

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting July 18, 2013

A meeting of the Legislative Audit Advisory Council (Council) was held on Thursday, July 18, 2013, in House Committee Room 2 of the State Capitol.

CALL TO ORDER AND ROLL CALL

Representative Greene called the meeting to order at 1:44 p.m. A quorum was present with the following members in attendance:

Members Present

Representative Hunter V. Greene, Chairman
Senator Robert Adley
Senator Ben W. Nevers
Senator Mike Walsworth
Representative Cameron Henry
Representative Clay Schexnayder
Representative Ledricka J. Thierry

Members Absent

Senator Edwin R. Murray, Vice Chairman
Senator John R. Smith
Representative Girod Jackson III

APPROVAL OF MINUTES

Senator Walsworth made a motion to approve the minutes for the March 21, 2013, meeting and with no objections, the motion was approved.

TOWN OF JONESBORO

Daryl Purpera, Legislative Auditor, said that the Town of Jonesboro (Town) had received a disclaimer of opinion for the previous five years, which means that the auditor cannot express an opinion on the financial statements. During the recent legislative session House Bill 482 and House Bill 725 were passed to help with this situation related to disclaimers and fiscal administrators. His office had located a certified public accountant (CPA) who was qualified and competent to be the fiscal administrator (FA) for the Town, and gave that name to the Attorney General (AG) who filed a petition with the district court to appoint the person. However, due to the negative press regarding this individual, he withdrew his name. The AG's office will pull back that petition. So currently, the Town has had no successful audit since 2007 and no FA. His office will continue looking for someone qualified and willing to be the FA.

Senator Adley asked what created the problem in the press regarding the FA chosen. Mr. Purpera said that the press reported that the Town Mayor picked the FA, which was completely untrue. There were some comments that he lacked governmental accounting experience, but this person had performed the audit of the Town for the past two years. Senator Adley asked if it was a political issue in the press and not about his background. Mr. Purpera said the CPA withdrew his name because of impairment to his reputation. Senator Adley asked if the mayor is facing any charges. Mr. Purpera responded that the District Attorney has charges against the mayor of the Town and the trial is scheduled for August 26, 2013.

Senator Walsworth asked about the previous FA and the roadblocks that he encountered. Mr. Purpera said the fiscal administrator appointed a year ago served for about three months and then resigned because he was not able to accomplish what he was legally required to do. The town management would not cooperate with him to be successful. That is the reason for House Bill 725 to give the FA more authority, and to make it clear that he has the authority to carry out the job. The next step will be to find someone to be the FA who can work in that area, and is willing to go into this situation. He was confident that he had found an FA to move the Town forward, but that is not true now.

Senator Walsworth asked what the AG could do with the two new laws. Mr. Purpera explained that House Bill 482 allows the AG to file for malfeasance if the District Attorney (DA) recuses himself, but currently the DA is moving forward with the trial.

MADISON PARISH HOSPITAL SERVICE DISTRICT

Allen Brown, Assistant Legislative Auditor for Local Government Audit Services, provided reasons for the investigative audit of the Madison Parish Hospital Service District (District) issued on January 2, 2013. Gregory Clapinski, Investigative Audit Manager, gave an overview of the report and the findings including that the District was months behind on bills and in financial turmoil.

Mr. Brown commended District Attorney James Paxton for being very helpful, and stated that prosecution would be in the federal court. The most recent audit had 29 findings, but the 2009-2010 report performed by another auditor only had one finding. His staff performed a workpaper review of the auditor, who has now been debarred from governmental audits.

Representative Greene asked if the CPA firm was reported to the State Board of CPA's. Mr. Brown said yes, and that there are civil suits against the CPA. Senator Adley asked about the date of prosecution and the financial situation of the hospital. Mr. Brown said that Madison Parish is on the extension list for approval of another 30 days. Last year's audit was a disclaimer, and it is not known what this year's opinion will be.

Mr. Purpera said when the entities have disclaimers, they impress on management to come together. Representative Greene asked where their funds came from and the impact of being on the noncompliance list. Mr. Purpera said after the first time an entity receives a disclaimer, they must present a plan to correct their problem, but the person who prepared the plan last year for the District is no longer on the job.

Senator Nevers asked if the previous auditor who is no longer allowed to perform any more audits had audited other entities. Mr. Brown said very few. Senator Nevers asked if those audits were correct. Mr. Purpera explained that his office is charged with the responsibility to oversee the audits of governmental units and so the CPAs are screened to be sure they have the right credentials. In this case, after review of the workpapers, he did not believe this person had the skills and capabilities to do it. The CPA has been removed from the list and cannot get any future contracts to do audits.

Senator Nevers said if this audit did not reveal the issues then maybe other audits that he performed contained the same errors. Senator Nevers said that the members rely upon audits performed by approved auditors and believe that the audit is factual. Mr. Brown stated the LLA staff would look at other audits performed by that CPA. Senator Nevers' concern was there is more than this issue that appears before the committee and more unqualified audits are found to have problems later on. He asked how auditors continue to do audits and if there is some method of judging the auditors on a yearly basis. Mr. Purpera said approximately two years ago his office stepped up the amount of work done internally to verify that the audits are good audits. He believes that not all audits are created equally - there are better ones than others. He began a risk base approach to looking at the auditors and reviews a lot of factors, and checks questionable ones to see if they really do adequate work.

Senator Nevers asked if an audit is shown to be inaccurate, is that auditor removed from the list. Mr. Purpera said yes, and his staff performs a workpaper review to verify if the auditors are not meeting the standards that they are supposed to meet. Senator Nevers asked if that documentation is turned over to the CPA board or someone that will review if the work was done appropriately. Senator Nevers stressed that legislators and the public put a lot of confidence in the audits that are performed on governmental agencies. It is very important to maintain the integrity of that system and ensure that the audits are factual. He hopes that they can be sure that the people doing the work are dependable and accurate. Mr. Purpera agreed with him.

Senator Adley asked Mr. Purpera for his opinion because the District's CFO says they are financially sound and the chairman of the board says they are not. One says there are allegations, one says there are not. Mr. Brown said there were allegations. Senator Adley commended the auditors on finding the fellow that was taking the money who would be prosecuted, but wanted to know if they have looked at any of the other allegations of ethical violations. Mr. Brown said his understanding is there were ethics issues brought up against the CEO at his prior job that have not been resolved yet. Senator Adley said he read a newspaper article in the Advocate that says the allegations are being looked into by the board's attorney because involving his current job. Senator Adley asked if they turned over any ethical violations to the Ethics Board or did they not see any violations. Mr. Brown said he saw the letter that the CFO wrote to the board with her allegations - most of them were about actions the CEO did at work that were not particularly ethics violations. Representative Greene asked if that was in the scope of their audit. Mr. Brown said no, those were recent, within the last few months.

Senator Walsworth stated his concern that if the Medicaid dollars would be cut off then the hospital will close. He asked Mr. Purpera to send someone to the District to help them as a third party to look over everything. The problems are a long way from being resolved and to bring in someone new would take months to get it figured out. He was concerned the hospital would not be able to stay open. He encouraged the board chairman to allow the auditor a review. If the council granted the extension,

he was not sure they were even close to where they needed to be. Senator Walsworth said if the District does not take the advice then it could become another Jonesboro, but he believes the people would love to have a third person go in and review their operations. He knows it may put the auditor in a bind, but it is important to this community to get something done. Mr. Purpera responded that he can do that.

Mr. Purpera responded to Senator Adley's question about who to believe saying that he learned a long time ago as an auditor that it is best not to believe anybody but just go prove it. He said his office will develop a plan for the District and expects them to stick to it. They need to get their finances in order, and need to be developing some proforma financial statements so they can come back to this committee and show they do have the ability to operate six, nine and twelve months in the future, and not have this problem. A fiscal administrator may be needed, but he would rather the District fix their own problems first. Senator Walsworth asked Mr. Purpera to send someone to help the District in the next few days. He said they have at least 30 days of confusion over there, and they are trying to right that ship, but thinks that ship may have sailed.

Representative Greene commented on the statement on Dr. Kyle's desk years ago, "In God we trust, all others we audit". He commended the auditors for not just believing people but getting the evidence. Mr. Purpera suggested they put Madison Parish on a future agenda.

EXTENSION REQUESTS

Ms. Joy Irwin, Director of Local Government Services for the Louisiana Legislative Auditor (LLA), presented the less than 90 day extension requests, and the greater than 90 day extension requests. She pointed out the agencies that have turned in their audits, but the extensions granted still required confirmation by the Council.

Ms. Irwin said Madison Parish Hospital had to hire an independent CPA to perform the financial audit for fiscal year end (FYE) 2012, and that audit is the one they are requesting the extension for. She has been in numerous discussions with the auditor Nancy Youngblood at Carr, Riggs CPA firm. Carr, Riggs did issue a disclaimer for FYE 2011, because of all the problems at the District prior to 2011. Ms. Irwin requested a plan of action from the District that would correct their problems, which was done by an employee no longer there. Ms. Irwin said her staff continued to monitor the District and when the 2012 audit was close to being due, she spoke with Ms. Youngblood who said she is concerned about completing the audit because of numerous problems with the accounting records and progress of the audit - most of which stems from the fact that none of the current accounting staff worked there in 2012. She is looking for documentation and answers from the employees who were not responsible for the transactions during the time period being audited. Part of the corrective action plan from the District was to secure the services of a CPA firm, which the District did. Ms. Irwin helped the contract CPA get in touch with Carr, Riggs, so they are providing assistance and communicating. The auditor is still very concerned about the ability to finish the audit because of the problems at the District and the change in staff, and is unable to verify a lot of the transactions. Ms. Irwin said that the glimmer of hope is that Ms. Youngblood believes if given more time they could get the 2013 audit in place because the current staff is able to record transactions properly. The District's auditor is asking for an extension to September 28th. To complicate the situation, Ms. Youngblood has had some personal issues and had to turn the audit over to a partner who will need to get up to speed, but hopes to work out the issues in the firm. Ms. Irwin recommended all the other extensions.

Representative Greene asked about the possibility of Carr, Riggs giving a disclaimer and if the 2013 audit might have an opinion. Ms. Irwin said that since the contract CPA and the auditor have been able to work together, the auditor is more hopeful, but cannot say for sure.

Representative Greene questioned the reason for the extension by St. Bernard Parish Government referring to Hurricane Katrina. Ms. Irwin read the letter from St. Bernard citing their reasons for the extension include: a newly appointed finance director; the assistant finance director resigned; the first year for the new auditors; and, a \$1 billion recovery effort from Hurricane Katrina.

Representative Greene moved to approve the non-emergency less than 90 day extension requests and with no objections, the motion was approved.

Ms. Irwin pointed out that Washington Parish Sheriff's office is the only entity on the greater than 90 day extension list. She spoke with the auditor and the contract CPA who said they are close, but require additional time to complete the audit. Sheriff Randy Seal apologized for not being able to attend but had a prior engagement. Representative Greene explained that Mr. Purpera granted the initial 90 day extension, then as chairman he granted an additional extension until June 30th. He was told that Brian Huval at LaPorte CPA firm thought they could get the audit in by June 30th, but now they are requesting another 30 days. Senator Walsworth moved to approve the extension granted by the chair, and with no objections, it was adopted.

Chief Deputy Mike Haley said on July 1, 2012, the new sheriff and his staff inherited an office that was financially, operationally and morally bankrupt, and a jail that would not stand the scrutiny of the most naïve federal court in the country. He said they were not told the truth when the new sheriff took office, and found out that conditions were far worse than ever told. Mr. Michael Burris said that he does have all the information lacking and will be delivered to Mr. Huval on Monday at the latest, and Mr. Huval said that it would take two weeks to complete the audit after receiving that information.

Senator Nevers said he understands the problem was the accounting work and the audit from the previous sheriff was not substantial to base the audit from July 1, 2012, forward. Mr. Burris said when they went into the sheriff's office, the IRS was at the door with an audit and requesting \$400,000 of civil penalties. They had to redo four years of payroll filings, recreating payroll and documentation, which took months to do. They were able to alleviate the \$400,000 of penalties for the work they did. They also had escrow accounts with absolutely no records going back to the prior sheriff, and had to recreate all those records because of a large judgment and a protested tax case with no money in the bank. They had to figure out where the money was, and spend time on that. There were no general ledgers at all, nothing had been posted, and had to start over and just finished that in June of this year.

Senator Nevers said he assumes that the sheriff's office had been audited in the past, and asked if those were good audits. He said the Legislative Auditor should be able to answer that question, and it refers back to his questions about Madison Parish. When the Council receives a clean audit, they assume everything is fine, and so does the public. But what is being said today is that they did not even have general ledger accounts. Mr. Burris said not for the year ended 6/30/12, but obviously they did for prior to that. Senator Nevers asked if they assumed the position July 1, 2012. Mr. Burris said that is correct, and had no moving forward general ledger, the audit workpapers showed assets that were over depreciated, and no one fixed it, and he had to correct that. There were assets on the depreciation schedule that had been abandoned in the 80's, and nothing had been changed, worked, looked at, so it did not look good to him.

Senator Nevers asked if it would be completely wrapped up in 30 days. Mr. Burris said that is what he understands from Mr. Huval, but his part of it would be finished on Monday. Senator Nevers thanked the chairman and state auditor for approving Washington Parish, so that the funding would not be cut off. He said this committee is as good as can be to anyone, but would like to be sure that 30 days is adequate for them to complete the audit. Ms. Irwin was told by Mr. Huval that if he received all the required documentation, he would need an additional two weeks to complete the audit, unless he found something substantial to prevent that.

Senator Nevers said this sheriff could be faced with an audit not adequate under his term, but the prior sheriff had the issues. Ms. Irwin said that happens all over the state, when a new administration comes in and takes over the responsibility for that governmental entity - bad transactions and all. Now it is the new sheriff's responsibility to get it under control and sounds like the sheriff has hired adequate staff to do that. Senator Nevers asked if the audit will reflect from July 1, 2012, forward, corrective action was taken to fix the problems that existed prior to that. Ms. Irwin noted that the Washington Parish Sheriff spent significant resources on a professional CPA to not just find out what was wrong and move forward, but to go back and correct the transactions, document the depreciation. She does not anticipate that there will be a disclaimer or a modified opinion, but not sure because the audit is not complete. But when the government takes the time to go back and correct the transactions and compile the records and have the documentation for the auditor, it works out well for that administration. Ms. Irwin said the sheriff will have to sign representations - the auditor asks the sheriff certain questions and if he can attest to those questions, then they can move forward with an opinion, but if he cannot or feels uncomfortable doing that, then it could result in a disclaimer of opinion. Just have to have to wait for the auditor to complete the audit to know.

Senator Nevers said it is in the people's best interest to know who was responsible for not living up to the current standard, but the current sheriff should not be blamed for something another sheriff did. Senator Nevers moved to approve the nonemergency extension request for greater than 90 days which only contained the Washington Parish Sheriff. Representative Greene clarified that Mr. Burris asked for 30 days additional from the current date, so the extension was until August 17, 2013. The motion to allow Washington Parish Sheriff's office until August 17th to submit their audit passed with no objections.

OFFICE OF RISK MANAGEMENT - COST SAVINGS UPDATE FISCAL YEAR 2012

Steven Procopio, Chief of Staff with Division of Administration, praised the audit for showing the savings achieved by the Office of Risk Management (ORM) through the partnership with F.A. Richard & Associates (FARA). They expected losses the first year, but actually had savings, and achieved 120% of their set goals. Some lines had to shift over time to allow employees to find other jobs, and as employees left earlier, they had to accelerate the contract and very pleased with the progress.

Emily Wilson, Performance Audit Services Manager, provided a summary of the performance audit issued on June 19, 2013, that reviews the cumulative cost savings as of June 30, 2012, from the

transfer of the state's lines of insurance from ORM to FARA. The report provided the chronology of the FARA contract and the savings needed to meet the goals in the next three years.

Paul Pendas commented that ORM is making some savings, but would like to get the information quicker from ORM because it is about one year delayed in being reported. Representative Greene questioned how the savings are calculated. Ms. Wilson explained that the cost of the contract is \$68 million and net program savings are expected to be \$22 million and FARA guarantees \$50 million in savings.

Representative Henry asked if the savings on claims are based on unpaid claims or because they have better attorneys so pay less. Ms. Wilson pointed out savings in litigations, and other methods that could account for their claim savings. Representative Henry commented that if FARA has great efficiencies then they could be used in other situations.

Mr. Pendas mentioned the question of how ORM is monitoring FARA because in the last report they had not started doing that, but in the next report expect to have more information on that issue. Representative Greene asked how the auditors can determine if FARA has been successful because of less fraudulent claims and how to compare accurately to see if public funds are really being saved. Ms. Wilson said they have three more years of the contract so time will tell.

Representative Henry asked how ORM can give a bonus if it is unable to determine the exact savings are due to their effectiveness or if FARA is not paying claims. Ms. Wilson said that it is ORM's responsibility to monitor FARA to ensure they are paying the necessary claims.

DEPARTMENT OF EDUCATION (LDOE)- MONITORING OF CHARTER SCHOOLS

Ms. Wilson provided a summary of the performance audit issued May 15, 2013, on the LDOE's monitoring of charter schools. She said that charter schools operate with great flexibility and autonomy in exchange for heightened accountability through regular monitoring, so it is important for LDOE to annually monitor the academic, financial and legal/contractual performance of charter schools. She outlined the delays in the monitoring and the problem with accepting self-reported data from the charter schools that is not verified. She said that LDOE agreed with two of the recommendations in the report but did not agree with two other recommendations.

Senator Adley questioned the dropout rate. Ms. Theresa Chatelain, LLA Performance Auditor, said that 11 out of 150 students in their sample did not have sufficient documentation to support the withdrawal.

LDOE Superintendent John White expressed his appreciation for the Legislative Auditor's thoroughness and excellent staff. He explained that some schools did not have baseline scores because cannot give one to a new school, and the LDOE regulations were not written in step with reality and inappropriate. He said that they removed attendance from the school performance scores, and does not put much weight on self-reported information.

Superintendent White pointed out that across America the issue of dropouts is the same of tracking down kids when they leave the schools. The auditor suggested more stringent procedures. He addressed the issue of monitoring of charter schools and the contracts in place with each school. LDOE issued Bulletin 126 and BESE changed the timeline so more in line with reality with their regulations. The Charter School Compact will require proof of review and more material submission of evidence.

Senator Adley stated that he is an ardent supporter of charter schools but performance measures are very important. Superintendent White said that they review the results of the schools and if they are not performing after three years then put on probation. He has closed one school because of the review. LDOE has a data cleaning process tagged to the child and analyze their progress. The dropout rates may not be accurate because some are transfers.

Representative Thierry asked what findings are alarming to have on a site visit. Superintendent White said they review academic, safety, operations, security, financial and governance issues. They have put charter schools on probation and replaced charter operators if necessary. BESE changed their policy midstream and triggered the problems. Predominately financial issues are the problem with charter schools.

STATE OF LOUISIANA SINGLE AUDIT 2012

Tom Cole, Director of Financial Audit Services, and Beth Davis, Assistant Financial Audit Director, presented an overview of the State of Louisiana's Single Audit Report for the year ended June 30, 2012, issued on March 27, 2013. Senator Adley complimented the audit work and questioned the inadequate grant recovery of homeowners assistance program awards mentioned in the Single Audit. Mr. Purpera discussed the Road Home Programs and that HUD could have requested the funds back.

Mr. Cole said that if the Office of Community Development/ Disaster Recovery Unit finds a lack of documentation, they are identifying noncompliant homeowners and providing assistance by various means to bring applicants into compliance prior to triggering the recapturing of the funds.

Mr. Purpera explained that he wanted to show the work of his office and the valuable findings to help lawmakers in their decision making. Senator Adley commented that the information is helpful and appreciates receiving the audits.

OTHER BUSINESS

Mr. Purpera provided the council members an audit law booklet prepared by Jenifer Schaye, General Counsel for the Legislative Auditor.

ADJOURNMENT

Representative Schexnayder moved to adjourn, and with no objections, the meeting adjourned at 4:15 p.m.

APPROVED BY:



REPRESENTATIVE HUNTER GREENE
CHAIRMAN



DARYL G. PURPERA
SECRETARY

09/19/13

DATE