

DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONS
PUBLIC SAFETY SERVICES
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED NOVEMBER 5, 2014

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 5, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Colonel Michael D. Edmonson
Department of Public Safety and Corrections,
Public Safety Services

Dear Senator Alario, Representative Kleckley, and Colonel Edmonson:

This report includes the results of the procedures we performed at the Department of Public Safety and Corrections, Public Safety Services (DPS) for the period from July 1, 2013 through June 30, 2014 to evaluate its accountability over public funds. The procedures are a part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of DPS for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

NM:EFS:THC:ch

DPS 2014

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Public Safety and Corrections -
Public Safety Services

November 2014

Audit Control # 80140054

Introduction

As a part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2014, we performed procedures at the Department of Public Safety and Corrections, Public Safety Services (DPS) to 1) provide assurances on financial information that is significant to the State of Louisiana's financial statements, 2) evaluate the effectiveness of DPS' internal controls over financial reporting and compliance, and 3) determine whether DPS complied with applicable laws and regulations.

DPS is an agency within the Louisiana Department of Public Safety and Corrections, which is a component of the State of Louisiana created within the executive branch of state government. DPS' mission is to provide safety services to both the citizens and visitors of the state of Louisiana by upholding and enforcing the laws, administering regulatory programs, managing records, educating the public and managing emergencies, both directly and through interaction with other agencies.

Results of Our Procedures

Current-Year Findings

Misappropriation of Funds by OMV Employees

During 2014, three employees of DPS' Office of Motor Vehicles (OMV) were arrested for felony theft and malfeasance in office. The employees misappropriated \$69,544 in customer payments made for more than 400 insurance violations. Almost all of the misappropriations occurred during fiscal years 2013 and 2014.

Customers with insurance violations made payments at OMV offices to have their drivers' licenses reinstated and clear the violations from their driving records. The OMV employees provided receipts to the customers for their payments but either did not post the transactions or modified the transactions in the computer system. The customers eventually learned that the violations had not been cleared from their records and contacted OMV headquarters. Upon investigation by OMV management, it was determined that the three OMV employees had

diverted public funds for personal use and violated state laws. The employees have been terminated.

OMV lacked adequate controls, including proper cash handling procedures and management oversight in field offices, to prevent or timely detect the misappropriation of public funds. The lack of cash handling controls and proper oversight increases the risk that fraud could occur and not be detected in a timely manner and that assets are not properly safeguarded.

OMV management should strengthen cash handling procedures, specifically with regard to the transactions for insurance violations, and increase management oversight in the field offices. In addition, management should seek restitution from the terminated employees. Management noted ongoing criminal investigations on the terminated employees and provided a corrective action plan (see Appendix A, page 1).

Control Weaknesses over Information Technology

During the fiscal year ended June 30, 2014, DPS did not maintain adequate controls over its information technology (IT) systems. These systems processed over \$700 million in riverboat casino and state motor vehicle revenues during fiscal year 2014 and contain confidential information. Inadequate IT controls could impair DPS' ability to properly process and report state revenues and protect sensitive data from unauthorized use.

DPS has represented that the following control weaknesses arose from reductions in IT staff and funding:

- DPS did not have adequate controls over access to confidential data, increasing the risk of unauthorized disclosure.
- DPS did not have adequate controls over changes to data or systems, potentially allowing changes without appropriate oversight or documentation.
- DPS did not conduct regular disaster recovery testing or identify important recovery milestones, reducing its ability to timely restore critical operations and data.

We evaluated DPS' IT controls based on best practices, as defined by *Control Objectives for Information Technology*, a framework developed by the Information Systems Audit and Control Association. Although these control deficiencies existed, we found no instances of improper transaction processing, unauthorized data disclosure, or unapproved changes during our work.

Management should (1) review and correct deficiencies in security policies and procedures, (2) separate IT duties to the extent possible, (3) independently monitor changes to systems, (4) conduct annual disaster recovery testing, and (5) define important disaster recovery milestones. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 2-3).

Financial Statements - State of Louisiana

As a part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2014, we considered internal control over financial reporting and examined evidence supporting DPS' franchise and license fee revenues from riverboat casino operations and Office of Motor Vehicles state sales tax revenues, including critical information systems and related user access controls. Our audit included tests of DPS' compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

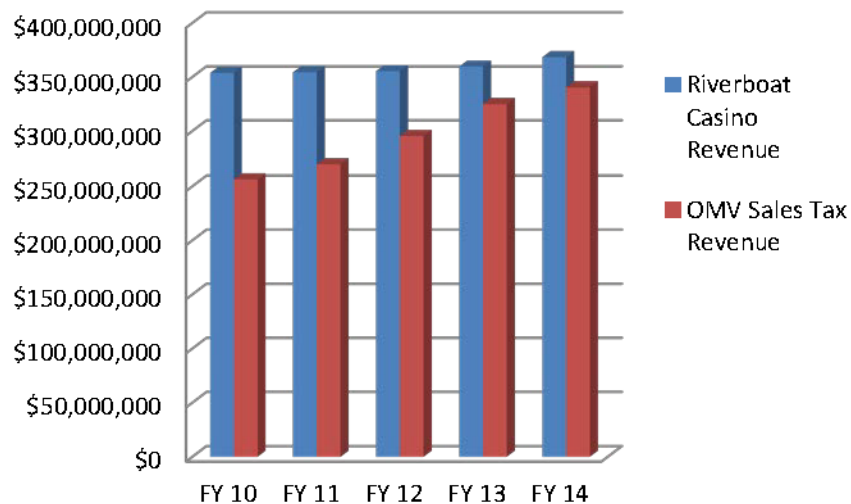
Based on the results of these procedures on the financial statements, we reported findings related to misappropriation of funds by OMV employees and control weaknesses over information technology. In addition, the revenue account balances tested were materially correct.

Trend Analysis

We compared the most current- and prior-year financial activity using DPS' annual fiscal reports and/or system-generated reports and obtained explanations from DPS management for any significant variances.

We also prepared an analysis of riverboat franchise and license fees and OMV state sales tax revenues over the last five years. A steady increase in the number and value of cars sold has resulted in the continued increase in OMV state sales tax revenues. Meanwhile, the first full year of operations for Margaritaville in Shreveport and L'Auberge in Baton Rouge contributed to the \$8.7 million increase in franchise and license fees from fiscal year 2013 to fiscal year 2014.

Exhibit 1
Comparison of DPS Revenues, by Fiscal Year



Source: Fiscal year 2010-2014 DPS Annual Fiscal Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DPS. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DPS should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

APPENDIX A: MANAGEMENT'S RESPONSES

BOBBY JINDAL
GOVERNOR



JILL P. BOUDREAUX
UNDERSECRETARY

State of Louisiana
Department of Public Safety and Corrections
Public Safety Services

October 9, 2014
DPS-02-1719

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Finding – Misappropriation of Funds by OMV Employees

Dear Mr. Purpera,

Due to the ongoing criminal investigation, we cannot comment specifically on these individual cases. The employees involved have been terminated. OMV takes wrongdoing of this nature very seriously and is working with authorities to assist law enforcement in prosecuting any wrongdoing to the fullest extent of the law. OMV will seek complete restitution by whatever means are necessary to recoup these funds. To prevent future instances of fraud, OMV has implemented a computer fraud monitoring program that will monitor transactions daily and help identify and prevent future fraudulent acts.

Should you require any further information, please feel free to contact me at (225) 925-6032.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jill P. Boudreaux".

Jill P. Boudreaux
Undersecretary

Cc: Stephen Campbell, OMV Commissioner
Staci Hoyt, OMV Deputy Commissioner

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OFFICE OF MANAGEMENT & FINANCE, P.O. BOX 66614, BATON ROUGE, LOUISIANA 70896
(225) 925-6032

A.1



State of Louisiana
Department of Public Safety and Corrections
Public Safety Services

September 19, 2014
DPS-02-1714

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Finding – Control Weaknesses Over Information Technology

Dear Mr. Purpera,

This letter is the department's official response to the Legislative Auditor's finding regarding Information Technology as stated in correspondence received on September 8, 2014. Our response is outlined below:

Finding: The Department did not have adequate controls over access to confidential data, increasing the risk of unauthorized disclosure. We concur with this finding.

The Department of Public Safety has implemented changes mitigating the risk of unauthorized disclosure of confidential data since receiving the audit findings by utilizing Active Directory. A series of 13 access groups were defined and configured into the DEPCON server. Employees requiring access to reports were granted access based upon a group access level, thereby eliminating access to other groups. All other employees have been denied all access.

Finding: The Department did not have adequate controls over changes to data or systems, potentially allowing changes without appropriate oversight or documentaion. We concur with this finding.

Documentation will include all testing efforts, issues found, resolution of issues and separate approval and oversight.

Finding: The Departmnt did not conduct regular disaster recovery testing or identify important recovery milestones, reducing its ability to timely restore critical operations and data. We concur with this finding.

The Department does not conduct regular off-site disaster recovery testing. To do so would require offsite facilities which house a variety of Disaster Recovery hardware which duplicate the existing hardware contained within the Data Center of the Department of Public Safety. Due to budgetary restraints, the purchase of/ or lease of this hardware has not been feasible.

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(225) 925-6032

In an effort to mitigate these risks, the Department has taken steps to decrease downtime and increase business continuity in the event of a catastrophe. These steps are:

- *Weekly backups of all data are taken offsite to the Iron Mountain facility. Depending on retention schedules, they may be rotated back to the Information Technology Center on a 4 week rotation.*
- *All Imaging data is replicated to a WORM tape technology housed at DOA. At any time and if needed, this unit could be relocated to a DR site and used for recovery.*
- *All IBM mainframe data is replicated downtown to IBM storage. At any time and if needed, this unit could be relocated to a DR site and used for recovery.*
- *In the DPS DR plan, all hardware necessary to fully recover critical systems has been identified and documented. During a catastrophe, this hardware could be purchased and all necessary data has been saved offsite for recovery.*
- *It is the intent of this department to house both an offsite virtual environment which would encompass the majority of critical open systems as well as a replicated SAN which would comprise all open system data. These systems could be tested for integrity on an annual basis.*

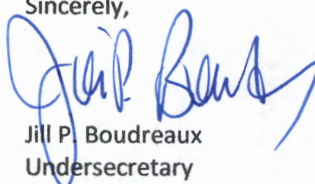
Corrective Action

In addition, the Department is reviewing and correcting deficiencies in security policies and procedures, ensuring that separation of duties exist where possible and appropriate in the testing, approval, and implementation of system updates and changes.

The mitigation risks for disaster recovery and the procedures to be taken are referenced above. Ongoing efforts to define important disaster recovery milestones are being conducted as a part of the Office of Technology Services transition into the full IT consolidation effort.

Should you require any further information, please feel free to contact me at (225) 925-6032.

Sincerely,



Jill P. Boudreaux
Undersecretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Public Safety and Corrections, Public Safety Services (DPS) for the period from July 1, 2013 through June 30, 2014 to provide assurances on financial information significant to the State of Louisiana and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards*. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the State of Louisiana's financial statements for the year ended June 30, 2014.

- We evaluated DPS' operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DPS.
- Based on the documentation of DPS' controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain DPS' revenue account balances to support the opinion on the State's financial statements.
- We compared the most current- and prior-year financial activity using DPS' annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from DPS management for significant variances.

The purpose of this report is solely to describe the scope of our work at DPS and not to provide an opinion on the effectiveness of DPS' internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review DPS' Annual Fiscal Report and, accordingly, we do not express an opinion on that report. DPS' accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.