General Bill Lynch

Prepared for

Governor M.J. "Mike" Foster, Jr.

July 8, 1999

File No. 2-99-0005



State of Louisiana

OFFICE OF

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State Supplemental Pay System

June 11, 1999

Report by

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Approved by

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State Supplemental Pay System

An operational review of the State Supplemental Pay System, administered by the Department of Public Safety and Corrections, Public Safety Services, disclosed material weaknesses in the internal control structure as evidenced by a lack of:

- Segregation of duties.
- Efficiency of operations.
- Written policy and procedures.
- Audit function encompassing the Supplemental Pay System.
- Periodic management review of internal controls.

Background

At the request of Nancy Van Nortwick, Undersecretary of the Department of Public Safety, Public Safety Services, we conducted a limited review of the State Supplemental Pay System for municipal police officers and firefighters, and elected constables, marshals, and justices of the peace. Ms. Van Nortwick was appointed as undersecretary effective November 2, 1998.

La. R.S. 33:2001-2010 was enacted by the Legislature which authorized supplemental payments to firefighters to promote the public welfare and safety, by providing better protection from fire and related dangers. These statutes also authorized the creation of the Firemen's Supplemental Pay Board, which consists of five persons appointed by the governor to make decisions regarding eligibility to receive supplemental pay.

La. R.S. 33:2218 permits the disbursement of supplemental payments to municipal police officers, marshals and constables, to promote the public peace and safety, by providing better enforcement of law, particularly the enforcement of state laws. This statute also created a board of review, which makes a determination of eligibility whenever a question arises concerning the qualification of persons receiving supplemental pay.

La. R.S. 49:251 permits the payment of supplemental pay to elected justices of the peace and constables if requirements are met regarding attendance of training courses every other year. These training courses are prescribed and conducted by the attorney general of the state of Louisiana. The attorney general maintains a record of course completion by all participants.

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In 1998-1999, \$38.1 million was appropriated for supplemental pay to 5,564 municipal police officers, 4,549 firefighters, 385 justices of the peace, 380 constables, and 174 marshals.

After completing all required training and certification, and rendering one year of service, municipal police officers, firefighters, and marshals receive \$300 per month. La. R.S. 13:2591 mandates that supplemental pay for justices of the peace and constables should not exceed \$100 per month provided funds are available and appropriated by the legislature. Currently, justices of the peace and constables receive \$75 per month.

Purpose and Scope

The purpose of this review was to enable this office to offer opinions and recommendations to management regarding compliance with state law and department policy and procedures, adequacy of internal controls, and efficiency of operations. In order to accomplish this objective, we first gained an understanding of the supplemental pay laws and the current system of internal controls established by management. We then reviewed and evaluated the procedures followed when requests for supplemental pay are received, and the process used to dispatch those payments.

Supplemental Pay Law

State laws were enacted by the legislature to promote the public peace, safety and welfare by providing better law enforcement and fire protection through the authorization of supplemental payments to municipal police officers, marshals, firefighters, justices of the peace and constables.

Our review did not disclose any instances of non-compliance with these state laws.

Findings

I. The Supplemental Pay System lacks adequate segregation of duties.

One of the principal risks in most organizations is the potential loss resulting from a single employee who can control a process from beginning to end, which includes having direct access and control over assets and the accounting for those assets.

Management should insure that no person is in a position to both commit and conceal errors or irregularities in the normal course of his duties. Anyone who records transactions or has access to assets ordinarily is in a position to commit errors or irregularities. Therefore, adequate control over assets depends largely on the elimination of opportunities for concealment. Appropriately segregating the assignment of duties or activities within a unit or organization is one way to reduce the risk that errors or irregularities will be concealed or go undetected.

Our review revealed that one employee, an accountant technician, is responsible for performing incompatible duties within the Supplemental Pay System. Some of the duties include:

- Reviewing applications for completeness and proper approval.
- Assigning payment codes for municipalities.
- Entering the approved application into the database for payment.
- Entering adjustments.
- Initiating the computer processing of each month's supplemental pay run.

In addition to the above responsibilities, the same employee performs the following duties which are incompatible with the above duties:

- Takes custody of printed warrants generated along with the month's check run, which list each authorized recipient. (A warrant is the document generated by the computer, which is sent to the appropriate municipality for verification. Each recipient listed on the warrant is eligible to receive supplemental pay.)
- Takes custody of the printed checks.

- Sorts the printed checks for mailing to recipients.

This situation presents the opportunity for an employee in this position to create a fictitious municipality and cause a check to be printed for a fictitious recipient. The employee then, would receive the check run, the warrant containing the fictitious recipient, and the printed check. The check could be cashed and the warrant destroyed thus concealing the fraud.

No one independent of this employee reviews the check run or the warrants generated by the computer. No compensating controls are in place that neutralizes the risks to the supplemental pay funds.

II. Management has failed to ensure the efficient operation of the State Supplemental Pay System by severely understaffing its payment processing operations.

According to records from the Department of Public Safety and Corrections, there are 11,052 recipients currently authorized to receive supplemental pay. A detailed series of transactions and functions are necessary in order to ensure payment of supplemental pay. At this time, only one employee is responsible for performing those transactions and functions.

As a result, this employee is consistently required to work overtime to complete all tasks. Since July 1998, this employee has earned 215 hours of compensatory time, and 80 hours of payable overtime at the time-and-one-half rate. The employee stated that, although not required by management, there have been many instances when tasks were performed after hours on their own time in order to make sure that everything was completed. Prior to July 1998, there were two employees assigned to the Supplemental Pay Section. Duties were divided between the two employees, and overtime was seldom required.

III. Management has failed to provide to its employees written policy and procedure manuals for the Supplemental Pay System. Management has also failed to update guidelines provided to municipalities, outlining policies and statutory specifications.

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Apparent risks to the Supplemental Pay System are heightened when factored with the fact that only one employee performs all the tasks pertinent to the operation of that system, and there is also an absence of written policy and procedure manuals. If this one employee should unexpectedly be unable to perform his duties, and there is no written procedures manual to aid the substitute employee, the system could be crippled.

A policy is any promulgation which requires, guides, or restricts action. Policies should follow certain principles:

- Policies should be clearly stated in writing and systematically organized into handbooks, manuals, or other publications.
- Policies should be systematically communicated to all officials and appropriate employees of the organization.
- Policies must conform with applicable laws and regulations, and they should be consistent with objectives and general policies prescribed at higher levels.
- Policies should be designed to promote the conduct of authorized activities in an effective, efficient, and economical manner and to provide a satisfactory degree of assurance that the resources of the agency are suitably safeguarded.
- Policies should be periodically reviewed, and should be revised when circumstances change.

Procedures are means employed to carry out activities in conformity with prescribed policies. The same principles applicable to policies are also relevant to procedures. In addition:

- To reduce the possibility of fraud and error, procedures should be so coordinated that, an employee who is independently performing separate prescribed duties, automatically checks another employee's work.
- Prescribed procedures should not be so detailed as to stifle the use of judgment.
- To promote maximum efficiency and economy, prescribed procedures should be as simple and as inexpensive as possible.
- Procedures should not be overlapping, conflicting, or duplicative.

It is noted that management has provided written guidelines for municipalities having employees receiving supplemental pay. These manuals provide the municipalities with the statutory requirements for administration of supplemental pay. Our review revealed that changes have been made to the statutes governing supplemental pay, yet, the manuals have not been updated since 1987.

Failure by management to provide to its employees written policy and procedure manuals, which are updated timely, increases the risk that resources of the Supplemental Pay System will not be adequately safeguarded, and that maximum efficiency and economy will not be promoted.

IV. The Department of Public Safety and Corrections, Public Safety Services, currently has no audit function to verify that representations made by municipal officials are accurate and reliable.

Officials in municipalities are responsible for certifying that employees meet legal requirements to receive supplemental pay. This certification is provided through the issuance of the warrant, which is signed by the designated municipal officials.

Our review revealed that the department currently has no audit function in place to verify that the representations made by the municipal officials are accurate and reliable. One audit of a volunteer fire department conducted by this office in 1991, revealed that the fire chief submitted false information to the department. This resulted in supplemental pay being received by employees who did not legally qualify.

V. Management has failed to periodically review the operations of the Supplemental Pay System including its system of internal controls.

Internal controls are designed to ensure the accomplishment of an organization's objectives and goals. By routinely examining and evaluating the internal control system, management can assess the adequacy of existing controls.

Our review revealed that management has failed to periodically review the operations of the Supplemental Pay System. Failure to conduct such reviews jeopardizes the ability of management to detect violations of laws and regulations, and to detect risks to assets.

Recommendations:

1. Management should increase the staff assigned to the supplemental pay section to insure adequate segregation of duties and efficiency of operations.
2. Management should prepare and provide to employees written policy and procedures for operation of the Supplemental Pay System. Management should provide updated supplemental pay manuals to municipalities.
3. Management should take steps to insure that representations made by municipal officials are audited for accuracy and reliability.
4. Management should conduct periodic reviews of the operations of the Supplemental Pay System and its system of internal controls.

Management Response:

See Attached.

BL/PCW/fs

File No. 2 – 99 - 0005



Department of Public Safety and Corrections

Public Safety Services

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

June 10, 1999
DPS-02-094

NANCY VAN NORTWICK
UNDERSECRETARY

Mr. Bill Lynch
Inspector General
State of Louisiana
P.O. Box 94095
Baton Rouge, Louisiana 70804-9095

RE: State Supplemental Pay System

Dear Mr. Lynch:

Please find our responses to your draft report on our Supplemental Pay operations. The Colonel and I appreciate you sending such a competent and professional team to work with our staff. Mr. David Morales is to be complemented for the practical approach he took for such a complex environment. David's expertise and direction on this project made all the difference in the effectiveness of the overall approach.

Thank you again for your assistance in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Nancy Van Nortwick", followed by a long horizontal line.

Nancy Van Nortwick
Undersecretary

NVN:vea

attachment

Corrective Action Response State Supplemental Pay System

In response to the recent findings noted in the draft report of the operational review of the State Supplemental Pay System, administered by the Department of Public Safety and Corrections, Public Safety Services, several corrective actions have been developed.

Finding I.

The Supplemental Pay System lacks adequate segregation of duties.

The operational review report indicated that the lack of segregation of duties within the Supplemental Pay unit decreased internal controls governing the administration of the funds. In order for Management to correct this problem, several actions have been taken or will be taken by the Payroll Manager. These include the removal of custodianship duties of printed warrants, as well as custodianship of printed checks which have already occurred. These duties are handled by clerical support personnel within the Supplemental Pay/Payroll unit. All printed warrants and checks generated by the Data Section within DPS are sent directly to these support personnel for processing and mailing. In addition, a payroll employee vacancy is scheduled to be filled by 06/30/1999. This employee will handle all signed/approved warrants returned to the Supplemental Pay/Payroll unit. This individual will review incoming warrants and make all necessary pay adjustments directly within the Supplemental Pay data system. As a result, the current Accountant Technician for Supplemental Pay will no longer handle any checks or warrants, nor will she process any pay adjustments within the system. The only duties that she will retain include the review of the applications for completeness and proper approvals, assigning payment codes to municipalities, entering of the application into the database for payment only after all approvals, and initializing a request for data reports for each month's supplemental pay run. Final approval of all Supplemental Pay applications are handled by the Supplemental Pay Boards of Review rather than staff within the Supplemental Pay unit.

Finding II.

Management has failed to ensure the efficient operation of the State Supplemental Pay System by severely under staffing its payment processing operations.

Management agrees that the State Supplemental Pay System unit has been understaffed since the departure of one of the personnel in the unit earlier this fiscal year. However, the statewide hiring freeze implemented by the Governor's Office in January 1999 has kept Management from filling the vacant position. As a result, the limited personnel remaining has worked very hard to continue an efficient and effective operation of the State Supplemental Pay System. A Request to Fill the vacancy will be initiated by Management during the early part of next fiscal year (1999-2000) to increase the unit staff, assuming the hiring freeze is rescinded.

Finding III.

Management has failed to provide to its employees written policy and procedure manuals for the Supplemental Pay System. Management has also failed to update guidelines provided to municipalities, outlining policies and statutory specifications.

In order to safeguard the resources of the State Supplemental Pay System and to maximize efficiency, Management has begun development of policies and procedures governing the administration of the State Supplemental Pay System. Policies and procedures for employees of the Supplemental Pay unit are to be developed and implemented by 08/14/1999. Even though current written guidelines exist for municipalities having employees who receive supplemental pay, revision to such guidelines is underway. Due to the fact that any revision to these guidelines requires that they be promulgated within the Administrative Code for the State of Louisiana, revision and implementation is scheduled for 01/01/2000.

Finding IV.

The Department of Public Safety and Corrections, Public Safety Services, currently has no audit function to verify that representations made by municipal officials are accurate and reliable.

Management agrees that an on-going audit function needs to be in place for all participating Supplemental Pay municipalities. The Audit Services unit within the Office of Management and Finance will incorporate random periodic audits of municipalities participating in the State Supplemental Pay System. The Audit Services unit currently has a staff of only two auditors and supervisor in order to provide audit services for the entire Department of Public Safety. Requests are made annually within budget requesting additional positions to no avail. The audits will be conducted on a random basis until such time as the Audit Services staff has been granted additional personnel.

Finding V.

Management has failed to periodically review the operations of the Supplemental Pay System including its system of internal controls.

Management agrees that periodic review of internal controls governing the Supplemental Pay System needs to occur. As a result, a Quality Review of the State Supplemental Pay System will be performed by the Audit Services unit every four years or in instances where major changes to the System have occurred on a more frequent basis. The Quality Review request will be initiated

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by the Payroll Manager over the Supplemental Pay unit for DPS to the Supervisor of Audit Services.

In addition to the above corrective actions taken or proposed, the Supplemental Pay/Payroll unit is currently reviewing its Data supported processing program. The program is antiquated and in need of upgrading. Management intends to work with Data in developing a new program which will enhance reporting capabilities of the system. Groundwork for developing this new program should begin by 07/15/1999.

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