Key Audit Issues

2014

Louisiana Legislative Auditor

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Introduction

The mission of the Louisiana Legislative Auditor (LLA) is "to foster accountability and transparency in the Louisiana government by providing the Legislature and others with audit services, fiscal advice, and other useful information."

Nearly 300 employees in seven audit/advisory areas--Actuarial, Advisory, Financial, Investigative, Local Government, Performance, and Recovery, with the support of staff in Accounting, IT, Legal, and other administrative areas carry out the work. Every fiscal year, the Legislative Auditor issues approximately 200 audit reports covering a variety of topics and state agencies. Independent contract auditors issue another 3,000 reports on state and local governments for the year, under the audit umbrella of the Legislative Auditor.

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Legislative Auditor

This special report was prepared to comply with Louisiana Revised Statute 24:513 D (1). The purpose of this report is to review the work of the Legislative Auditor's Office over the past few years and identify significant issues facing state and local governments in the coming year.

The goal of identifying these issues is to encourage corrective actions, such as policy changes, improved procedures, or legislative action that will reduce the impact of these issues and increase both accountability and transparency in Louisiana government. The reports cited and summarized below all contain specific recommendations and/or matters for legislative consideration and can be found on the Legislative Auditor's website. These reports include management's responses and plans. In some instances, corrective actions have already been implemented or may be in progress.

The report is organized around the three major issues, or themes, identified as significant to the effective and efficient operations of state and local government. Each theme is broken down into specific areas and describes the findings of the pertinent audit reports.

Theme 1: State Government Funding

The following excerpts from reports issued previously regarding state government funding indicate that while the state continues to struggle with the funding of higher education, meeting its long-term obligations to its pension systems, and approaching the limit of its borrowing ability, it also continues to lose significant funding through missed revenue opportunities and improper payments as well as public policy decisions providing for tax exemptions and tax credits. The past findings point to a need to place greater emphasis on the collection of revenues due to the state, greater control over the cost of delivering services, and more effective analysis of the return on investment of existing public policy with regard to exemptions and credits that reduce Louisiana's tax collections.

The reports for this theme are divided into the following areas:

Area 1: Tax Exemptions and Tax Credits

Tax exemptions and tax credits are economic incentives used by the state to encourage existing businesses to expand, new businesses to start up, or businesses in other locations to build facilities in Louisiana. By their nature, exemptions and credits cost the state money. The expectation is that by giving up money on the front end, the state will realize even greater revenue over the long term.

As of October 2012, 44 (52 percent) of Louisiana's 85 tax credits resulted in at least $1 million each of revenue loss to the state for at least one year from calendar years 2006 to 2011. Six of these 44 tax credits also had a rebate component that resulted in additional revenue loss.

Overall, Louisiana had a tax revenue loss of approximately $5.4 billion from tax credits from 2006 through 2011 and a tax revenue loss of approximately $731 million from rebates for fiscal years 2008 through 2012.

The Legislative Auditor found that state law did not require agencies that administer tax credits and other exemptions to track and report their return on investment. As a result, it is difficult to determine the overall impact of tax credits on Louisiana. *(Tax Credits and Rebates in Louisiana, March 2013).* Act 191 of the 2013 Regular Session now requires every state agency that administers tax credits and rebates to annually report to the Legislature information including whether each tax incentive has been successful in meeting its purpose, whether the tax incentives resulted in a positive return on investment for the state, and any unintended harm or benefits that resulted.

The Louisiana Department of Economic Development (LED) determines the economic impact of the Motion Picture Tax Credit (MPTC) program, as required by state law, through a fiscal and economic impact analysis produced by a third-party consultant. The April 2011 impact analysis showed an estimated economic output of $5.40 per $1 of credit given in calendar year 2010. While the economic output of the MPTC program appears to be positive per the consultant's analysis, the fiscal impact to state government was negative. According to the impact analysis, LED granted an estimated $196.8 million in credits during calendar year 2010. In turn, the state received $27 million in taxes from the motion picture industry. The result was a net cost to the state government of $169.8 million for calendar year 2010. Based on the most recent impact analysis released by LED in April 2013, the MPTC program still has a positive economic output and a negative fiscal impact on state government. *(Department of Economic Development and Department of Revenue - Motion Picture Tax Credit Program, April 2013)*

The amount of corporate and franchise income tax credits claimed from tax years 2005 through 2010 resulted in a tax liability reduction of approximately $3 billion out of a total tax liability of $5.4 billion, an average revenue loss of approximately 55 percent. The amount of individual income tax credits claimed from tax years 2005 to 2010 resulted in a tax liability reduction of approximately $1.8 billion out of a total tax liability of $16.5 billion, an average revenue loss of approximately 11 percent. This money may have been eligible for collection as tax revenue by the Louisiana Department of Revenue if these tax credits did not exist. *(Department of Revenue - Tax Credits and Other Exemptions - Informational Report, February 2012)*

When the Enterprise Zone program was created in 1981, it was designed to stimulate growth in enterprise zones by providing tax incentives to businesses that locate to and operate in these areas. Act 977 of the 1999 Regular Legislative Session eliminated the requirement that businesses must locate to or operate in an enterprise zone to qualify for EZ program incentives, but did not change the purpose of the law. Therefore, the program's current design and operation are not consistent with its statutory purpose.

As a result, from calendar years 2008 through 2010, approximately 632 (68 percent) of the 930 businesses that received Louisiana Enterprise Zone program incentives were located outside of a designated enterprise zone. These businesses received approximately $123.9 million (61 percent) of the $203.1 million in total EZ program incentives granted during the same timeframe. In addition, about $3.9 billion (60 percent) of the $6.5 billion in capital investment by businesses that were granted EZ program incentives was invested outside of a designated enterprise zone. Finally, about 12,570 (75 percent) of the 16,760 net new jobs created by businesses granted EZ program incentives were located outside of an enterprise zone. *(Department of Economic Development - Enterprise Zone Program, April 2012)*

Area 2: Erroneous or Improper Payments

Erroneous or improper payments are defined as monies paid to ineligible recipients or overpayments to otherwise eligible recipients.

The state overpaid $12.9 million in severance tax refunds from fiscal years 2009 through 2012 but has only recouped $3.3 million, for a loss of $9.6 million. In addition, the state paid $23.9 million in interest related to severance tax payment refunds because of program rules that make it more advantageous for companies to delay submission of their exemption applications to the Department of Natural Resources' Office of Conservation. Under the rules, a company must pay its severance taxes until it submits its exemption application. The longer a company takes to file the application, the more interest it earns on its severance tax payments. *(Department of Revenue - Severance Tax Payments, November 2013)* The Department of Revenue is currently working with the Department of Natural Resources to change program rules to avoid paying severance tax refunds and related interest while exemption applications are pending approval.

Severance Oil and Gas Refunds and Interest • Fiscal Year 2009 Through Fiscal Year 2012				
Fiscal Year	**Number of Refunds**	**Refund Before Interest***	**Interest**	**Total Refund Amount**
2009	1,396	$16,883,031	$2,240,960	$19,123,991
2010	4,991	67,645,706	7,185,150	74,830,856
2011	3,898	99,472,690	6,359,215	105,831,905
2012	3,533	176,189,156	8,073,687	184,262,843
Total	**13,818**	**$360,190,583**	**$23,859,012**	**$384,049,595**

*In January 2010, LDR stopped giving companies the choice of either receiving a refund or a credit to their account to offset future taxes owed because of issues with the process, including the time involved for LDR staff. Instead, LDR began only refunding overpayments.

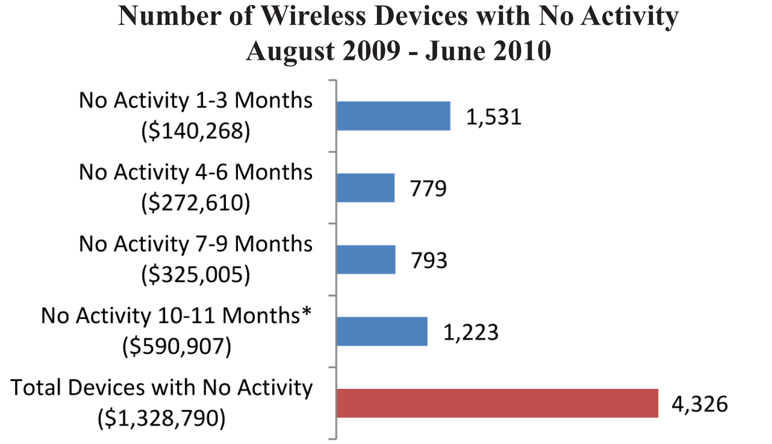
Vendors in the Women, Infants and Children program were overpaid $655,132 because OPH had assigned them to the wrong tier. According to the Office of Public Health, it has now reassigned these vendors to the correct tier. *(Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - Office of Public Health, November 2013)*

Nearly $2.8 million in SNAP benefits were paid out over fiscal years 2010, 2011, and 2012 to recipients who appeared to be ineligible to receive them. Those ineligible included incarcerated prisoners, convicted felons, and people who may have exceeded the income threshold. *(Supplemental Nutrition Assistance Program - Department of Children and Family Services, May 2013*)

Child-care providers received $312,828 in potentially improper payments during fiscal year 2011 because some providers received payments for children who lived with them. Some providers also received duplicate payments. *(Department of Children and Family Services - Processes to Prevent, Identify, and Recover Improper Payments in the Child Care Assistance Program, April 2012)*

During fiscal year 2013, DHH paid New Opportunities Waiver (NOW) claims under Medicaid totaling $16,217 ($10,624 federal funds and $5,593 state match) for waiver services that were not documented in accordance with established policies, which may have to be repaid to the federal government. The NOW is administered by the DHH Office for Citizens with Developmental Disabilities. Improper payments for waiver services have been reported in 11 of the last 14 audits totaling $564,365. In addition, DHH paid claims totaling $12,956 ($8,488 federal funds and $4,468 state match) to providers of Non-Emergency Medical Transportation (NEMT) for services billed to Medicaid that were not provided in accordance with established policies. *(Department of Health and Hospitals - Baton Rouge Main Office Operations, December 2013)*

Between June 2009 and August 2010, the state incurred a total of $1.4 million in wireless device overage charges and in charges for wireless devices that had no activity for at least one month. *(Staff Wireless Device Costs - Division of Administration, June 2011)*



*This row represents only two months of devices with no activity because the July 2009 usage data was excluded.

DOTD effectively double-counted audit costs in its indirect cost rate proposal, resulting in an overstated indirect cost rate and overbillings of $144,228, which may need to be repaid to the federal government. DOTD included both the audit costs paid during fiscal year 2013 and the audit costs per the Statewide Cost Allocation Plan (SWCAP), resulting in overbillings to the Federal Highway Administration for the Highway Planning and Construction Cluster for fiscal year 2013. *(Department of Transportation and Development, December 2013)*

During fiscal year 2013, DCFS did not have adequate controls over the federal Foster Care program, resulting in overpayments to the state Office of Juvenile Justice (OJJ) by $37,323 as a result of using the wrong federal reimbursement percentage. Although the department subsequently attempted to correct the overpayment, the net impact was a $7,528 overpayment as of August 2, 2013. *(Department of Children and Family Services, December 2013)*

During fiscal year 2013, DOE did not properly allocate federal payroll expenditures to the correct federal programs in accordance with the completed employee certifications. This resulted in $96,183 in overcharges to the programs, which may have to be returned to the federal government. *(Department of Education, December 2013)*

Approximately $1.85 million was paid out for participant fees for 1,727 deceased individuals in the Louisiana Behavioral Health Partnership and Bayou Health programs between February 1, 2012, and June 30, 2013. In their response to the audit findings, DHH officials indicated they were taking steps to ensure the Medicaid records were updated and that all overpayments were recouped. *(Medicaid Participant Fees Paid for Deceased Individuals in the Louisiana Behavioral Health Partnership and Bayou Health Programs - Department of Health and Hospitals, October 2013)*

Participant Fee Payments for Deceased Individuals

Date of Participant's Death	Number of Participants	Total Payments
Before February 1, 2012	392	$984,165
Between February 1, 2012, and March 31, 2013	535	796,305
After March 31, 2013	800	69,004
Total	**1,727**	**$1,849,474**

Source: Prepared by legislative auditor's staff using DHH Medicaid and Vital Records data.

Area 3: Missed Revenue Collection

Missed revenue collection is defined as instances in which not all money due to the state is collected by the appropriate agency, as well as instances in which an agency could charge for a service but does not do so.

The state is failing to generate possibly $2 million more in revenue from its state parks because it has not changed its operating policies to allow for increased admission fees during peak seasons or for additional fees based on the amenities offered by different parks. *(Department of Culture, Recreation and Tourism - Office of State Parks, August 2012).* Since the audit, the Office of State Parks has increased entrance fees to state parks by $1 to $2 and increased camping fees based on the season and type of campsite.

The state potentially missed out on nearly $6 million in mineral royalties that were underpaid or not properly calculated, in addition to $5.8 million in late payment penalties that were waived. *(Mineral Royalty Payments - Department of Natural Resources, September 2013)*

Fiscal Year	Penalties Assessed	Penalties Waived by the Board	Penalties Waived by OMR	Total Penalties Waived	Percentage of Penalties Waived
2008*	$3,591,264	$876,085	$154,057	$1,030,142	29%
2009**	3,011,038	1,891,252	64,410	1,955,662	65%
2010**	1,759,583	974,725	109,035	1,083,760	62%
2011	2,745,188	992,882	63,790	1,056,672	38%
2012	1,736,631	637,286	46,515	683,801	39%
Total	**$12,843,704**	**$5,372,230**	**$437,807**	**$5,810,037**	**45%**

*A total of approximately $1.8 million of the penalties assessed in fiscal year 2008 were still outstanding as of March 2013.
** According to the Office of Mineral Resources (OMR), hurricanes Gustav, Ike, and Ida, as well as the BP oil spill that occurred in fiscal years 2009 and 2010, caused extreme circumstances for royalty payors. As a result, the Board waived more penalties during these years.
Note: Penalty amounts assessed do not include related interest. OMR and the Board do not waive interest.
Source: Prepared by legislative auditor's staff using information obtained from OMR.

Unpaid severance taxes owed to the state may have gone undetected by the Louisiana Department of Revenue (LDR) over the past three fiscal years because LDR turned off the non-filer program in its automated GenTax system in September 2010. *(Department of Revenue - Severance Tax Payments, November 2013)*

Area 4: Funding of Obligations

Funding of obligations refers to the state's ability to pay for promises it has made, specifically for pensions and retiree health care. Despite the 1988 constitutional mandate for actuarial soundness, the four state retirement systems in the aggregate are still only about 60 percent funded. The nine statewide retirement systems are somewhat better funded. The state also has 28 local retirement systems - five of which are in the New Orleans metro area. Some of the local systems are poorly funded. While some believe that public retirement systems are adequately funded at 80 percent, actuarial experts contend that the real test of actuarial soundness is a combination of the funded ratio and the ability and resolve of government to make contribution requirements when due. In addition to pensions, the state has failed to put money into a trust fund created to pay for retiree health care and life insurance benefits.

New accounting standards, beginning in the fiscal year 2015, will require the state to include its total pension liability on its financial statements. Currently, this information is only presented in the notes to the financial statements. When implemented, the new standards will reduce the state's reported net financial position by the amount of its unfunded accrued liability (UAL), or $19.0 billion, at June 30, 2013.

The state's commitment to pay down the UAL has changed several times in the past 25 years. Some of the earlier changes resulted in delays in payments toward the UAL. However, the most recent change, Act 497 in 2009, returned money to the regular asset pool that had been previously transferred to the Experience Account that is used to pay for cost-of-living adjustments (COLAs). UAL payments in the future will rise slowly until 2029 at which time payments will go down substantially.

State Retirement Systems Funded Ratios for FYE 2013 included LSERS - 62.1%, LASERS - 60.2%, STPOL - 59.4%, and TRSL - 56.4%.

Because of the concern for sufficient funding in the future to meet the obligations of the state's retirement systems, it is imperative to establish actuarial assumptions that are more likely to produce favorable outcomes rather than new UAL. While a more conservative approach will cause employer contributions to be larger in the short term, funded ratios will increase and the systems will become more sound. *(2012 Actuarial Report on Louisiana Public Retirement Systems, December 2013; 2013 Valuation Reports Issued by the State Retirement Systems)*

Between 1987 and 2013, the combined UAL of the four systems rose from $5.8 billion to $19.0 billion. Roughly half of this increase is due to investment loss; the other half is due to statutory funding and benefit requirements. *(The Funded Status of Louisiana Retirement Systems, March 2013; 2013 Valuation Reports Issued by the State Retirement Systems)*

Components of Change in State Retirement System UAL

Initial UAL at FYE 1989		$ 5.8 billion
Additions to UAL including:		
Delayed Amortization Leading to Principal Growth	$ 3.7 billion	
Investment (Gains)/Losses	5.6 billion	
Allocation of Investment Gains to Pay COLAs	2.9 billion	
Additional Benefits Promised	0.2 billion	
Net Actuarial (Gains)/Losses	0.8 billion	
Total Additions		13.2 billion
Total UAL at FYE 2013		$19.0 billion

The unfunded liability for other post-employment benefits (retiree health care and life insurance) was $8.5 billion as of June 30, 2012. Louisiana has an OPEB trust fund, but no source has been designated to provide money for it. As a result, the state continues to pay for retiree health care and life insurance benefits on a pay-as-you-go basis. *(Comprehensive Annual Financial Report, December 2013)*

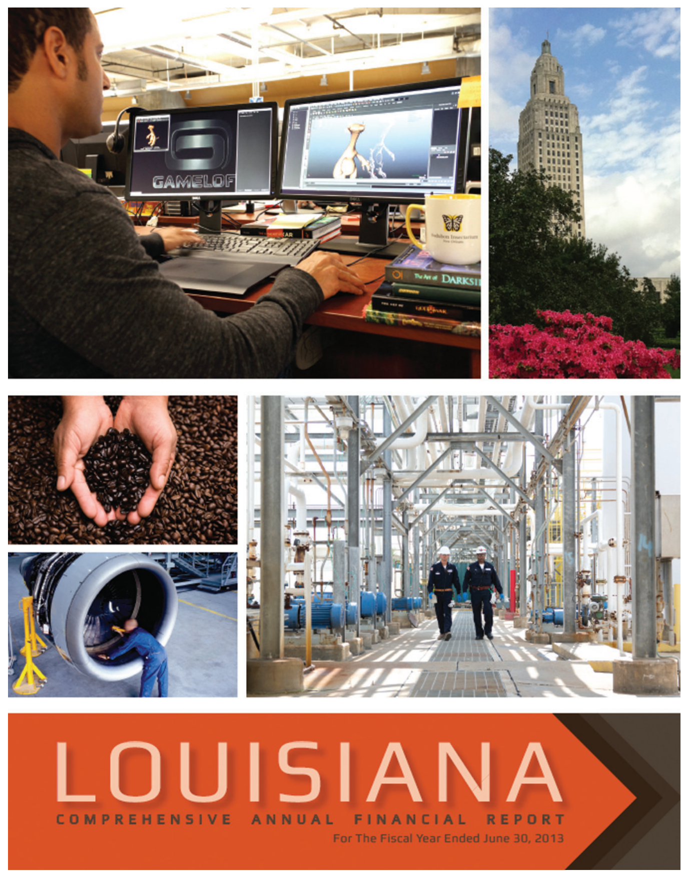
Area 5: Statutory Debt Limit

A significant source of funding for state projects is through the issuance of bonded debt. The cost of this funding is dependent upon the state's bond rating.

The financial information included in the Comprehensive Annual Financial Report (CAFR) statements and notes is used by bond holders and rating agencies to determine the state's financial integrity and set bond rates. In addition, the state is statutorily restricted in the amount of state debt incurred.

The auditor's opinion emphasizes that the state is currently approaching one of these debt ceilings. The maximum amount of annual net state tax-supported debt service payment allowed by statute is 6 percent of estimated General Fund and dedicated funds revenues.

During fiscal year 2013, the total net state tax-supported debt paid was approximately 5.75 percent, or 96 percent of the statutory limit. The 5.75 percent level represents a substantial increase from the 3.78 percent level presented in the CAFR just five years ago and includes an increase in debt service payments of approximately $145 million. The amount of debt service as a percentage of noncapital expenditures has risen from 2.3 percent to 2.8 percent during the same period.



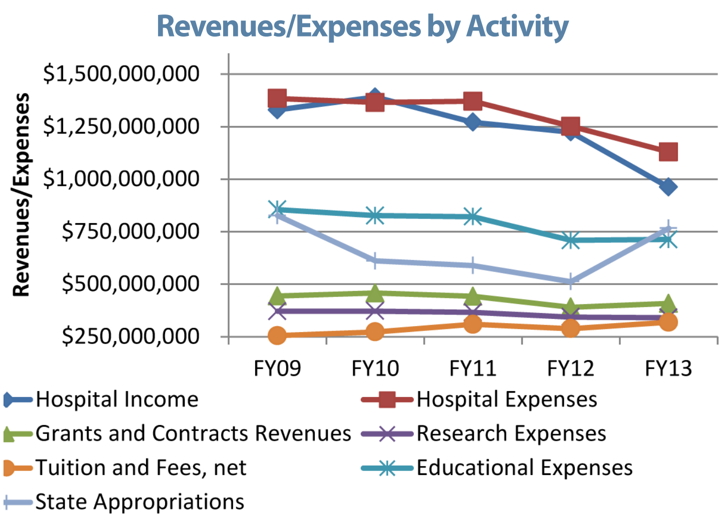
Exceeding this statutory limit may affect the state's bond rating, which could increase the state's cost of borrowing in the future. *(Comprehensive Annual Financial Report, December 2013)*

Area 6: Higher Education Funding

State officials have cut more than $600 million in higher education funding over the past six years. While the GRAD Act (Granting Resources for Autonomy and Diplomas) has allowed some colleges and universities to raise tuition after meeting certain standards, those increases have failed to offset the cuts. Further, the higher tuition amounts have placed a greater burden on students who do not receive TOPS awards and increased the costs of TOPS for the state. The Governor recently announced his plans to raise funding levels for higher education in fiscal year 2015.

Louisiana spent approximately $1.57 billion on the Taylor Opportunity Program for Students (TOPS) from fiscal years 1999 through 2012. Annual expenditures have increased by approximately 213 percent from $53.4 million in fiscal year 1999 to $166.9 million in fiscal year 2012. In addition, Louisiana spent approximately $165 million on TOPS awards for 42,301 students who had their award cancelled from academic years 2002-2003 through 2008-2009. Of those students, 23,676 (56 percent) had their award cancelled in the first year of postsecondary education. *(Louisiana Office of Student Financial Assistance - Taylor Opportunity Program for Students, May 2013)*

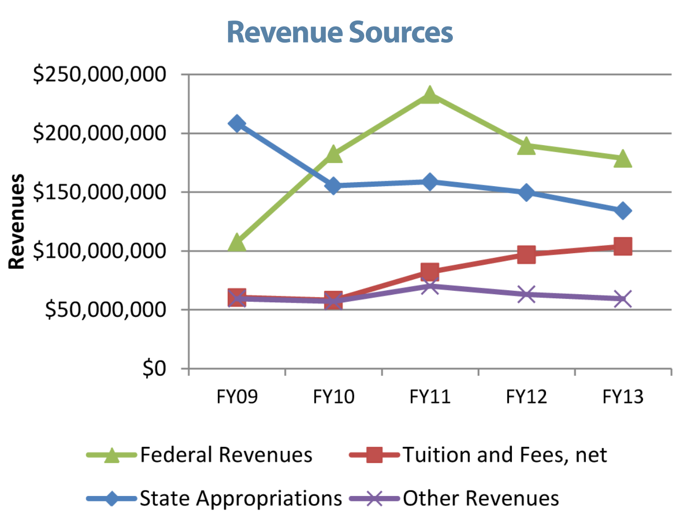
Louisiana State University System



Source: FY09-FY13 LSU System Financial Audit Reports

The LSU System's operating expenses and hospital income continue to decline because of the hospital privatization agreements. Payments received in consideration for these agreements caused an increase in state appropriations for hospital activities; however, state appropriations received for other purposes continued to decrease. *(Louisiana State University System, Report Highlights, December 2013)*

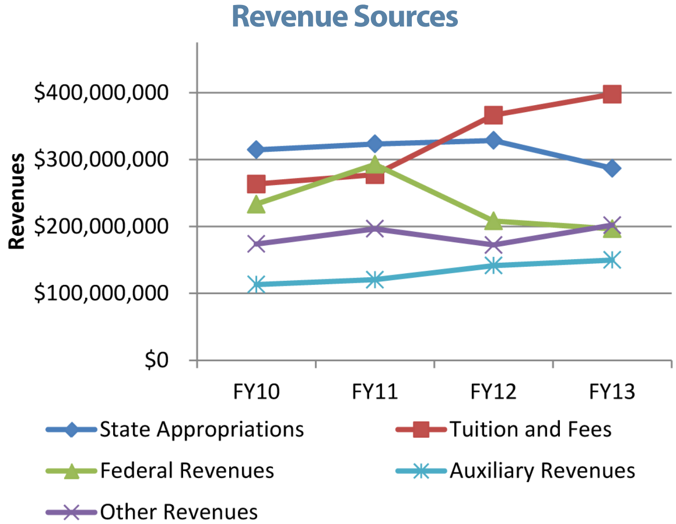
Louisiana Community and Technical College System



Source: FY 09-FY13 System Audited Financial Reports

State appropriations continue to decline, tuition and fees continue to increase, and expenses have decreased. As state appropriations continue to decrease, the Louisiana Community and Technical College System's operations become more dependent on federal revenues and increasing tuition and fees. *(Louisiana Community and Technical College System, Report Highlights, December 2013)*

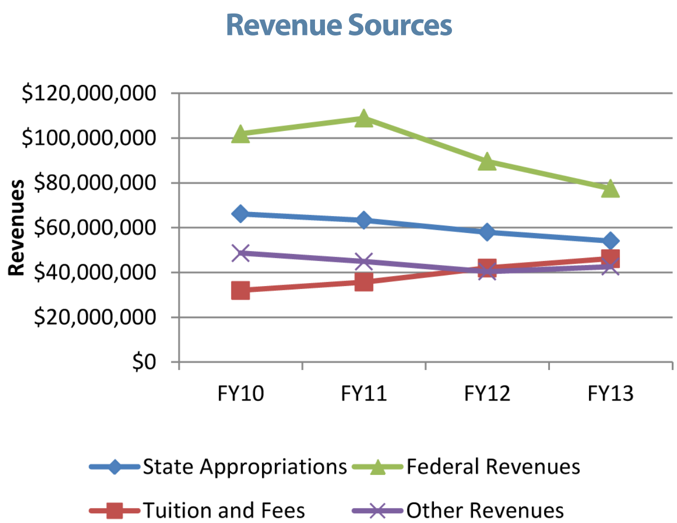
University of Louisiana System



Source: System financial statements

Total University of Louisiana System revenues increased by 1.7 percent during fiscal year 2013, and operating expenses decreased by 1.9 percent. State appropriations decreased by 12.8 percent, tuition and fees increased by 8.5 percent, and revenues from auxiliaries and federal and other sources increased by 6.4 percent, contributing to the overall increase in total System revenues. *(University of Louisiana System, Report Highlights, December 2013)*

Southern University System



Source: Audited financial reports

As state appropriations and federal revenues have declined, the Southern University System has become more reliant on tuition and fees. *(Southern University System, Report Highlights, December 2013)*

Theme 2: Protecting the Public Trust and Accountability

With its efforts at privatization and changes to service delivery, state government has stepped back from its traditional role as a provider and sought alternative ways to offer services. These measures are driven, in part, by the state's financial struggles and a desire to provide services more efficiently and effectively--that is, to improve results.

The following excerpts from recent reports indicate that while Louisiana has embarked upon bold initiatives to reduce costs and/or improve services through privatization, public-private partnerships, and changes to methods of delivering services to Louisiana citizens, these changes come with new risks and responsibilities requiring careful implementation, monitoring, and continued evaluation. In addition, several of the report excerpts below reveal financially troubled local governments, fraud, waste, and abuse. These situations point to the continued need in Louisiana government to increase its emphasis on accountability and transparency through fiscal controls, workforce training, and honest and ethical behavior from its public servants.

The reports for this theme are divided into the following areas:

Area 1: Monitoring Privatization Efforts and Changes to Service Delivery Models

In education, state officials have worked to change the K-12 system. An initial experiment with charter schools has led to a nearly charter-only school district in Orleans Parish and the ability of charter operators to petition all districts for permission to set up schools. In 2012, officials passed legislation for the statewide expansion of a scholarship program that provides money for parents of children in average to failing public schools to enroll them in private and participating public schools. On the health care side, the Charity Hospital System has been broken up and the operation of its component hospitals handed over to private companies through leases and other agreements. The state has also turned over the provision of certain Medicaid services to private companies. In light of all these changes, it is imperative that agency management and state officials effectively monitor the implementation and results of all privatization efforts and changes to service delivery models.

Funding for the Student Scholarships for Educational Excellence Program has risen from $8.9 million in 2011-2012 to $44.6 million in 2013-2014 (as seen in the graphic on page 13). During academic year 2012-2013, the student proficiency rating for 33 of the 118 schools in the program for more than one year was 41.8 percent. The proficiency rating is based on the percentage of scholarship students who scored "Basic" and above on state standardized tests. However, no formal criteria have been established to measure up front whether participating schools have the academic and physical capacity to take students, nor are there any formal criteria to remove schools from the program. There also are no requirements in place for schools to account for how they spend the scholarship money they receive. While the law does not require such tracking, DOE officials have indicated that the department now requires schools receiving scholarship money to account for the funds either through a separate bank account or through segregated accounting within the schools' accounting systems. *(Student Scholarships for Educational Excellence Program - Department of Education, December 2013)*

Several transition problems were reported after the state's behavioral health programs were transferred from the Office of Behavioral Health to Magellan Health Services. The problems included confusion over how certain services were to be provided and issues with claims payments, which increases the risk that fees for services may not be collected. In addition, $254,376 was forfeited because of cancelled contracts with a previous records management system. *(Department of Health and Hospitals - Office of Behavioral Health Louisiana Behavioral Health Partnership, August 2013)*

After the first year of a five-year contract with F.A. Richard & Associates, the Office of Risk Management had achieved about **$10 million** of the **$22 million** it projected it would save in five years by privatizing insurance lines. *(Office of Risk Management - Cost Savings Update Fiscal Year 2012, June 2013)*

For fiscal year 2012, the Louisiana Department of Education either did not monitor or could not show it was monitoring charter schools' self-reported performance data, compliance with legal and contractual requirements, or ability to meet the standards necessary to keep operating if the schools had been placed on probation. *(Louisiana Department of Education - Monitoring of Charter Schools, May 2013)*

At the beginning of fiscal year 2013, there were seven state-run charity hospitals under the LSU Health Care Services Division (HCSD). During the fiscal year, LSU privatized the operation of five hospitals, resulting in the closure of one hospital and the lease of four hospital buildings and equipment to private organizations. Earl K. Long Medical Center in Baton Rouge closed on April 14, 2013, and on June 24, 2013, the operations of the Medical Center of Louisiana at New Orleans, University Medical Center at Lafayette, Leonard J. Chabert Medical Center in Houma, and Walter O. Moss Regional Medical Center in Lake Charles were transferred to private organizations. At the end of 2013, LSU was negotiating with the Franciscan Missionaries of Our Lady to assume operations in March 2014 of Washington-St. Tammany Regional Medical Center in Bogalusa. Lallie Kemp Regional Medical Center in Independence remains under HCSD. Over the past three years, the HCSD privatizations resulted in the elimination of 6,547 positions, and the reduction of annual salaries totaling $271 million. Projected revenue for the first 12 months of the agreements is $403 million, with projected revenues of $3.4 billion over the remaining terms of the leases/contracts. *(Louisiana State University Health Sciences Center - Health Care Services Division, December 2013)*

HCSD/LSU had other costs associated with the termination of the employees. One-time termination pay of approximately $29 million was projected upon privatization. HCSD estimates that unemployment costs of approximately $13 million will have to be paid. HCSD is also estimating health insurance and life insurance legacy costs of approximately $26 million will have to be paid annually. These estimated costs represent the employer share of current and potential retirees' health/life premiums that the state is responsible for

Continued on next page

paying. HCSD will have limited future income to pay health benefits legacy costs and the termination and unemployment costs were not planned for in the 2013 budget. According to HCSD, the Division of Administration and Department of Health and Hospitals are aware of these expenses and are working to find a mechanism to fund them. *(LSU HCSD Network Hospital Closure/Privatization, May 2013)* In addition, although the state's overall employer retirement contribution amount went down because of the privatizations, individual agencies may see an increase in their employer contribution rates to support the loss of contributing HCSD employers/employees, which may affect the agencies' ability to provide services.

In addition to the HCSD privatizations, LSU Health Sciences Center in Shreveport (HSCS) privatized its primary Shreveport hospital and E.A. Conway Medical Center in Monroe on October 1, 2013. Huey P. Long Medical Center, the remaining HSCS hospital, is expected to be privatized by June 30, 2014. *(Louisiana State University - Health Sciences Center in Shreveport, December 2013)*

Area 2: Protecting the Public

Protecting the public refers to the need to ensure that residents receive the services they expect and that the tax dollars used to fund those services are used appropriately.

The Louisiana Tax Commission did not ensure that residential property tax assessments were accurate. Among other problems, it did not follow up on properties with assessments outside of the 9 percent to 11 percent acceptable range of their fair market value, and it approved more than $118 million in assessment decreases and $10 million in increases between 2010 and 2012 without determining the accuracy of the new assessments. Commission members also did not make sure that parish tax assessors reappraised residential properties every four years as required by the Constitution. *(Louisiana Tax Commission - Residential Property Tax Assessments, July 2013)*

Same Neighborhood Property Comparison Examples

Property A
Living Area: 2,848 square feet
LTC's Fair Market Value: $569,600
Assessor's Assessed Value: $65,000
Percent of Fair Market Value: 11.4%
2011 Taxes Due: $8,564.37
2012 Taxes Due: $8,534.47

Property B
Living Area: 2,812 square feet
LTC's Fair Market Value: $562,400
Assessor's Assessed Value: $23,760
Percent of Fair Market Value: 4.2%
2011 Taxes Due: $2,478.18
2012 Taxes Due: $2,469.72

The Office of Motor Vehicles saved at least $3.3 million in fiscal year 2012 by contracting with public tag agents (PTAs) to provide vehicle registration services. However, because of the convenience fee PTAs are permitted to charge in addition to vehicle registration fees, consumers may pay up to $18 more in fees for vehicle registration services when they choose to use a PTA instead of an OMV field office. The Legislative Auditor found that OMV did not monitor the additional convenience fees charged by public tag agents or whether the agents resolved issues identified in internal audits conducted by the Department of Public Safety (DPS). In addition, the Legislative Auditor found that DPS only conducted audits on about a third of public tag agents. *(Office of Motor Vehicles - Cost Savings and Monitoring of Public Tag Agents, March 2013)*

OMV Field Office
$39 Vehicle Registration Fee (average)*
+ N/A Statutorily Allowed Convenience Fee

Total Cost:
$39

PTA
$39 Vehicle Registration Fee (average)
+ $18** Statutorily Allowed Convenience Fee

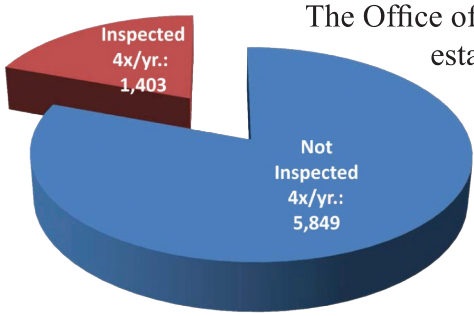
Total Cost:
$57

*The average vehicle registration fee includes the certificate of title fee, the lien recordation fee, and the handling fee.
**PTAs can charge less than an $18.00 fee. This is the maximum amount statutorily allowed.

Source: Prepared by legislative auditor's staff using information provided by OMV's policies and procedures and R.S.47:532.1.

The Department of Health and Hospitals did not have adequate processes and controls to ensure that approximately $4 million of claims payments for four human services districts/authorities were identified, reconciled, and properly classified timely in the state's accounting system so that the districts/authorities could access these payments for services provided. Delays in accessing payments for services could potentially limit the districts/authorities' ability to deliver future services. *(Department of Health and Hospitals - Office of Behavioral Health Louisiana Behavioral Health Partnership, August 2013)*

The Division of Adult Probation and Parole did not evaluate the effectiveness of its offender supervision process or ensure staff conducted the required supervision activities. (*Department of Public Safety and Corrections/ Corrections Services - Division of Adult Probation and Parole: Offender Supervision, December 2012)*



The Office of Public Health (OPH) did not conduct the required number of food establishment inspections, fully disclose the results of those inspections, or enforce compliance orders. As a result of the audit, OPH has increased permit fees, reorganized the agency, and increased the number of inspection and enforcement actions. *(Department of Health and Hospitals - Office of Public Health - Retail Food Regulation, November 2012)*

Area 3: Monitoring of Subrecipients and Contractors

With the increasing privatization of state services, more third parties now receive public money. As with protecting the public trust, monitoring how these subrecipients and contractors use the money they receive is critical to ensure services are delivered in the most effective and efficient manner possible.

The Department of Health and Hospitals failed to obtain an external quality review on the privatized state management organization (Magellan) for the Louisiana Behavioral Health Partnership. The two-year contract for almost $363 million with Magellan will expire on February 28, 2014, and could be extended for an additional year without knowing if the contractor has substantially complied with federal regulations, state regulations, and contract requirements. *(Department of Health and Hospitals - Baton Rouge Main Office Operations, December 2013)*

The Louisiana Workforce Commission did not complete desk reviews or on-site monitoring reviews for any of the 18 subrecipients of the Workforce Investment Act Cluster program. Failure to timely complete monitoring reviews impairs LWC's ability to ensure that program funds passed through to its subrecipients are spent in accordance with program regulations and increases the risk of improper payments that the state may have to repay to the federal government. WIA program expenditures totaled $36 million during fiscal year 2013. Of this amount, approximately $30.5 million, including $419,201 in American Recovery and Reinvestment Act funds, was provided to subrecipients who were not adequately monitored. *(Louisiana Workforce Commission, December 2013)*

The Louisiana Public Defender Board does not adequately monitor the performance of all capital defense attorneys to ensure they are providing high quality legal representation as required by state law. In addition, LPDB has not created mandatory statewide performance standards for attorneys as required by state law. *(Oversight of Capital Defense Services - Louisiana Public Defender Board, February 2014)*

OPH failed to conduct required on-site reviews to adequately monitor the food storage and distribution activities of its contracted local agency, Catholic Charities Food for Families/Philmat, for the Commodity Supplemental Food Program (CSFP). As a result, the program may not be operating effectively and providing food only to eligible participants. Since the number of program participants is capped by the federal grantor, any inefficiency in operations could limit the services and food commodities provided to other needy residents. The CSFP provided $17,644,811 in food commodities during fiscal year 2013. *(Office of Public Health, December 2013)*

LDAF did not adequately monitor the Emergency Food Assistance Program's five subrecipients who received food commodities and administrative cost reimbursements totaling $8,908,834 and $1,141,283, respectively, during the fiscal year ended June 30, 2013. Failure to properly monitor subrecipients results in noncompliance with program requirements and increases the likelihood that federal funds may have to be returned to the federal grantor. *(Department of Agriculture and Forestry, December 2013)*

The Office of Juvenile Justice does not evaluate the effectiveness of prevention and diversion programs as required by state law. From fiscal year 2013 to fiscal year 2014, OJJ decreased its prevention and diversion contracts by 57 percent (from 42 to 18) without evaluating which programs were the most effective. OJJ did not renew six (60 percent) of the 10 programs with the lowest entry rate into the juvenile justice system for fiscal year 2014; two of which had a 0 percent entry rate. *(Office of Juvenile Justice - Monitoring of Prevention and Diversion Contract Providers, February 2014)*

Area 4: Fiscal Administration in Local Government

With the ongoing reduction in federal and state funding to local governments and a challenging economy, local government officials are being pressured to do more with less. This financial pressure can lead to decreased services, reduced staff, and weakened controls. In addition, the likelihood of fraud is increased because of heavier workloads and salary stagnation among staff. Many small local governments do not have the fiscal expertise needed to develop adequate controls, prepare accurate and timely financial statements, and make decisions using available financial data. Sometimes the problems become so severe that the state must step in and appoint a fiscal administrator to help a local government get back on track.

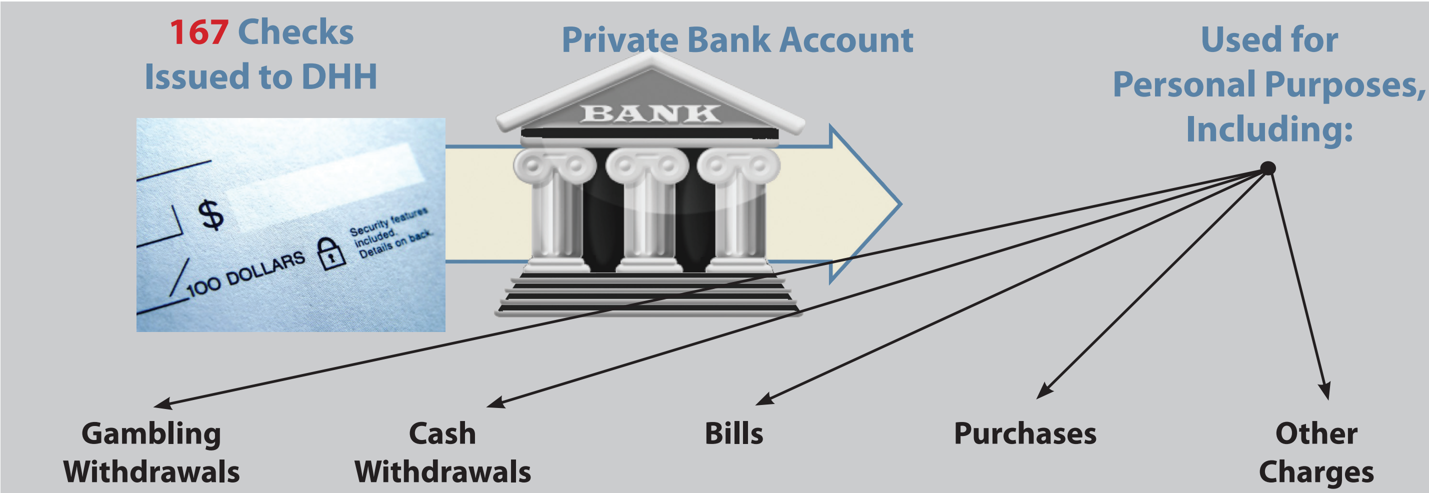
The Town of Jonesboro was delinquent in paying outstanding debts, including $120,461 in workers' compensation insurance, $15,684 in general liability insurance, $3,103 in state sales taxes, and $38,326 in employee withholding taxes. In addition, the customer meter deposit bank account was underfunded by $85,000. A fiscal administrator was appointed. *(State of Louisiana, Through James D. "Buddy" Caldwell Attorney General Versus Town of Jonesboro, June 2012)*

The Town of Gibsland was delinquent in paying $23,000 for four U.S. Department of Agriculture (USDA) loans and $114,421 short in funding USDA Loan Reserve accounts; had a projected $6,750 per month negative cash flow; owed $220,000 to vendors; and underfunded its customer meter deposit bank account by $13,000. A fiscal administrator was appointed. *(State of Louisiana, Through James D. "Buddy" Caldwell Attorney General Versus Town of Gibsland, October 2013)*

The Town of Richwood was in default for $195,000 of a $200,000 loan; had a negative cash flow of $26,000 per month for the previous six months; owed vendors $635,000; and was late paying town employees four times because of cash shortages. A fiscal administrator was appointed. *(State of Louisiana, Through James D. "Buddy" Caldwell Attorney General Versus Town of Richwood, October 2013)*

Area 5: Stewardship of Public Officials and Employees

Internal controls are the foundation of a good financial management system, and public officials and employees are the stewards of their respective financial systems. Good controls communicate expectations, safeguard resources, and help prevent the misappropriation of assets. Controls are deficient at some state entities and in many local governments, as the following examples demonstrate. When internal controls are strengthened, governing bodies have better financial management, and the potential for fraud is reduced.



The former fiscal director for the Department of Health and Hospitals diverted 167 checks totaling $1.1 million to a private bank account for personal use between March 27, 2007, and February 1, 2013. *(Department of Health and Hospitals, June 2013)*

The Louisiana Public Defender Board does not adequately track the cost of capital defense services to ensure these services are provided in a cost-effective and fiscally responsible manner as required by state law. During fiscal year 2012, 29 (69 percent) of the 42 district offices operated at a deficit and had to use their fund balances to cover expenses. This will place an increasing financial burden on LPDB in the future as state law requires LPDB to provide adequate funding for public defense services. *(Oversight of Capital Defense Services - Louisiana Public Defender Board, February 2014)*

University Medical Center in Lafayette charged patients $394,983 for services that were not provided. This resulted in an inflated number for uncompensated care costs, which may cause the hospital to receive federal Medicaid payments to which it is not entitled. In addition, an emergency room nurse misappropriated medication and charged patient accounts $25,978 for the drugs. The nurse also failed to submit medical service charge sheets totaling $6,684 dating back to 2009. *(Louisiana State University Health Sciences Center - Health Care Services Division, December 2013)*

Baton Rouge Community College overpaid 95 faculty members more than $500,000 and has not yet set up a monitoring process to oversee the recoupment of the overpayments. The college failed to deduct a total of $16,765 in FICA taxes, Medicare taxes, and a variety of insurance premiums from 34 employees' paychecks, and, at the same time, did not send the corresponding employer contributions totaling $29,578 to the appropriate providers. *(Baton Rouge Community College, December 2013)*

The mayor of Homer billed the city for duplicate and improper travel expenses totaling $3,360; received both a vehicle allowance and mileage reimbursement payments totaling $10,635; and signed town checks totaling $9,700 to her husband's company for medical transportation services authorized by the parish coroner. *(Town of Homer, December 2013)*

The former DeSoto Parish school superintendent, who also sits on the state Board of Elementary and Secondary Education, received improper travel expense reimbursements totaling $13,073; failed to properly document his raises during his tenure as superintendent, which increased his salary from $70,822 to $240,912; and improperly ended his school vehicle lease, which cost the district $10,653 in an early termination fee. The former superintendent then personally bought the same vehicle back from the dealership at a price considerably below market value. *(DeSoto Parish School System, December 2013)*

The former bookkeeper for East Beauregard High School took $147,648 of school activity funds for personal use. *(Beauregard Parish School System, November 2013)*

The former St. Tammany Parish coroner made $53,491 in improper purchases; transferred a city contract to his private practice; took vacation, sick leave, and unused leave benefits he was not entitled to; and rented office space from a business partner. *(St. Tammany Parish Coroner's Office, October 2013)* The coroner pleaded guilty to a federal corruption charge and was sentenced to prison.

The Town of Jonesboro failed to maintain adequate financial records for five consecutive fiscal years, did not comply with the Local Government Budget Act, paid insurance and other benefits to ineligible employees, and failed to send unclaimed property to the state. In addition, the mayor improperly used a town vehicle for personal use and failed to reimburse the town for unused travel advances. *(Town of Jonesboro, March 2013)* The mayor was convicted on multiple counts of malfeasance in office and is currently serving a prison term.

The former Terrebonne Parish sheriff received improper leave payments plus a clothing allowance over his four years in office, which pushed his compensation above the maximum allowed by law. He also received improper payments for personal fuel expenses. Further, deputies re-enacting scenes for a reality TV show were paid twice for same time period--once for their work for the film production company and again as if they were performing their regular job duties for the Sheriff's Office. The former sheriff also made improper donations of security details to the Nicholls State University football team for away games and of inmate labor to Louisiana Workforce LLC to work on a public building used for the work-release program. *(Terrebonne Parish Sheriff, July 2013)*

A contractor and an insurance agent fraudulently billed the Madison Parish Hospital Service District more than $5 million over a six-year period and split proceeds with the hospital administrator ($1.4 million to $2 million). The audit also found that the administrator was paid more than the contracted rate; the administrator and district commissioners used district credit cards for personal items; and the administrator improperly submitted and received mileage reimbursements and failed to account for travel advances he received. In addition, the hospital provided improper insurance benefits to district commissioners and hospital employees received payments from vendors. *(Madison Parish Hospital Service District, January 2013)* The contractor, insurance agent, and hospital administrator all pleaded guilty and and were sentenced to prison.

The former budget officer failed to deposit checks, cash, and money orders totaling $282,537 in the Southern University Law Center's bank account between January 2010 and January 2013. In addition, she did not mail out checks that had been made out payable to vendors. *(Southern University Law Center, August 2013)*

Theme 3: Disaster Recovery

Since 2005, Louisiana has dealt with numerous disasters--both natural and man-made. Hurricanes Katrina and Rita struck the state within a month of each other in 2005, and every coastal parish was affected. In 2008, Hurricane Gustav pummeled inland areas of the state, while Hurricane Ike dealt another blow to southwest Louisiana. Two years later--in April 2010--BP's Deepwater Horizon oil rig exploded, spewing oil into the Gulf of Mexico for weeks. In the wake of each disaster, the federal government sent billions of dollars in aid to Louisiana to help clean up and rebuild. The following excerpts indicate that with all of that money, the need for close monitoring, accurate documentation, and the recoupment of funds that should not have been disbursed becomes critical.

The reports for this theme are divided into the following areas:

Area 1: Insufficient Support for Disaster Expenditures

This area refers to the failure of agencies or individuals to provide appropriate or adequate documentation for the federal funds they received. This makes it difficult to know whether the money was properly spent and increases the risk that the state will have to repay the money to the federal government.

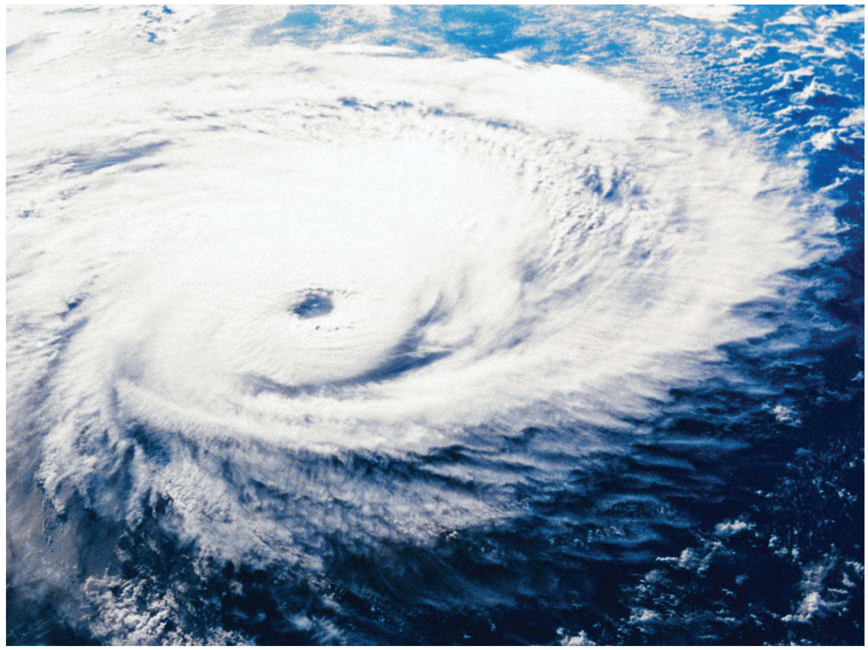
The Federal Emergency Management Agency (FEMA) provided more than $13 billion in Public Assistance money and $2 billion in Hazard Mitigation money to the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) over 5 ½ years ending June 30, 2013. A review of the more than $8 billion of GOHSEP reimbursements to sub-grantees showed missing documentation and/or unsupported costs totaling $138 million (1.7 percent). Below is the Legislative Auditor's review of FEMA expenditures since 2008. *(Recovery Assistance Services, Fiscal Year 2013 Data Summary)*

Period	Amount Reviewed	Amount Unsupported
Calendar Year 2008	$1,049,554,746	$1,970,299
Calendar Year 2009	1,579,919,421	818,658
Calendar Year 2010	1,568,322,186	8,232,417
Calendar Year 2011	1,793,408,048	23,961,365
Calendar Year 2012	1,589,995,477	40,873,286
January to June 2013	692,001,981	62,341,331
Total	**$8,273,201,859**	**$138,197,356**

Although these amounts were unsupported during the Legislative Auditor's initial and possibly subsequent reviews, GOHSEP has the opportunity to provide additional supporting documentation until the subgrants are closed.

The Community Development Block Grant (CDBG) Homeowner Assistance Program (HAP) is the largest single housing recovery program in U.S. history, with approximately $8.6 billion in disbursements since fiscal year 2007. This program helps families affected by hurricanes Katrina and Rita get back into their homes. The Office of Community Development (OCD) identified ineligible HAP awards for 2,035 homeowners totaling $98.2 million. A review of 60 additional homeowners participating in the HAP under the CDBG program disclosed that 35 (58 percent) of these homeowners with awards totaling **$2.6 million** had not provided adequate evidence of compliance with one or more award covenants to the OCD, and OCD has not initiated grant recovery from these homeowners. *(Executive Department: State of Louisiana, December 2013).* Since the audit, management of OCD has represented that after fiscal year 2013, it began implementing the recapture/recovery process for these homeowners.

The CDBG Small Rental Property Program (SRPP) provides funding to property owners to repair their storm-damaged, small-scale rental properties and make their units available to low- and moderate-income tenants at affordable rates. OCD assigned property owners with SRPP loans totaling $46 million to loan recovery status for noncompliance with loan requirements. In addition, a review of 56 property owners with SRPP loans in non-recovery status disclosed that eight (14 percent) with loans totaling $600,433 were also not compliant. *(Executive Department: State of Louisiana, December 2013)*



The Hazard Mitigation Grant Program (HMGP) helps homeowners in coastal Louisiana protect their homes from damage in future natural disasters by elevating their homes, reconstructing safer structures, or installing individual mitigation measures. OCD identified 680 noncompliant awards in the HMGP totaling $22.9 million. In addition, a review of 20 awards affected by contractor abandonment, incomplete work, or potential fraud disclosed that OCD has demanded $841,867 from contractors for work not performed. *(Executive Department: State of Louisiana, December 2013)*

Area 2: Accountability of BP Funding

Recovery money from BP will be flowing into the state over the next several years, and questions have risen about who will control the money, how spending decisions will be made, and how accountability for those decisions will be handled.

BP recovery money totaling $60 million was sent directly to two nonprofit organizations to be used primarily for tourism and seafood promotion. Since the money was deemed to be private funding, it was not deposited into the State Treasury and therefore was not subject to legislative oversight. This circumvention of the normal appropriation process raises concerns about transparency and accountability. *(Memorandum of Understanding with BP Exploration and Production, Inc., February 2013)*

The Louisiana Seafood Promotion and Marketing Board staff and the Louisiana Department of Wildlife and Fisheries (LDWF) did not maintain adequate records to account for promotional merchandise associated with a sponsorship advertising agreement with the New Orleans Saints, which was funded with BP recovery money. The LDWF Secretary executed a sponsorship advertising agreement with the New Orleans Louisiana Saints, L.L.C. (Saints) on September 27, 2012. As part of the contract, the Saints received $650,000. Among other advertising and promotional benefits, the Board received the following:

- 16 Superdome Club Passes
- 2 Parking Passes
- 16 Season Tickets
- 100 Lithograph Footballs
- 10 Autographed Drew Brees Footballs
- 2 Autographed Drew Brees NFL Helmets
- 1 Autographed Jonathan Vilma Helmet

The Board also received an additional $15,000 in Saints jerseys and Nike Golf Polo shirts as promotional merchandise.

LDWF maintained some limited records for the receipt and disbursement of passes and season tickets; however, no records were maintained for the receipt and disbursement of the lithograph footballs, autographed footballs, autographed helmets, and promotional merchandise, or the remaining merchandise on hand. *(Louisiana Seafood Promotion and Marketing Board, December 2013)*

Conclusion

Many of the audits performed by the Legislative Auditor's Office are required by state or federal law. Others are the result of allegations, requests from lawmakers, and significant changes in how the government conducts business or provides services. All reports, however, are driven by the mission of the office, which is "to foster accountability and transparency in the Louisiana government by providing the Legislature and others with audit services, fiscal advice, and other useful information."

The work of the staff of the Legislative Auditor has shed light on some important issues facing Louisiana government. By calling these issues to the attention of lawmakers, agency management, and the public, the Legislative Auditor hopes to encourage open, transparent discussion on how best to address these concerns, and, ultimately, to improve the efficiency and effectiveness of government for all of the state's residents.

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