Audit Highlights

Highlights of Legislative Auditor report on Internal Controls in State Government, issued on October 11, 2001. Report # LA02-14.

Purpose of Audit

The purpose of this audit was to evaluate the status of internal controls in the State. It included a review of internal control activities of state agencies as of December 31, 2000.

Audit Recommendations

This report contained four recommendations to improve internal controls in state government. Specifically, the Department of Administration should work with agency heads to re-emphasize the importance of strong controls and help ensure internal control requirements of the State Administrative Manual are adhered to. In addition, the Department should focus more attention on providing assistance to agencies in high-risk areas, and provide agencies with updated internal control guidance.

The Department of Administration accepted three of the audit recommendations; however, it rejected the recommendation to focus more attention on providing assistance to agencies in high-risk areas that significantly impact operations.

Status of Recommendations

The Department of Administration submitted the six-month report on the status of audit recommendations on July 11, 2002.

The Department of Administration indicated that two recommendations had been fully implemented and one recommendation had been partially implemented, with full implementation expected in the near future.

Furthermore, the Department reported that although one recommendation had not been implemented, it was being addressed through alternative measures. On October 30, 2002, the Division of Internal Audits provided further information on the alternative measures being taken to address the audit recommendation. Based on our review of this information, the steps taken by the Division satisfied the intent of our audit recommendation.

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Internal Controls in State Government

Results in Brief

The Legislature has demonstrated its commitment to effective internal controls by passing laws to strengthen controls at state agencies. In addition, the Legislature created the Office of Financial Management, Training and Controls (FMTC) to provide training and technical assistance to agencies regarding their systems of internal control. Despite these efforts, management's commitment to internal controls in state government is lacking. Agency managers have not always established strong internal control systems and have not always implemented recommendations designed to improve controls. As shown in recent legislative audits, the failure to establish sound controls has a significant cost to the State. On the other hand, when weaknesses identified in audits have been addressed, the State has seen significant improvements and millions of dollars in cost savings.

Principal Findings

Some agencies have been aware of internal control weaknesses for years but have not taken action to correct the problems. Several recent legislative audit reports included findings and recommendations that had been included in previous audits of the agencies. For example, although a 1993 audit had recommended the Division of Child and Family Services establish a written system of internal control, the recommendation was not implemented at the time a subsequent audit was conducted in 1999. In addition, a 2000 audit found the Real Estate Division had not adequately strengthened internal controls over cash as recommended in a 1994 audit—despite the identification of an embezzlement in a previous audit.

Agencies have not always implemented recommendations made by FMTC to strengthen internal controls. FMTC makes recommendations based on training sessions, and reviews and evaluations of agency policies and procedures. However, FMTC records indicate that as of June 2000, 37% of agencies receiving training and assistance had not adequately implemented recommendations.

Although statutes require agency heads to periodically review their internal controls, the reviews are not always performed. As of July 1, 2000, only 67% of state agencies reported conducting a review of their control systems. Although this is an improvement over the 54% reported in 1998, it still means that 47 agencies did not comply with the law.

A reason weaknesses continue to occur is that many agency employees do not have a sufficient level of knowledge to design and implement internal control systems. In the past, state financial management positions have not always been filled with qualified personnel.

Effective internal controls can save the State millions of dollars. Agencies implementing audit recommendations to strengthen internal controls have achieved significant savings for the State. For example, by revising its policy for delinquent account collection, we estimate the Division of Parole and Probation increased its collection of offender supervision fees by $800,000 in fiscal year 2000. In addition, based on audit recommendations the Department of Prisons strengthened controls over utilization of outside medical care. We estimate the improved controls saved the State approximately $3 million during fiscal years 1999 and 2000.

During fiscal years 1996 through 2000, over 1,400 state employees participated in FMTC internal control training. The training sessions focused on financial and administrative requirements applicable to state agencies. Although agencies have developed written policies and procedures as a result of the training, some agencies have fallen short in the development of adequate controls in specific areas. These weaknesses often occur in areas related to unique aspects of an agency's function. Therefore, agencies would benefit by having FMTC provide more extensive assistance in establishing controls over specific, high-risk processes.

In May 2001, the Board of Examiners approved changes to the State Administrative Manual updating the definitions and standards of internal control. As a result of the control standards being updated, the guidance provided to assist agencies in meeting the standards also needs updating.