

# LEGISLATIVE AUDIT ADVISORY COUNCIL

## Minutes of Meeting September 26, 2012

A meeting of the Legislative Audit Advisory Council (Council) was held on Wednesday, September 26, 2012, in House Committee Room 1 of the State Capitol.

### CALL TO ORDER AND ROLL CALL

Representative Greene called the meeting to order at 2:10 p.m. A quorum was present with the following members in attendance:

#### Members Present

Senator Robert Adley  
Senator Edwin R. Murray, Vice Chairman  
Senator Ben W. Nevers  
Senator John R. Smith  
Senator Mike Walsworth  
Representative Hunter V. Greene, Chairman  
Representative Anthony Ligi  
Representative Ledricka J. Thierry

#### Members Absent

Representative Cameron Henry  
Representative Girod Jackson III

### APPROVAL OF MINUTES

Senator Murray moved to approve the minutes for the July 11, 2012, meeting and with no objections, the motion was approved.

### EXTENSION REQUESTS

Ms. Joy Irwin, Director of Local Government Services for the Louisiana Legislative Auditor (LLA), presented the extension requests that were recommended for approval. Senator Murray moved to approve the five page list of entities requesting an extension for 90 days or less, and with no objections, the motion was approved.

Ms. Irwin provided the reasons for The House of Purpose and Empowerment, Inc., and Grace Outreach Center's greater than 90 day extension requests. Ms. Irwin explained that Grace Outreach Center's extension was nonemergency because they were late prior to the storm and will require a finding in their audit. Senator Greene moved to approve the greater than 90 day extensions and with no objections, the motion passed.

### SOUTHERN UNIVERSITY SYSTEM

Mr. Tom Cole, Director of Financial Audit Services for the Louisiana Legislative Auditor (LLA), presented the Financial Statement Audit for fiscal year ended June 30, 2011, on the Southern University System (SUS) issued May 9, 2012. SUS was issued an unqualified opinion on the system's financial statements, and the control and compliance deficiencies were significant enough to bring to the management's attention and require corrective action.

Senator Adley questioned the waiver policy and the Banner System problems. Mr. Cole said the SUS Board approved the waiver policy to notify students. He explained that a law of internal control is that one person should not be in the same position to perpetrate and conceal errors or fraud by access given to the system. Senator Adley asked how taxpayers can protect themselves from bad management. Mr. Cole said it is the responsibility of the university to fix their problems, but the LLA can only advise entities and make recommendations, but has no enforcement authority and must stay independent to do audits.

Senator Murray asked if SUS has made progress on timely providing their annual fiscal report. Mr. Cole said they are facing the same situation in the 2012 audit waiting for SUS. Senator Murray wanted to know what was prohibiting them from completing their financial reports. Mr. Cole replied the Banner accounting system had some problems.

Mr. Kevin Appleton, SUS Vice President for Finance and Business, explained that the initial implementation of the new Banner computer program was in 2011 and is a premier higher education accounting system worldwide and has small limitations. The system conversion was from January 2010 to Spring 2011 and has been a learning curve for their staff. In 2012, they implemented a consolidated chart of accounts.

Mr. Cole said that each college submits their own financial reports and information, but would like to see SUS exercise authority to make the system uniform and have more oversight in the time and preparation of that information. Mr. Appleton said their Board reviewed in October information on greater centralization and collaboration among the campuses in the areas of financial reporting, back office operations and information technology as well as human resource management. So as a smaller high education system, they feel they can reap the benefits of economy of scale, and eliminate some duplication and redundancy in back office operations.

Senator Nevers commented on SUS' responses to the audit stating they do not concur with many of the auditor's findings, and asked when do they say who is right and when do the problems get fixed. Mr. Appleton replied that they are responding to the recommendations and legitimate concerns of the Legislative Auditor, and not denying there are challenges faced by SUS, and not abdicating their responsibility to address those challenges. He said they have some differences of opinions to the conclusions but generally in agreement that SUS needs to provide timely, accurate and complete financial reports. Senator Nevers pointed out responses which say they agree partially or do not concur which are strong words, and either the auditor made a serious mistake or Southern is making a mistake, but there is a problem with communication on what is wrong and how to fix it. Mr. Appleton replied that they are enhancing and improving communication with the Legislative Auditor since he has been with Southern.

Senator Nevers questioned why no SUS students had applied for a waiver. Mr. Appleton explained there were no requests because of policy and communication issues, but SUS changed the policy to apply to all campuses and provided guidance on how to publicize the policy. Senator Nevers said he would hate to know students are circumvented from applying, when other universities granted waivers. Mr. Appleton pointed out that the audit was prior to the change in policy, but he does not have the number of students that applied since the students were informed about waivers.

Senator Nevers asked if there is anything that the auditor can do to SUS. Mr. Purpera said that SUS' financial statements are very important to the state's financial statements. The university must take the audit more seriously and provide the right information when the auditors request it. He cannot force them to do it, but the risk is if they cannot get accurate assurances by December 31 from these financial statements, it will put a greater risk on the state's CAFR.

Senator Nevers said he hopes to add some teeth to the Legislative Auditor's office or to this committee because certainly cannot allow the findings to just be ignored. He said it is time for all entities to submit their audits timely and respond to the findings seriously and not just say they do not concur.

Senator Walsworth asked if SUS would submit this year's audit timely. Mr. Appleton replied they are working feverishly on all their campuses to prepare the annual report for review by the auditor. Senator Walsworth asked Mr. Appleton to send the committee a list of students who had requested waivers and if those have been granted. Mr. Appleton answered that he would also include the policy for waiver requests to understand the criteria upon which the waiver requests are assessed. Senator Walsworth said there are students in the SUS that deserve waivers, but if they are not being proactive and hiding information, then the students would not ask for waivers.

Representative Greene asked how timely other entities provide the support documentation when requested. Mr. Purpera said in a normal situation the auditor would receive immediately any requested documentation, and one to two days is typical, but delays of weeks and months to get a response cost money. Mr. Appleton said that his staff commented that some requests were duplicative, and SUS was committed to respond timely. Representative Greene pointed out SUS President Ronald Mason's response that he does not concur with the finding. Mr. Cole addressed the turnover issue of auditors, but all auditors are experienced with college audits, and changing auditors periodically is necessary. Mr. Purpera explained that if the SUS staff would respond quicker, then the auditors could complete their audit faster.

Representative Greene questioned the letter in the audit from President Mason regarding fee waivers. Mr. Appleton said that different campuses have different answers because the policy varies between campuses. The policy regarding how the waiver requests are to be evaluated was approved by the Board, and he would get that information back to the Council.

Representative Greene commented on the need to be timely regarding payroll because if employees are paid for leave, but have not earned the leave, it could be a violation of Article 7, Section 14 for a possible donation of assets of the state with nothing in return for it. He presented other possible legal ramifications of not keeping accurate payroll information. Mr. Appleton said they recognize the importance and the results of their changes to web time entry will be evident in the future. The new system will not allow negative leave and the same policies had been put in place to address the issues at all campuses.

Senator Smith questioned intercampus loans. They discussed intercampus loans, confusion regarding GASB standards, and internal audit functions of SUS. Mr. Appleton explained that in July 2010 President Mason began at SUS and recognized the need for an internal audit function. SUS had to transition from the old paradigm of separate audits of each campus to a centralized audit that addressed internal control at all campuses.

Representative Greene stated they would not want any auditee to delay the CAFR or have a negative effect on the state's ability to borrow money. The auditors need cooperation and must be independent. Mr. Appleton thanked the LLA staff and explained that he began his career as an auditor and was acutely aware of the concerns, and the need to resolve them. Dr. Mason was committed to work with the LLA and implementing changes and strategies that will position Southern to be more responsive and provide timely, accurate and complete financial information for management and oversight officials and regulatory officials.

Senator Murray asked Mr. Purpera to report on the Grad Act to discuss how the universities are all doing. Mr. Purpera responded that a report on the Grad Act had been issued, and could include it on the next agenda.

#### **HAZARD MITIGATION GRANT PROGRAM - FOLLOW UP REPORT**

Ms. Nicole Edmonson, Director of Performance Audit Services, provided a summary of the performance audit, Hazard Mitigation Grant Program (HMGP) issued August 1, 2012. This report was a follow up to a full performance audit issued in July 2011, and provided the status of the Division of Administration's Office of Community Development Disaster Recovery Unit's (OCD/DRU) implementation of those recommendations. Mr. Purpera said he is glad to see implementation of their recommendations, and his office will continue to work with OCD/DRU to have more formalized policies and procedures implemented.

#### **DIVISION OF ADMINISTRATION - OFFICE OF RISK MANAGEMENT - PRIVATIZATION BY FARA**

Ms. Edmonson presented a summary of the performance report highlighting the cost savings projected and guaranteed by F.A. Richard & Associates (FARA). The Office of Risk Management (ORM) has four more years to achieve the savings, but doing well since they expected higher costs. LLA suggested that ORM improve its monitoring of FARA's performance.

Senator Murray questioned the increase in the contract between ORM and FARA in April 2011. Ms. Edmonson explained that as ORM lost their employees, more of the work had to be transferred to FARA. Senator Murray asked about FARA's acquisition by Avizent, then by York Services Group, and the number of state employees still employed. Ms. Edmonson responded that 55 employees work for ORM, and not sure who works for the contractor, but ORM assures them that the acquisitions will not affect operations.

Mr. Bud Thompson, Executive Director for ORM, explained that FARA gave the opportunity to his employees to work for them, but some wanted to continue working for the state and took other jobs, and some retired. He said they have 70 positions in ORM which will be reduced to 45-50 positions by the end of the last implementation in November 2013.

Senator Greene asked if they have actually saved money by privatizing ORM. Mr. Thompson said the projections are based on experience and FARA based a lot of analysis on benchmarking and comparing claims cost. Mr. Thompson pointed out the savings on employee expenses will accrue over the years. They will rebid the contract in 2014 for the expiration in 2015, and evaluating their performance.

Representative Greene asked how to see if they are truly saving the state money. Ms. Edmonson replied that the contract cost \$68 million, and has been guaranteed \$50 million in savings, and monitoring yearly their progress. Mr. Thompson said at the end of the contract they will look at the benchmark and average cost of claims. He believes this acquisition is in the best interest of the state and privatization is the way most states handle risk.

Senator Nevers asked who handles any legal costs if Form 1008 is filled out. As per Mr. Thompson, the Attorney General's office represents ORM and covers legal expenses. Senator Nevers asked what will happen if the savings are not achieved. Mr. Thompson said there is a penalty if FARA does not meet the savings. Senator Nevers asked what if FARA cuts back on employees and make serious cutbacks in the last year of the contract. Senator Adley commented that the penalty is less than the savings so not in the best interest of the state. Mr. Thompson replied that the main incentive for vendors is performance on contracts so they will get renewals. There are high costs in the first couple of years for the ramping up and often does not make profit until the end of a long term contract.

Senator Adley questioned the additional \$6 million amended to the contract. Mr. Thompson said it was paid out of administrative savings and would have spent even more money if ORM would have had to do the additional work. Senator Murray asked about the \$1.9 million cost for General Liability. Mr. Thompson answered that \$4.9 million is available if, and when additional lines of insurance are accelerated in the implementation schedule.

Senator Walsworth asked that they review the original contract and see if any wording to change the guarantees when amendments are made to the contract. Mr. Purpera said they have another year to monitor the contract. Mr. Thompson said they have not had a chance to analyze the progress because of the CAFR report. FARA took over property lines and actively involved in Hurricane Isaac recovery. There

were 660 claims reported on state properties and FARA put 30 designated people to look at the hurricane claims.

Senator Walsworth asked when he would have the data available. Mr. Thompson expects to have completed by the end of the calendar year, and trying to speed it up as decreasing their office size. Senator Adley asked if he expected \$2.8 million savings this year and how soon could he get the data. Mr. Thompson explained that it is not an easy process but working diligently on compiling the data, but did not expect any savings the first year. Senator Adley said they owe the taxpayers that information to prove that they made the right decision. Representative Greene said he sees the biggest savings the first year on decreasing employees. But at the end of the day, did they really save money and are they still getting good service, or did they privatize just to say that they privatized.

**OTHER BUSINESS**

Mr. Purpera provided an update on the Town of Jonesboro's (Jonesboro) appointment of a fiscal administrator by the courts. Jonesboro's Mayor filed an appeal in the courts. Jonesboro does not have a town clerk yet, and has received its fourth audit disclaimer in a row. He informed the Council of the Fiscal Review Committee meeting scheduled on October 2.

Mr. Purpera shared concerns regarding the Town of Gibsland: disclaimer of opinion so considered to be noncompliant with the audit law; no budget for two years; no town attorney; tax on books expired 16 years ago but still collecting. Senator Walsworth asked how the auditor missed the mistakenly collected taxes and how could they give the authority to collect. He asked if there were three other towns with the same issue. Mr. Purpera said that he has informed the CPAs to focus on it and be sure to check on taxes.

Ms. Irwin explained that the Town of Merryville was collecting taxes illegally for five years and was discovered by the Bond Commission and Representative Fannin asked how the auditor missed it. Then the LLA contacted all auditors and asked them to verify sales taxes being collected. She also contacted the Louisiana Municipal Association and the Sheriff's Association and Police Jury Association to check taxes. Ms. Irwin explained that the LLA monitors property taxes and millages regularly.

Senator Murray asked about the speeding ticket money collected by the towns that were not sending the money to the Treasury. Ms. Irwin said that the Town of Washington remitted a check after the Attorney General's office sent a collection letter. Senator Murray asked that she email an update to him.

Mr. Purpera presented the potential cost to the state for three year covenants made by the Office of Community Development (OCD) and citizens that have no evidence of being met. Mr. Cole said they did a test of 45 homes, just checking occupancy and not insurance, but no movement for HUD relief yet. In the last meeting Representative Ligi had asked for the number of extension requests, and the answer is 550 requests and only 171 were approved.

Representative Ligi asked about the previous meeting's discussion regarding the Department of Environmental Quality's (DEQ) statements in their audit. Mr. Cole said that was a misstatement by DEQ regarding post audit process, and all audit work on payroll is done timely.

**ADJOURNMENT**

Senator Adley made the motion to adjourn, and with no objections, Representative Greene adjourned the meeting at 4:46 p.m.

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APPROVED BY:

  
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REPRESENTATIVE HUNTER GREENE  
CHAIRMAN

  
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DARYL G. PURPERA  
SECRETARY

02/21/13  
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DATE