

DEPARTMENT OF TREASURY

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Management Letter
Issued February 27, 2025

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
BETH Q. DAVIS, CPA

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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Department of Treasury



February 2025

Audit Control # 80240087

Introduction

As a part of our audit of the State of Louisiana's Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2024, we performed procedures at the Department of Treasury (Treasury) to provide assurances on financial information that is significant to the state's Annual Comprehensive Financial Report; evaluate the effectiveness of Treasury's internal controls over financial reporting and compliance; and determine whether Treasury complied with applicable laws and regulations.

We also determined whether management has taken actions to correct the finding reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the Treasury management letter dated February 21, 2024. The prior-year finding related to Untimely Bank Reconciliations has not been resolved and is addressed again in this letter.

Current-year Findings

Inadequate Controls over Preparation of Financial Reporting Information

Treasury did not have adequate controls in place to ensure that investments information submitted to the Office of Statewide Reporting and Accounting Policy (OSRAP) for preparation of the State of Louisiana Annual Comprehensive Financial Report (ACFR) was accurate and complete. Failure to establish adequate controls increases the risk that errors and omissions may occur and remain undetected.

During our audit procedures, we identified numerous errors requiring adjustment, some of which were material. Examples of errors identified in the information submitted to OSRAP that required adjustment are noted below:

- Omissions of various investment policies and other required disclosure information, including policies related to interest rate risk, credit risk, concentration of credit risk, custodial credit risk, and securities lending, along with applicable statutes that are required to be reported in the state's ACFR.
- Multiple misclassifications were identified, including some which were material. Material misclassifications identified included the following:
 - \$6.5 billion misclassification was noted for the interest rate risk disclosure between the "Less than 1 year" and "1 to 5 years" maturity categories for primary government funds. This error was also identified by OSRAP prior to the completion of the ACFR investments note. In addition, misclassifications totaling \$264 million were noted between all maturity categories for fiduciary funds.
 - Various misclassifications of credit risk ratings were noted, resulting in adjustments ranging between \$5 million and \$980 million.
- Within the information submitted to OSRAP for investments highly sensitive to interest rate changes, Treasury did not include money market funds totaling \$3.2 billion whose rates are subject to change daily. While these securities were included in total investments reported to OSRAP, they were erroneously left out of this disclosure section.
- Fair Value Measurement disclosures for fiduciary funds were excluded from the information initially submitted.

Internal controls over the preparation of the investment information submitted to OSRAP should include adequate procedures to reconcile amounts included in the letters to underlying supporting documentation as well as a thorough review performed by someone that was not responsible for preparing the information. In addition, controls should ensure that all information required to be remitted to OSRAP is included in the submission.

Treasury has not implemented adequate controls to ensure the investments information submitted to OSRAP is accurate and complete.

Treasury management should implement controls over the preparation and review of investment information submitted to OSRAP to ensure that the information is accurate and includes all required items. In addition, management should ensure evidence of this review is maintained. Management concurred with the finding and provided a corrective action plan (see Appendix A, p. 1).

Untimely Bank Reconciliations

For the second consecutive year, Treasury did not timely complete, review, and approve bank reconciliations during fiscal year 2024. Failure to complete and review bank reconciliations in a timely manner increases the risk that errors and/or fraud could occur and not be detected in a timely manner and increases the risk of inaccurate financial reporting.

We reviewed the following bank reconciliations and noted issues with timely completion:

- Of the eight regional bank account reconciliations reviewed, two (25%) for December 2023 and February 2024 were not completed, reviewed, and approved by Treasury until April 2024 and May 2024, respectively, between 92 and 121 days after the relevant month-end.
- The reconciliation of the state's 2024 cash balance per the LaGov system to the various bank and investment account balances was not completed, reviewed, and approved until December 10, 2024, 163 days after the fiscal year-end.

Good internal control requires accurate and timely reconciliation of bank balances to the accounting records. Bank reconciliations provide management with a basis to ensure that all transactions that affect both the bank accounts and the accounting records agree, and are critical to ensuring proper reporting within the State's Annual Comprehensive Financial Report. Reconciliations are also helpful in identifying misappropriations.

The Department has not implemented effective internal controls to ensure that all regional bank reconciliations are completed and reviewed timely. In regards to the LaGov System cash reconciliation, the responsibility of accounting for and reconciling check disbursements shifted from the Office of State Uniform Payroll (OSUP) to Treasury during November 2023. According to Treasury, after this transition it experienced issues in reconciling the check disbursements that are part of the year-end LaGov System cash reconciliation. Per Treasury, the Department worked closely with personnel at OSUP since November 2023 to finalize research on various differences noted in the reconciliations. Treasury employees initially trained on performing these reconciliations are no longer with the agency, and the department is in the process of training new employees to handle these duties. In addition, according to Treasury, year-end agency-level bank reconciliations performed by various agencies and provided to Treasury for use in the overall LaGov System cash reconciliation were not completed accurately, necessitating additional corrections. This also led to the delay in the completion of the LaGov cash reconciliation.

Management should implement adequate internal controls to ensure that bank reconciliations are completed, reviewed, and approved in a timely manner and that evidence supporting these actions is maintained. Management should consider implementing a monitoring control over the agency-level bank reconciliations to avoid

continuing issues with completing the year-end LaGov cash reconciliation in a timely manner subsequent to fiscal year-end. Management concurred with the finding and provided a corrective action plan (see Appendix A, p. 2).

Annual Comprehensive Financial Report – State of Louisiana

As a part of our audit of the ACFR for the year ended June 30, 2024, we considered internal control over financial reporting and examined evidence supporting cash, investments, and bonds.

Based on the results of these procedures, we reported findings related to Inadequate Controls over Preparation of Financial Reporting Information (which will also be included in the Single Audit for the year ended June 30, 2024), and Untimely Bank Reconciliations, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2024, we performed certain procedures as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on information submitted by Treasury to the Division of Administration's Office of Statewide Reporting and Accounting Policy on the status of the fiscal year 2021 finding for the preparation of the state's Summary Schedule of Prior Audit Findings.

Based on the results of these procedures, we did not report any findings. In addition, Treasury's information submitted for the state's Summary Schedule of Prior Audit Findings, as adjusted, is materially correct.

Trend Analysis

We compared the most current and prior-year financial activity using Treasury's Annual Fiscal Reports and/or system-generated reports and obtained explanations from Treasury's management for any significant variances.

The recommendations in this letter represent, in our judgement, those most likely to bring about beneficial improvements to the operations of Treasury. The nature of the recommendations, their implementation costs, and their potential impact on the operations of Treasury 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.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Mike Waguespack', with a stylized flourish extending to the right.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

DG:CST:BH:BQD:aa

STO2024

APPENDIX A: MANAGEMENT'S RESPONSES



John Fleming, MD
LOUISIANA STATE TREASURER

(225) 342-0010
www.treasury.la.gov

Post Office Box 44154
Baton Rouge, LA 70804

December 30, 2024

Mr. Michael Waguespack
Legislative Auditor
1600 N. 3rd Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Waguespack,

The Louisiana Department of Treasury (Treasury) appreciates the Louisiana Legislative Auditor's (LLA) assistance completing the 2024 GASB reports. Please accept this letter as our official response to the finding titled "Inadequate Controls over Preparation of Financial Reporting Information." Treasury concurs with the finding and stresses all state funds were properly accounted for and accurately recorded in the State's accounting system.

In 2024, the GASB investment letters were consolidated from five to two reports. Investment classifications and disclosures are now reported on GASB Codification I50 and I60. While these reports are similar to previous ones, the new reports require considerably more information and changes in investment classifications. These changes led to misclassifications and omissions in disclosures following GASB standards.

Treasury's procedures will be revised to reflect the changes in reporting investment policies, classifications, and disclosures. Additionally, Treasury will ensure a review is conducted before submission to minimize errors in the required GASB reports. These changes will ensure investment information submitted to OSRAP is accurate and complete. The Chief Investment Officer, Amy Mathews, will implement the corrective action by March 1, 2025.

Sincerely,

John Fleming, MD
Louisiana State Treasurer

cc: Rachel Kincaid, First Assistant State Treasurer
cc: Renee Free, Chief of Staff
cc: Karen Loftin, Executive Counsel
cc: Lindsay Schexnayder, CFO
cc: Amy Mathews, CIO
cc: Elizabeth Bourgeois, Internal Auditor
cc: Desie T. Mack, Confidential Assistant



John Fleming, MD
LOUISIANA STATE TREASURER

(225) 342-0010
www.treasury.la.gov

Post Office Box 44154
Baton Rouge, LA 70804

January 4, 2025

Mr. Michael Waguespack
Legislative Auditor
1600 N. 3rd Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Waguespack:

Please accept this letter as our official response to the finding titled “Untimely Bank Reconciliations.” Treasury concurs with the finding and stresses mitigating controls were in place to ensure all state funds were properly accounted for and accurately recorded.

As with any large-scale accounting system implementation, many unforeseen issues only become known after implementation becomes live. Treasury encountered many unexpected ongoing challenges resulting from the conversion to LaGov and continues to adapt, working with the implementation team and other agencies to resolve these issues. While we could not complete the full LaGov system reconciliation in a timely manner, the accounts included in the reconciliation sweep in and out of the central account and are reconciled daily and monthly. This mitigating control helps ensure transactions are correctly accounted for and reconciled in a timely manner.

Compounding the typical challenges posed by phasing in a new state-wide accounting system, Treasury experienced staffing and turnover in the positions pivotal to reconciling accounts timely, agencies providing incorrect reconciliations to Treasury, responsibility of reconciliations previously performed by OSUP, and incompatible file formatting, relating to the encryption of the transmission files, from Chase to LaGov taking four months to resolve.

The most challenging issue Treasury faced in the LaGov system reconciliation was completing the ACH and check reconciliations, which were transferred from OSUP. During the training meetings with OSUP, there were numerous reconciling issues that OSUP could not identify. Ultimately, Treasury worked with OSUP and the LaGov team to identify the correct general ledger accounts in LaGov to complete the reconciliations. The identification and inclusion of these eighteen general ledger accounts contributed significantly to the delay.

Treasury has hired staff with LaGOV expertise that have made numerous process improvements, which will ensure against future occurrences. Treasury will continue to work closely with the LaGov team and OSUP to resolve any remaining concerns, complete the outstanding reconciliations timely, and create a working group to develop new reports to ensure reconciliations are completed timely and efficiently. The Chief Financial Officer, Lindsay Schexnayder, will oversee the corrective actions throughout the fiscal year.

Sincerely,

John Fleming, MD
Louisiana State Treasurer

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Treasury (Treasury) for the period from July 1, 2023, through June 30, 2024, to provide assurances on financial information significant to the State of Louisiana's Annual Comprehensive Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2024.

- We evaluated Treasury's 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 Treasury.
- Based on the documentation of Treasury's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Annual Comprehensive Financial Report.
- We performed procedures on the status of the fiscal year 2021 finding for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2024, as a part of the 2024 Single Audit.
- We compared the most current and prior-year financial activity using Treasury's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from Treasury's management for significant variances.

The purpose of this report is solely to describe the scope of our work at Treasury and not to provide an opinion on the effectiveness of Treasury's 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 Treasury's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. Treasury's accounts are an integral part of the State of Louisiana's Annual Comprehensive Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.