

# LEGISLATIVE AUDIT ADVISORY COUNCIL

## Minutes of Meeting August 30, 2018 House Committee Room 1 State Capitol Building

The items listed on the Agenda are incorporated and considered to be part of the minutes herein.

Vice Chairman Julie Stokes called the Legislative Audit Advisory Council (Council) meeting to order at 1:25 p.m. Ms. Liz Martin called the roll confirming quorum was present.

**Members Present:** Representative Julie Stokes, Chairman  
Senator Mike Walsworth, Vice Chairman  
Senator Danny Martiny  
Representative Marcus Hunter  
Representative Blake Miguez  
Representative Clay Schexnayder

**Members Absent:** Senator Wesley Bishop  
Senator W. Jay Luneau  
Senator John Smith  
Representative Jimmy Harris

**Also Present:** Daryl G. Purpera, CPA, CFE, Louisiana Legislative Auditor (LLA)

### Approval of Minutes

Senator Walsworth made a motion to approve the minutes for the April 3, 2018, meeting and with no objection, the motion was approved.

### Extension Requests

Bradley Cryer, Director of Local Government Audit Services presented three extensions lists and shared the reasons for each extension request. Senator Martiny made a motion to approve the three nonemergency extensions greater than 90 days and with no objection, the motion was approved.

Chairman Stokes asked about the fraud investigation on the Madison Parish Police Jury. Mr. Cryer explained that a nearly 20 year employee is under investigation. The independent auditor did not want to issue the financial audit until he knew the extent of the fraud because it may have multiple impacts on the audit and call into question the completeness of revenues and more. In the abundance of caution the police jury requested an extension to make sure no further impact. The investigation was finalized and the report was received the day before.

Regarding Tipitina's Foundation (Foundation), Mr. Cryer said that he has contacted the director and auditor but could not get a good answer on the status of the audit. The audit is already four months late and the Foundation is on the non-compliance list. Mr. Purpera further explained that the Foundation requested an extension to 5/31/18 which was granted in good faith but since that time they have not turned in their audit nor requested another extension. Chairman Stokes wondered why this nongovernmental organization that

receives money from the state was not responding. Mr. Cryer explained that there are many nonprofits that receive grants from the state and some are one time grants and some are reoccurring but in many cases it can be a one-time audit. For this Foundation it cannot receive any additional grants from the state until in compliance. Mr. Cryer added that he tried calling the Foundation three times in the past week and has yet to receive an update from them. The LLA takes each agency case-by-case for their reasons that their audit is not complete.

Senator Walsworth asked about Hope Enterprise Corporation. Mr. Cryer responded that it is a nonprofit and not sure what their operations involve but received an extension request from the Certified Public Accountant (CPA) firm. Senator Walsworth asked for more information since this is their third late audit out of the past five years and has over \$20M in revenue. Mr. Cryer explained the LLA's criteria for the extension process including making sure that the CPA is engaged on time which is within 60 days of fiscal year end. The other criteria is if they have been late two of the last three prior years then the LLA typically does not approve the extension unless there are some overriding reasons such as public safety, health and welfare. In this situation the CPA firm out of Mississippi admitted that it was their fault for the delay because unable to get the work done with their own staff due to turnover. So because it was not the agency's fault, he felt it was appropriate to grant the extension.

Senator Walsworth pointed out the Pentecost Missionary Baptist Church of Slidell that receives \$78,330 in revenue but they turned in their audits in. He was concerned to see the Hope Enterprise Corporation receiving \$20M but they cannot get their report in on time especially three out of the last five audits. He's not necessarily sure if always the CPA's fault and if it is, then we might need to ask for another CPA. Mr. Purpera explained that the \$20M is their total revenue and not necessarily all from Louisiana. Mr. Cryer said the Hope Enterprise Corporation is based in another state. Senator Walsworth asked for further review of that agency.

Mr. Cryer explained that for new entities such as the Educational Solutions of Louisiana which just began receiving funds from the Department of Education this year, they are allowed more time to get their reports in. He has not been able to reach the CPA to determine if the report is complete yet. For all the nonemergency extension requests ninety days or less, the LLA is asking for the Council's affirmation of their approval of the granted extensions as shown on the attachment. Senator Walsworth made a motion to approve the 24 nonemergency extensions 90 days or less and with no objection, the motion was approved.

Chairman Stokes asked for the justifications for the City of New Orleans Sewerage and Water Board's (SWBNO) extension request. Mr. Cryer explained there have been a lot of publicity regarding the flash flood last August and subsequently a complete turn over in management. Our office has been working with the SWBNO and a resolution passed in the regular legislative session for the LLA to audit their contracts. In this situation an extension was justified because of turnovers in management two to three times and 28 different emergency declarations during this period by Governor Edwards dealing with different storms and equipment failures and bringing in consultants. The CPA doing the audit is cautiously optimistic that the report will be completed by the end of next month but a brand new executive director starts the upcoming week. Chairman Stokes noted that SWBNO had not been late on an audit in the past five years.

Senator Martiny made a motion to approve the emergency extension 90 days or less for the New Orleans Sewerage & Water Board, and with no objections, the motion was approved.

**Office of Juvenile Justice (OJJ) – Performance Audits Issued June 2018:**

- a) **Oversight of Rehabilitation and Treatment in Secure Care Facilities Issued June 13, 2018**
- b) **Oversight of Safety in Secure Care Facilities Issued June 6, 2018**

Mr. Purpera explained that the two reports were performed to provide very good information for the Task Force on Secure Care Standards and Audit (Task Force) and also for OJJ's improvement of the program. He believes these reports are some of the best performance work done by his staff that provides extremely helpful information to OJJ to improve the facilities and care of the children.

Ms. Gina Brown, Performance Audit Manager, said these audits were conducted as part of the Task Force which was created by a resolution in the 2016 Legislative Session. These reports provide a comprehensive look at Louisiana secure care facilities and provided a baseline for future audits. These reports also provided information to assist the Task Force in developing standards for the operation of secure care facilities in Louisiana. She thanked OJJ for their assistance during the audits that resulted in meaningful recommendations and understands that OJJ is implementing the recommendations to improve their oversight of secure care facilities.

Ms. Kristen Jacobs, Senior Performance Auditor, presented the findings from the two reports using a powerpoint presentation. There were a total of 28 recommendations between the two reports and OJJ agreed with all of them and working on implementing the recommendations already.

Ms. Jacobs said that high turnover is a challenge for facilities and prevents them from meeting staffing ratios. The audit report recommendations included improving recruitment and retention by reaching out to universities. Between calendar year 2010 – 2015, OJJ was not conducting on-site quality assurance audits of these facilities and once they resumed the audits 2016 about half of the safety related audit findings were corrected within six months. Now that OJJ has been doing the quality assurance audits they have been getting better because there was a lot of catching up to do. There was a 50% increase in the number of fights over the past five years. The number of children in secure care is decreasing which is a positive but the number of fights is increasing which could partially be because of a more concentrated group of high-risk youth. In conjunction with this, the auditors found 111% increase in the use of physical restraints such as trained staff using their hands to control the youth which is the preferred method of restraint. Very rarely did OJJ use mechanical restraints such as handcuffs. OJJ probably needs to improve their de-escalation training to help staff identify when situations get out of control. This has to do with staffing, challenges of turnover and staffing ratios.

Ms. Jacobs said they suggested better tracking of drug screens as there has been an increase in positive drug screens. OJJ has been doing more drug screening but were not documenting the reasons for it such as if just random drug screening, suspicion, or the youth returns from an off camp visit or furlough. OJJ significantly reduced the amount of room confinement, similar to solitary confinement, which across the nation room confinement is being reduced.

Approximately 19% of youth grievances were not addressed timely within 30 days, and the number of grievances increased by 24%. Senator Walsworth asked for an explanation of a grievance. Ms. Jacobs explained it as a complaint that is written on a form and put into the box in each dorm. This is considered a safe way to complain and can be anything from not liking the food or being harassed by a staff or request for a transfer to another dorm, or complaint about staff. Senator Walsworth asked if OJJ's staff has to reply to a grievance about not liking the food and Ms. Jacobs answered yes. Senator Walsworth asked if a food grievance should be on the same level as a more serious issue. Ms. Jacobs explained that the law requires a

safe way for youth to be able to report their complaints and cannot really control what they complain about. Senator Walsworth asked how replies are done for the grievances and does the youth have to identify themselves. Ms. Jacobs responded that the youth can complain anonymously, and OJJ has a process for responding and can better explain. The increase can also signify that the youth feel safer to report issues. Ms. Brown said OJJ responded affirmatively to 41% of the grievances.

Senator Martiny shared that he represented prisons for around 30 years and before a lawsuit can be filed, the complainant must exhaust the administrative remedies by reporting grievances. Many times those are frivolous complaints but the administrative procedure is to address problems before proceeding to a lawsuit.

Next finding as per Ms. Jacobs was that OJJ's procedures for monitoring safety at the Ware Youth Center (WYC) for female youth was not consistent with monitoring procedures at the secure care facilities for males. The WYC is a privately run facility that OJJ contracts with. OJJ did not monitor medical care, room confinement, restraints or grievances at WYC so the female youth were not receiving the same level of protection and standard of care as the males in secure care facilities.

Ms. Jacobs shared that since OJJ started using a disposition matrix in fiscal year 2016, the number of non-violent youth placed directly into secure care has decreased by 71%. Between 2013-2017, OJJ did not always complete required risk assessments and intervention plans for OJJ youth within the required timeframes which are important for determining what services the youth need. OJJ did not always complete mental health assessments on youth on a timely manner which are important because OJJ estimates that 44% of youth in secure care have a serious mental illness. OJJ should also improve its treatment program for youth in general population dorms. Some youth are separated into a sex offender dorm or a substance abuse dorm which have specific curriculum for their issues. But the general population dorms do not have an evidence based or specific curriculum.

More findings include that OJJ does not consistently document group therapy sessions and does not collect data on who completes treatment. Also better tracking of program outcomes could help OJJ determine which programs have the most impact on recidivism rates. OJJ does not always ensure that youth receive reentry planning designed to help them transition back in to the community once released. Almost all youth will be released back into the community by the time they are 21 years old, so having the reentry plans helps connect them with services in the community and to be successful and not recidivate.

Lastly, Bridge City and Swanson-Monroe are old facilities that are costly to maintain and not conducive to OJJ's therapeutic model. While OJJ has a new 72-bed secure care facility in Bunkie, the Acadiana Center for Youth, built according to a therapeutic model, it has not become operational due to a lack of funding. If that facility is not open within five years, OJJ will spend approximately \$1M on an empty building for maintenance.

Chairman Stokes said she heard in budget meetings that OJJ could not afford to open the facility but questioned why OJJ would not close older facilities and just use the new one. Ms. Jacobs explained that the new facility is in Bunkie and the open facilities are in Monroe and New Orleans, so it would take time and cost to hire and train or move staff. Chairman Stokes asked how many youth are in the New Orleans facility, and Ms. Jacobs said that Bridge City has about 90 core beds and Swanson has about 124 beds and there is a smaller facility south of Monroe with 48 beds. Ms. Jacobs explained that OJJ expects an influx of youth with the raise of the age and receiving more 17 years old, so opening the Bunkie facility could help with placements.

Representative Schexnayder asked for the cost per year per bed. Ms. Jacobs responded that the average is \$428 per day per bed and does not necessarily mean it is a filled bed. The cost includes all the contracts for the medical facility and mental health as well. Chairman Stokes if all facilities have that high of a cost per bed per day. Ms. Jacobs answered that Bridge City is the most expensive at \$497 per bed, and Swanson-Columbia is a smaller facility and the cost is \$316 per bed. The WYC is the 24 bed facility for girls and the cost is \$258 per bed per day. Chairman Stokes asked if the cost includes housing, all the staff, food, health care and everything. Ms. Jacobs said they considered all expenditures and their mental and medical contracts when calculating the costs.

Chairman Stokes asked why the girls' facility is so much cheaper than the other facilities. Ms. Jacobs said that WYC is much smaller, whereas Bridge City and Swanson are older facilities and the Swanson facility is much more spread out which costs more for maintenance and staff. Chairman Stokes commented that this report provided very good information because the kids need to be rehabilitated before brought back into communities.

Dr. James Bueche, Deputy Secretary, Department of Public Safety and Corrections OJJ, and Ms. Ellyn Toney, Chief of Operations, introduced themselves to the Council. Dr. Bueche complimented the auditors on excellent thorough audits that provided very good feedback for their operations and improvements.

Senator Walsworth commented on the increase in escapees from the youth centers and he believes the staff needs to be paid more, adding that the youth are actually men in size. Senator Walsworth stressed the need to pay the employees better to retain trained employees because the turnover in staff is not good. He asked when the 17 year olds would start being put into the youth centers. Dr. Bueche responded that the law is supposed to take effect on July 1 of this year and was delayed until March 1, 2019. At that time nonviolent 17 year old offenders will go into the juvenile system. Then in July 1, 2020, the violent offenders will also go into OJJ. They were supposed to be active now but in the last legislative session it was pushed back to March 2019 due to funding issues and local issues that needed to be worked out and bringing the Acadiana Center online. OJJ knows they will get additional referrals as they bring in the 17 year olds into OJJ which was the main reason for the push to get Acadiana online.

Senator Walsworth asked how many nonviolent beds are in Louisiana that OJJ can use. Dr. Bueche answered that they have secure care beds in the three facilities and the female facility which gives 275-300 beds. They also have some group homes that they contract with such as Johnny Robinson's facility, so there are about another 270-300 more beds available depending on what OJJ's needs are. OJJ does have the ability to take the nonviolent youth and put them into the community based settings. They adopted their matrix and assessment tools to drive placement. Even after this report was completed, the number of nonviolent kids in the secure care facilities is at 15% and previously it was at 25%, so they are continuing to improve that and keep kids in the right type of placements. The data shows that if you take a kid that is nonviolent and put him in a secure facility, more harm is done in the long run, so they do not want to do that from an outcome standpoint.

Senator Walsworth commented that society and children are different these days. He expressed appreciation for the tough job that OJJ handles. Dr. Bueche shared that changes were made at the facilities where escapes had occurred including fencing and surveillance and cameras. The kids are more aggressive and violent, so OJJ takes steps to handle that. Regarding the staff pay, it is somewhat out of OJJ's hands but he is working with civil service to do job studies to see if the pay can be increased for incoming staff. Senator Walsworth asked for the pay for incoming staff and Dr. Bueche responded that it is around \$30,000 per year which is in line with what corrections pays their entry level staff. OJJ has the same issue as corrections of staff turnover and not being able to retain staff.

Senator Walsworth asked if the kids are still receiving the 12 month educational instruction. Dr. Bueche answered yes, and it is a regular secondary alternative school where the kids can earn Carnegie units and graduate from high school, and offer vocational programming. In preparation of receiving the older youth, OJJ will start some online college courses and are expanding on their opportunities. Senator Walsworth suggested trying dual enrollment with community college. Dr. Bueche explained that the program is through the Louisiana Community and Technical Community College System (LCTCS) so when the youth leaves OJJ they can continue their courses at the community college with credits transferring.

Senator Walsworth talked about a previous construction program where the youth built houses for Habitat for Humanity and the kids took pride in their efforts and giving back to the community. He was not sure if the program was still continuing or cut back due to funding or transportation. Dr. Bueche said the program has been changed to allow the kids to build cabinetry and what can be built on the OJJ grounds because of issues with budget, transportation and having staff available to bring the kids off site. They try to bring the youth to see the completed homes. Senator Walsworth said the youth's self-esteem and pride in building the homes was evident. He testified at Joint Budget that not all of the 30% necessarily needs to go to the adult side but can also go to the juvenile side. Dr. Bueche added that 20% of the 70% will go to OJJ. Also he is working with local jurisdictions that do not have access to a detention center for alternatives, to see if OJJ could take some of those kids to keep them out of the system. Senator Walsworth said the youth are not in OJJ until they have gone through the process and adjudicated. In the rural areas there are such issues with funding because the youth go from a \$25 a day bed to a \$200 plus per day bed. He is lucky in Ouachita Parish to have Green Oaks but it is full every day. Dr. Bueche said he realizes not every community has that and unable to find detention in every area of the state, but can do some electronic monitoring or at home incarceration. Some kids will need those types of supervision as the 17 year olds are added to OJJ even at the local levels. Senator Walsworth commented that the better job done on the juvenile side will help them on the adult side and we are all better as a state by doing that.

Representative Hunter said that the Swanson Center is in his district and there have been concerns in the community about escapes which include five in the past six months. He asked what can be done to ensure that it is a safe working environment and that the kids are receiving the rehabilitation services that they need, as well as the grounds being taken care of. Dr. Bueche said OJJ developed a specific plan to replace the Swanson facility which is 80 years old and was not built to function in the way that they do now. For example, at the Swanson facility it will cost \$500,000 to replace the roof on a warehouse whereas they could build a new facility for \$20M. He's running the numbers and working with the Louisiana Correctional Facilities Corporation that sells the bonds but has to go before the bond commission. By replacing the Swanson facility with a new one, not only can OJJ pay back the bond debt but actually save money on top of that just from the standpoint of not having to do the continual repairs such as air conditioning breakdowns and offer a more secure facility without the breakouts. They recently had to put extra razor wire on the current fencing to deter escapes. He asked for funding to replace the facilities and get out of the older buildings which as per their calculations it will save money in the long run.

Representative Hunter asked how OJJ would handle updating the facilities at Swanson. Dr. Bueche explained that there is additional property across the road at the Swanson location where a new facility could be built and then just move the youth and staff to the new facility. Representative Hunter asked what could be done with the old facilities. Dr. Bueche said he is not sure yet. The Jetson Correctional Center was going to be used by the Southern Agricultural Center but the 2016 flooding caused the female adult correctional center to flood so females had to be housed at Jetson. Once they know that the Jetson Center and other centers will be available then OJJ will determine the best use of those resources for safe and effective benefit to the community. OJJ will talk with local government and other state agencies about doing

a public private partnership such as the Johnny Robinson home to do out-patient or residential programs there.

Representative Hunter said he has seen an increase in drugs and cigarettes being smuggled into the Swanson Center by employees. He also agreed with Senator Walsworth to increase the pay for staff while also getting rid of dishonest employees who are corrupting the youth in these rehabilitation facilities. Dr. Bueche said that OJJ does terminate and press criminal charges against employees for smuggling in illegal items and for having inappropriate relations with the youth. OJJ wants to send the message to the staff and community that they are serious about maintaining the safety and security of the facilities, and enforcing repercussions. Representative Hunter believes that the overwhelming majority of Swanson Center's employees are hardworking and good natured and want to contribute to the youth's safe rehabilitation.

Chairman Stokes asked how many boys are in OJJ. Dr. Bueche answered there are around 250-260 boys in the secure care facilities. Chairman Stokes asked why not use the new facility that houses 72 kids to provide better care and security and why not close an old facility. Dr. Bueche explained that OJJ really needs funding to run both facilities because of the location of the Acadiana Center. If it was a new facility close to a current facility, they could easily move the staff and youth over. However, to close the facility in Monroe and move everything to Bunkie, OJJ would have to hire a new staff in Bunkie and get them trained while still maintaining the Monroe facility until ready. He is not opposed to doing that but also knows that there will be increased capacity when the 17 year olds go into OJJ. He cannot just turn off lights at Swanson in Monroe and move everyone to Bunkie.

Chairman Stokes said it is a waste to have the new facility sitting empty for two years which is not OJJ's fault but the responsibilities for the budget decisions land squarely on the legislature's shoulders. Dr. Bueche said some money was given in the current year to get the Acadiana Center partially opened to start looking at policies and procedures and train staff. However, they will need more funding the following year and only guessing at what the 17 year old population costs will be. LSU did an independent study and projected that anywhere from 50-60 kids, but the district attorneys and sheriffs believe it will be more. They will have some initial data closer to the March implementation. Dr. Bueche explained they try to keep the kids as close to their homes as possible and manage the population at the facilities accordingly.

Senator Walsworth said that the old charity hospital in Monroe is in deplorable condition and an eyesore but was previously a beautiful building and it shows disrespect to the community to leave it and not get rid of the old. He wants to be cautious about building a new youth center and leaving the old Swanson Center which is a historical building to fall into the same disrepair as the charity hospital. We owe it to the community to leave it as presentable as possible. Dr. Bueche said he hopes to have enough money to keep the grass cut but it costs a lot to maintain it right now. Senator Walsworth said that he does not see Johnny Robinson using that facility because he has a top notch facility and does a great job with those kids there.

Chairman Stokes asked when this type of audit would be repeated because of all the changes coming to OJJ in the next couple of years. Ms. Brown responded there is no set time but possibly when the new processes are implemented. Chairman Stokes suggested a repeat audit after the 17 year olds are moved under OJJ.

**Louisiana Department of Health (LDH)– Reliability of Medicaid Provider Data – Medicaid Audit Unit Report (MAU) Issued June 20, 2018**

Mr. Purpera explained that the Medicaid program is expensive for our state and nation. The fiscal year 2018 numbers are around \$11.5B in expenditures with \$8.4B being federal funds and the remainder is state funds. This equates to approximately one-third of our state budget. About 1.7M recipients out of a 4.6M

population, so roughly 36% of our population are on Medicaid. The number of transactions is around 100 million per year not including the denial transactions, which equates to approximately 400,000 transactions per day that LDH is having to process in some way through encounter data. This program is important to our state for both fiscal and healthcare perspectives. This report was done to look at a portion of the program because LDH needs excellent data, good policies and good business rules to efficiently run a program this large. The report was to identify areas where improvements are needed with the data so that LDH can properly monitor and manage the program.

Mr. Purpera shared that the Government Accountability Office (GAO) U.S. Comptroller General Gene Dodaro testified in numerous hearing on Capitol Hill regarding the Medicaid data issue across the nation. The Center for Medicaid and Medicare Services (CMS) has several times in the last year discussed in public settings about the data received. Recently CMS sent a letter to all states telling them that they expect a better job in the future of providing the encounter data related to the managed care program. This program cannot be managed by papers going across the desk but it must be managed electronically with good data at a low enough specific level to properly manage it. This report is about the data not being sufficiently reliable and not detailed enough, and business rules are not applied at the level necessary to properly manage the system. The report is not about fraud because statements have been made that he said this report was about fraud. But his statements have been about the data and possibly improper payments. In 2002, the federal government passed an act called the Improper Payment Elimination Recovery Act. It was amended in 2010 and again in 2012. Improper payments are much broader and bigger than fraud, and fraud might only be a small portion of that. He believes the majority of improper payments are payments that are not properly documented, not that they are not serviced and performed. He heard Senator McCaskill say on Capitol Hill that with proper documentation and data, the majority of improper payments could be moved to the proper payment category. This report is about improving our processes and systems so we can reduce or even eliminate improper payments.

Mr. Wesley Gooch, Special Assistant for Healthcare Audit, explained the scope of the audit was specifically looking at data integrity for provider information and the MCO encounters, so not talking about claims or program rules or Medicaid expenditures. We are only asking one question: Are the processes used by LDH resulting in reliable provider identification in the MCO encounter data? For the six issues noted in this report, the answer was no. The encounters do not always include accurate and complete provider data. In a program this size, the key is monitoring fraud, waste and abuse with data. Because there are approximately 100,000,000 encounter claims a year which is about 400,000 per day, manual monitoring is inefficient, ineffective and virtually impossible to accomplish. Using data analytics is the best method to address these large volumes of data like Medicaid encounters and for data analytics to work the data must be accurate and complete. The audit found that at times, that is not the case with Louisiana Medicaid. Without accurate provider data LDH cannot adequately monitor the MCOs' activities or ensure that providers were qualified to perform the services that were billed for. The Attorney General's Medicaid Fraud Control Unit (AG-MFCU) does not have critical information that they could use in their fight against specifically fraud. Auditors cannot perform efficient and effective audit procedures in efforts to find fraud, waste and abuse. Then the federal oversight agencies - CMS, HHS-OIG, GAO - do not have the tools needed to monitor the state programs for compliance and ongoing program development.

Mr. Gooch continued explaining that the audit was issued in June 2018, and in July the HHS Office of the Inspector General issued a report titled, "Solutions to reduce fraud, waste and abuse in HHS Programs" with their top 25 unimplemented recommendations. While this report addresses all HHS programs, six of those were specifically pointed at CMS. Number 12 on that list: HHS OIG recommended that CMS insure that national Medicaid data are complete, accurate and timely. The key OIG finding in this report noted that data is an essential tool for detecting fraud, waste and abuse; however, the national Medicaid data has



deficiencies that hinder timely and accurate detection. Additionally, problems with Medicaid data had hindered program integrity, research budgeting and policy.

In August, CMS issued the letter to all state Medicaid programs notifying the states of new timelines to address data quality issues. CMS identified 12 top priority items regarding data quality, and CMS expects each state to resolve those top 12 issues within the next six months. Number 12 on the list was linking providers from claims to provider files to get accurate provider information. That is exactly the issue that LLA's report is addressing. So this is not a legislative auditor issue, or a Louisiana issue, but it is a national issue where data is coming to the forefront and it needs to be addressed. Our audit was not designed to find improper payments, but the scope was to assess data integrity. So while the audit did not find any improper payments, it was because they were not looking for any. However, we cannot say that there were no improper payments. What auditors and reviewers call an improper payment can vary greatly. Federal guidelines state that an improper payment can be defined as any payment where a reviewer is unable to determine whether the payment was proper as a result of insufficient or lack of documentation. So a federal reviewer could call any dollar noted in this report or any report an improper payment simply because of errors in the documentation. They did not find the right piece of paper to support the information. This report does not do that, but it is possible that other auditors or reviewers could. The bottom line of our report is that poor data quality hinders the efforts of all data users and greatly increases the risk that fraud and improper payments could occur and not be detected.

Chairman Stokes noted that LDH deals with several MCOs and many datasets because not one consolidated MCO like some other states. She asked how many other states handle the Medicaid program like Louisiana with six entities that transactions run through compared to one consolidated MCO.

Mr. Gooch said that the Medicaid program varies all across the country which is one of the problems with coordination of information. The standing joke in Medicaid is "if you have seen one state Medicaid program, you've seen one program" because they are all different. Each program is negotiated according to state plans and waivers, combinations of managed care and fee-for-service. There has been a move for the past 15-20 years from fee-for-service to managed care but the states are all over the place. Some use one provider, others use multiple providers, and some use predominantly fee-for-service and some managed care, and others do the reverse with almost all managed care and very little fee-for-service.

Chairman Stokes commented that she assumes by her interpretation of what Louisiana does is to allow more of a free market society within Medicaid which adds some complication.

Mr. Gooch stated that this audit is not about claims but regarding encounters which are the required reporting from the MCOs to LDH that detail service provided and the claims paid for Medicaid recipients. From an auditors' perspective here is their basic understanding of how the provider registry system should work with the MCO encounters. Per their contracts the MCOs are required to credential the providers who will provide services to Medicaid recipients enrolled in their plans. Credentialing includes determining the correct provider type of specialties for the provider so they know the services that the provider is qualified to perform. It should also include verification of the provider's education, training, liability of record and practice history. The credential provider type and specialties should then drive what services can be provided and what procedure codes that provider is allowed to bill for. In addition to provider type and specialties, the beginning and ending dates in the provider enrollment period should also be determined by the MCOs. This complete provider information with credentialed provider type and specialties is then reported weekly to LDH through the provider registry file – one different file for each MCO. When an MCO submits an encounter it should be linked to the provider registry for that MCO so that the complete credentialed provider data can be associated with the service provided and then look at the procedure costs

billed and paid for. If this process is not accurately followed, the provider information for the encounter may be lacking and LDH and other users may not be able to determine if that provider was actually qualified to provide and bill for those services. The MCOs are required by contract to provide accurate and complete encounter data to LDH.

Mr. Gooch explained that a claim is a required form by a provider filed for reimbursement by the MCO. The encounter is the MCOs' reporting back to LDH so that the claims data can be captured and put into the data system for management purposes for the state. We are not looking at the claims process at the MCOs but looking at the collection of data from the MCOs to LDH.

Mr. Gooch explained the six issues outlined in the audit. First, LDH did not ensure that the MCOs used valid provider type and specialty combination codes as outlined in the *Systems Companion Guide*. Second, LDH accepted encounter claims from the MCO health plans when the Provider Registry file indicated that the contracted provider was disenrolled with the MCO on the date of service. Third, LDH cannot ensure the encounter data captures the correct provider location, because the Provider Registry file allows only one location per provider. Fourth, while LDH has developed an edit to ensure that providers who were paid for services were properly identified, the department does not use the edit to deny encounters that fail the conditions of the edit. Fifth, LDH did not ensure that valid provider identification numbers were populated on MCO encounters. Sixth, LDH has not implemented a single Provider Registry for all providers enrolled in the State Medicaid program as required by federal guidelines.

Mr. Gooch said for just one group of providers the auditors identified 194,376 claims totaling \$13M that had an invalid combination of provider type and specialty code. One example in the report showed a provider specialty for osteopathic medicine only, but services by providers included eyeglasses, anesthesia, emergency room visits, inpatient hospital care, x-rays, lab tests and immunizations. These procedures were not consistent with what a doctor of osteopathic medicine would be billing for. These were likely data errors, but they found other inconsistent data such as colonoscopies being performed by independent labs, school based health centers and licensed clinical social workers. Another example of data concerns showed babies being delivered by case management services, independent labs and optometrists. This data is obviously erroneous and should never have been allowed to be accepted into the data system. These examples and many others like them should have been rejected and returned for correction before becoming part of LDH's data. If the provider type and specialty combinations are not correct, LDH cannot determine if appropriate qualified providers actually provided those services. Once these encounters are allowed into the data system, these encounters are included in the experience data that is used for future rate setting even though LDH cannot determine whether or not that provider was allowed to perform those services. These and other obvious erroneous encounters are going into the same data that goes into rate setting.

Chairman Stokes asked if the erroneous data is coming from one or two of the MCOs or across all plans. Mr. Gooch said it is across the board and did not see any spikes from any one plan. Mr. Purpera further explained that the incompatible functions were actually performed but the issue is what the data shows. Either it was a bad transaction that should not have been paid by the MCO which is not likely or bad data and should have been reported properly from the MCO to LDH, or LDH's records could need cleaning up. However, if the data is being used for proper management and monitoring then the fields need to have the correct data. Chairman Stokes said she finds this frustrating as a CPA because the data should match up. She understands that this does not necessarily mean that there was anything wrong with it but not only within LDH but in the MCOs that this data is improperly being recorded because the MCOs are credentialing the providers.

Mr. Gooch explained that the report is not saying that the claims are improper at the MCO level but just do not know for sure. Chairman Stokes said the optometrist who did the colonoscopy was probably actually a gastroenterologist, or we would hope. Mr. Gooch said it was probably just data errors in the way that particular provider was categorized and reported to LDH. Mr. Purpera said we would expect there to be a computer control to kick out errors but if the data is not clean then cannot run it through the controls.

Chairman Stokes said since there are six systems sending in data that makes it much more difficult to control compared to if the state had one interface. Mr. Gooch agreed and explained that the question is whether the original input issues are from the MCOs or the crossing over of data from the MCOs systems to LDH's systems. The final result is that the data is erroneous.

Chairman Stokes asked if the data could be coming from the MCO clean and something about how the data transfers in to LDH is getting turned around. Mr. Gooch agreed because there are six systems forcing data into one system at LDH and that could be the problem, but cannot state for sure at this point.

Mr. Purpera explained the levels of data that provide details of specificity and to properly use the computer controls, then the level of detail is necessary to provide proper edit checks along the way. Chairman Stokes asked if there a program that could be purchased that would help mitigate the data errors and correct the interpretation problems that LDH's system may have with data from the other six systems. There needs to be some warning to the MCOs when there are problems with the data. Mr. Gooch explained that these are massive systems because there are 100 million transactions a year just for the paid claims encounter documentation. When including the denied claims that number of transactions increases substantially. When LDH launched managed care they took their legacy fee-for-service system and tried to make the tweaks to get what they wanted with the encounters. That was six years ago and hind sight they may have realized that they should have gone another way but the result is what we are dealing with today. Chairman Stokes noted that 400,000 transactions per day is an enormous quantity.

Senator Walsworth asked how a recoupment is shown in the system and is that recoupment also reflected in the data for rate setting since all history is part of the rate setting. Mr. Gooch answered that if an MCO recoups an improper payment from a particular provider that is all recorded through encounters and does go into LDH's system. Senator Walsworth asked how LDH makes sure to not use recoupments as part of the rate setting. Mr. Gooch explained that all the data adjustments are part of the process that is automated in the reporting from the MCOs to LDH, but that is not audited and the accuracy cannot be confirmed.

Mr. Gooch continued to the next finding that LDH accepted encounter claims from the MCOs when the Provider Registry file indicated that the contracted provider was disenrolled with the MCO on the date of service. Chairman Stokes commented that the \$136M noted in the report is from a six year period February 2012 – December 2017. Mr. Gooch said that the data set reviewed was since the implementation of managed care in 2012. Chairman Stokes asked if they found an escalation in encounter data for disenrolled providers. Mr. Gooch said the majority was when LDH made a change with the provider registry which was from October 2015 to present. Chairman Stokes asked what percentage of the total accounts for the \$136M paid for disenrolled providers. Mr. Gooch responded that the budgeted amount for Medicaid for fiscal year 2018 is about \$12B and about \$7B of that went through the MCOs. Chairman Stokes calculated it to be approximately .064% which is alarming. Mr. Gooch said it is a small percentage of all the MCOs that go through but certainly do not understand why it should happen and it shows the data unreliability. Chairman Stokes said that the MCOs should be catching these errors before it goes to LDH. Mr. Gooch responded that the MCOs may well have that but it may be the translation into LDH's portal and how it ends up in LDH's data.

The next finding was that LDH cannot ensure the encounter data captures the correct provider location because the Provider Registry file allows only one location per provider. However 28,295 providers had multiple sites which results in LDH being unable to determine where the services were actually provided. This limits the ability to do geographic comparisons which is being used to combat the opioid crisis. The analyst is looking for a prescriber whose clients are traveling a significant distance to get an opioid prescription.

Mr. Purpera said the impairment is not only to the auditor but also to LDH who has the first line of defense and responsible for monitoring the access to covered services and standards of distance timeliness. It is important to LDH to have the correct provider location data. Mr. Gooch said this information is also important for MFCU and law enforcement and federal oversight agencies because the location data is crucial for dealing with the opioid crisis.

Mr. Gooch said that LDH has developed an edit 556 to ensure that providers who were paid for services were properly identified, but LDH does not use the edit to deny encounters that fail the conditions of the edit. The edit is turned to educational only. Instead of rejecting the encounter and requiring the MCOs to resubmit complete data, when the edit is marked educational only, the edit accepts the encounter and sends an educational letter instructing the MCOs to do a better job next time. We identified 9 million encounters totaling approximately \$587M from September 2015 to December 2017 where an activated edit could have ensured that the encounter data was linked to the MCO provider registry and provided better and more up to date provider data. LDH noted that they used edit 130 instead of using edit 556 to address provider information. However, the edit used allows the acceptance of the encounter into the data so if any provider identifying information is located in the encounter which includes the National Provider Indicator (NPI) or an ID noted in the Medicaid fee-for-service. While these sources may provide some information about the provider, it is not the most complete and up to date information that could be used for credentialing. If accurate and complete provider information is not linked to the encounters, then LDH cannot determine if that provider was allowed to perform those services. Again once encounters are allowed into the data system, these encounters are included in the data experience that falls to future rate setting.

Mr. Purpera further explained that nine million encounters were not denied. It's not the MCO denying the payment to the provider. We need to send the information back to the MCO asking for the proper information.

Chairman Stokes asked if there is an edit in the program but LDH is not following up on the problem. Mr. Gooch explained that the edit is not denying the encounter, but only sending an educational letter later. If LDH denied the encounter, then the MCO would be required to try and remedy that issue and resubmit it. But when the edit is educational only, that tells the provider to please reconsider this in future submissions. Chairman Stokes asked if the claim could come through clean and the encounter data come through wrong. Mr. Gooch answered absolutely it could. Louisiana Medicaid is still paying fee-for-service for certain categories and there are robust numbers of edits to ensure that those claims are right before Louisiana makes those payments. Those same edits are not being applied to encounters from MCOs.

Mr. Purpera said the issue is that we do not know which of the claims were valid but had invalid encounter data. We need valid encounter data so that invalid claims can be returned to the MCO to take care of it.

Mr. Gooch continued to the next finding on page 11 of the report explaining that LDH did not ensure that valid provider identification numbers were populated on MCO encounters. As a result, LDH cannot fully identify the provider to determine if the medical service was allowed to be performed by that provider. Populating the encounter data with complete and accurate provider information is essential to developing

procedures to monitor or audit the encounters to ensure compliance with MCO contracts and Medicaid regulations. However, LDH has not done this, leaving themselves and others who use the data with an incomplete tool to fight fraud, waste and abuse in Medicaid. The dummy provider codes that are put into the Medicaid ID number hinder the use of that data. The provider ID numbers link to the MCO's provider registry which is where you see the credentialing information and what services they can and cannot bill for because of their provider type and specialty code. You can identify the provider from another number but the NPI only gives the provider's name, address and primary practice area. The NPI does not get into specialties or anything that shows they were credentialed to do services for Medicaid recipients, nor does it show the most updated information that the MCO has in their provider registry file.

Senator Walsworth asked if the MCO must go to the provider to be sure they have all the correct data. Mr. Gooch responded that the MCOs are required by contract to credential all providers and verify they are qualified to give services to Medicaid recipients. Senator Walsworth remarked that the MCOs should be required to do it correctly or not get paid. He asked what percentage of providers is missing the full data. Mr. Gooch said for the three year period they found approximately 41 million encounters missing full provider data information which totals \$2.14 billion.

Chairman Stokes asked if a provider is on the state line how would they be registered. Mr. Gooch said if a provider wanted to provide services for two states' Medicaid programs they would have to be credentialed separately in both states.

Mr. Gooch continued to the last finding in the report that LDH has not implemented a single Provider Registry for all providers enrolled in the state Medicaid program as required by new federal guidelines effective on January 1, 2018. Until the new provider enrollment system is contracted, developed and implemented, LDH will remain in violation of federal regulations. Not enrolling managed care providers in Louisiana Medicaid limits Louisiana's ability to fully identify providers performing and billing for services for Louisiana managed care recipients. It also limits data analysis efforts to identify fraud, waste and abuse and improper payments in the Medicaid program. This report is about the importance of accurate data. There are a number of widely accepted data analytics procedures used throughout the insurance industry to search for fraud, waste and abuse in their programs. The key to any of those procedures is reliable and complete provider data. Everyone is effected – LDH's program integrity section, their surveillance and utilization review system section, the AG's MFCU, the legislative auditor or other auditors that are going to use that data, and all federal oversight – CMS, HHS-OIG, GAO. They all want to see good reliable provider data.

Chairman Stokes asked if software could be purchased to rectify these problems and comply with these requirements. Mr. Gooch said that could be a component but further explained that the problem is that LDH needs a dedicated process, dedicated procedures with adequate edits, and adequate verification. It takes tremendous effort to get this amount of volume translated from six different MCOs into one system correctly. It is a major process and we feel those processes should certainly be strengthened because the current product that we see has a number of data integrity issues.

Mr. Purpera commented that Medicaid is a complex issue and process and this is just one little piece of it. The NPI is similar to a vendor number so that the supplier is credentialed and using proper forms and verified legitimacy. He provided an analogy to purchasing office supplies and that some suppliers have different products that they offer. The more detailed data from the vendor/provider including their ID number, provider type, specialty codes, locations, etc. so that when a questionable transaction occurs where a provider is doing services that do not match their specialty codes, then either the data is bad or the

transaction is bad. This report shows that there is so much bad data that we need to take a time out and work with our MCOs to get good data and use electronic controls to catch these issues.

Senator Walsworth asked if the single provider registry file that LDH is soliciting for will get all the necessary information for providers. It looks like LDH is going to be doing what the MCOs were previously required to maintain a provider registry, so how much will that cost.

Mr. Gooch responded that LDH has not negotiated that contract yet. CMS has seen this as a problem not just in Louisiana but elsewhere. Prior to January 1, 2018, it was not a regulation for state health agencies to have the single provider registry, but now it is a requirement for LDH to have a single provider registry enrolled and credentialed by the state so that there is one source for all the provider information. It will solve many of the issues so that the provider information is in one place, but to confirm that the information is adequately populating every single encounter is a processing issue. The right edits will also be needed.

Senator Walsworth questioned if it would be a fair assessment to say that without correct complete data you cannot adequately say that we are doing what we need to do, and it might or might not be fraud but without the complete data you are unable to give assurances. Mr. Gooch agreed because complete reliable data is the key to do any monitoring or auditing of that volume of claims to fight fraud, waste and abuse. The data is too immense to do on a transaction by transaction level and data analytics is necessary. Mr. Purpera added that his office is only trying to help LDH improve their processes.

Ms. Jen Steele, LDH Medicaid Director, expressed her appreciation for the auditor's work to help LDH improve their program. In general, the root of the problem for this particular audit is that the provider enrollment system was created when we implemented managed care in 2012. At the time the feds allowed us to allow providers to choose whether to enroll in the state Medicaid program or with MCOs independently or both. At the time LDH was thinking that there were fee providers who did not want to be Medicaid providers with the state but would be willing to contract with a private company to see Medicaid patients on that basis. We did find that it had that effect but did not anticipate that by having providers enroll with each of the five managed care companies in addition to the fee-for-service systems and then adjusting and retrofitting the information from each of those different enrollment systems into LDH's fee-for-service system would get by definition variation and inconsistency in paths. That is what has happened.

We recognized independently of the feds changing the rules more recently that all managed care providers have to enroll with the state. We realized this was not working and started looking into this in early 2016. Ms. Steele said that long before this audit was issued, LDH issued an SFP/RFP to contract for a single provider solution and not just the provider enrollment function but as you mentioned the credentialing function which has been outsourced as well. That was in response to concerns raised by providers all along about the duplication and length of time and the administrative complexity. Independent of this audit, in response to those concerns and also to the issues that LDH identified with the system, they had gone a different path which has taken a while. They did have a protest and that was resolved at the end of July and in mid-September LDH will go to Joint Health & Welfare as the last requirement before they get to negotiations to have a public hearing. Then LDH will finally move forward with negotiating and getting the new system up. In the meantime the challenge has been what to do with a system that has intrinsic problems like that. If you were to apply some of the types of controls that have been recommended there are risks associated with that. Again the audit pointed out many instances where the dollar amounts that are associated definitely provide scale but there is a flip side to that scale.

Ms. Steele shared an example that she also gave at the last Senate Health & Welfare Committee meeting. She looked up her son's cardiologist in each of the MCOs and had her staff pull the data in LDH's

consolidated provider registry. The cardiologist was listed in three different locations, one of which was New Orleans Adolescent Hospital, and the Lady of the Lake where he has not been for two years and another was Children's Hospital. He was listed as a pediatrician and a cardiologist, and a pediatric cardiologist, also listed as a gastroenterologist in another instance and in another he was a practitioner. The day after that committee meeting she brought her son to see his cardiologist at his Denham Springs satellite office which was not listed in any of those registries. If he does an echocardiogram on a 13 year old boy, the entry would have to show a pediatric cardiologist to perform this type of service and match the location on file. If the claim would have come in from the plan that has the doctor listed as a gastroenterologist, you can see how it would play out and the claim would have been denied. Then the doctor would stop seeing Medicaid patients because it is a hassle. I could go through the particulars of the edits but broadly speaking we recognize that there are limitations with our data. We have come up with a systemic fix to that. In the meantime, we think that we have adequate, not perfect, controls for purposes of maintaining current operations. We have developed a variety of ways of looking at it that while not perfect, we have the total system controlled that we can do what we need to do. Ms. Steele said that explains the situation at the very highest level and glad to answer any questions.

Senator Walsworth commended Ms. Steele for doing one of the hardest jobs that he could imagine and appreciates all that she and the department do. He understands the example of the cardiologist, but wouldn't Blue Cross make the provider give the correct information and not pay them until right. In the private sector they would not pay until the data is correct. I understand what LDH is saying because of the issues with Medicaid losing providers because we do not pay enough compared to what they could make billing normal insurance. But at the end of the day, we need to get it right. It looks like the MCOs were required to get the information from the providers but now it is moving back to LDH, so how much will that cost. Ms. Steele answered that the provider management function will be the first of the functions that Molina currently does and it will roll off of that contract. We still have to go through negotiations but based on the bid it will cost about \$9M per year because it will also include credentialing which is a labor intensive function in addition to enrollment.

Senator Walsworth said we are all in this together - the legislature, LDH, the auditor - because at the end of the day we want to make sure that those who deserve services are receiving the services. But the ones who do not deserve the services should not get it and we should not pay providers who should not be paid. The public wants us to get rid of as much fraud as possible. He receives allegations and forwards them to LDH. This is not a finger pointing at anybody, but this is an incredible and unbelievable job. We added 450,000 more people into Medicaid enrollment and not sure if we added more people to LDH. Also LDH has lost some of the brightest leadership over the past few months. We just have to do the best job that we possible can and know that things fall through the cracks but must close up the cracks as best as we can. Senator Walsworth expressed his appreciation for all that Ms. Steele does for the state and knows she wants it be done right and they must continue to strive for perfection even if unable to reach it.

Chairman Stokes asked about the changes in the Molina contract. Ms. Steele explained that the Office of Technology Services (OTS) has been working for a number of years on the enterprise architecture which is going to be the new back runner that different state agencies will plug into and have shared services. DCFS will be the first to go live. The first two pieces for Medicaid will be the eligibility system later this fall and then after that will be the provider management module. In the Health and Welfare Committee meeting in a few weeks LDH will be discussing the plans for other functions to come off the Molina contract. The next couple of moves that LDH anticipates are the fraud, waste and abuse module as well as the data warehouse. Even after LDH replaces the provider enrollment piece, some of the limitations that are mentioned in this report will be fixed by that. But the data warehouse will have to be fixed, for example, to have the ability to store multiple service locations. Even if they fix the front end with provider enrollment, I still have a back

end that does not have a place to put that second and third location. So it's a long term process and there are many systems in state government that are antiquated but very complex and time consuming to replace. LDH will tell Health & Welfare that this will take several more years but she is excited to be getting to the first couple and anticipate the third or so, but not sure which one will go out first. LDH thinks that program integrity will go out first and hopefully that will be a relatively quick start up. Some of them will be faster and some will be a little more off the shelf and less labor intensive customized to design.

Chairman Stokes asked if all was being handled by state OTS. Ms. Steele said when and where needed, LDH gets backup outsourced contract experts to advise on the design but for the most part it is in-house. Chairman Stokes asked the timeline on the single provider registry file to be operational. Ms. Steele responded that the original timeline was November of this year, but considering that they have not gone through contract negotiations yet, so she would have a better update after negotiations start.

Chairman Stokes said she believes they have all learned a lot and understand the findings better. She looks forward to the day when all the proper systems are in place to be capable of good data analysis and find the issues easily. Until then, just continue doing the best that you can and appreciate the testimonies. She asked when another audit would be done once the new system is online. Mr. Gooch said they would not do further audits until the system has been implemented and LDH has had time to get it stabilized. Meanwhile the Medicaid Audit Unit is continuing to do other Medicaid audit work and that provider data is included in all the audits from the past two years which is the reason for this audit because of the lack of data integrity in the provider information. The provider issue will be addressed again after LDH implements their new system. Chairman Stokes commented that she will continue getting updates since she serves on the Health & Welfare committee.

### **Local Auditees with Unresolved Findings Pursuant to Louisiana Revised Statutes 24:554(B)(2):**

Mr. Cryer directed the members to the handout in their packets explaining the "3-Strikes" law enacted by Act 462 of the 2015 Regular Legislative Session and including summaries of repeat findings for the three municipalities. As per this law, the Council can withhold funding for a local auditee if they have not corrected findings for three consecutive years. The impetus for this law was due to many local entities not working to correct their repeat findings. In 2015 when this law went into effect, the LLA's systems were updated to collect audit finding data electronically from CPAs when they submitted audits to the LLA. This is the first meeting that 3-Strikes auditees are being presented to the Council, and these three have a large number of findings and a significant financial deficit or other financial problems that put them on the watch list. The LLA is not recommending today for any cut off of state funding but want to impress on everyone that these are significant findings that need to be resolved. We are asking for the auditees to return in six months once their new audit reports have been issued and provide an update on their situations and progress.

Mr. Cryer would explain each auditee's individual findings and financial situations then invite the mayor or representative to testify to the Council regarding what they are doing to fix their problems.

#### **a. Town of Baldwin**

The Town of Baldwin (Baldwin) was the first municipality and LLA began monitoring it in 2013 because of significant financial and operational issues under the previous administration. In January 2016, LLA Investigative Auditors identified \$63,504 in cash payments that were not deposited based on poor controls. Mr. Cryer shared the higher risk repeat findings from its June 30, 2017 audit report. The lower risk findings were not being brought to their attention. The definition of "without good cause" is interpreted by the LLA as "without good reason". Many findings that are in most reports for very small governments, such as lack



of segregation of duties and technical violations of the Local Government Budget Act (LGBA), are due to the small size of the entity and the risk involved are not without cause. LLA does believe that the entity can fix the findings being shared with the Council even though financial related.

Baldwin's repeat findings included: not adjusting utility rates to maintain revenues; not enforcing utility cut offs; not transferring money to address legal funding requirements; not charging correct garbage service charges; accumulating net position/fund balance deficits; failure to maintain worker's compensation insurance; police ticket books and tickets not maintained properly; improperly preparing bank reconciliations; and improper use of sales and use tax.

Mr. Cryer's staff went the previous year and prepared a budget template for Baldwin so they could see where they were financially. The LLA has helped and monitored the town for years and just not seeing things move quickly. Baldwin is making some improvements but concerned that the progress is not fast enough and concerned about the services.

Senator Walsworth commented that small towns hang on and do not have the resources to continue. He asked if the Louisiana Municipal Association (LMA) could come up with some ways to help the smaller rural areas that are struggling because of not having the resources or expertise. In many cases the mayor and council members are part time and work jobs elsewhere, and just trying to continue services with limited resources. He suggested with the available technology and working with LMA to determine what more could be done to help the smaller municipalities.

Mr. Purpera said he would reach out to the LMA to see if anything available like that. The issue of resources and expense from his office to continue sending auditors and advisors to these local governments and continuously make recommendations that are not being followed. Part of the reason for this law was because the next step is fiscal administration and once the state steps in to appoint a fiscal administrator then someone must pay that person. But when dealing with entities already having a lack of resources and try to find a fiscal administrator that would then have to bill the entity, it only causes more issues. So correcting the problems far in advance is the answer. Senator Walsworth agreed and believes LMA can join and help.

Mr. Cryer shared about a joint sit down approximately one month previously with LMA and a new mayor from a local municipality. The new mayor had many questions and concerns. His staff provided a miniature training session and works with the LMA on an ongoing basis. Senator Walsworth asked if they could step up working with the LMA.

Ms. Tammy Richard said she has been working with Baldwin for over 20 years as an accounting software consultant and also does the accounting. Chairman Stokes asked her to explain Baldwin's financial situation and said she understands that constituents may be poor so the town officials do not want to charge more for utilities.

Mayor Donna Lewis Lanceslin said the problem started with the utility bills not being collected and now facing a 53 year old water infrastructure and water pipes need to be replaced. When she went into office the water and sewer system were not maintained because they had no maintenance supervisor so she has to do that and basically just trying to stay afloat. She has to check over the clerk's work to ensure that things are actually done. Baldwin is now headed in the right direction because finally able to get some funds and grants that they were not able to get before.

Mayor Lanceslin thanked the auditors for providing information and assistance to rectify errors. Baldwin does not have big businesses and no longer receive funds from the Chitimacha Tribe (Tribe) which used to

be very helpful. Chairman Stokes asked if the Tribe was donating funds to Baldwin. Ms. Richard responded that the Tribe was not obligated to give funds but was donating funds. When the St. Mary Parish voted in the Amelia Belle Casino that made the Tribe upset and cut off funding to Baldwin.

Chairman Stokes asked if they adjusted their utility rates to increase that income. Ms. Richard explained that the previous clerk is no longer there as of November 2017 after 17 years. Most of the clerk's work was not being done. That was when Ms. Richard came in to handle their bookkeeping and became the interim clerk because she knew the software and the only one that knew about Baldwin's finances. They are going in the right directions and taking care of the deficits. The bank reconciliations were being done but the problem was that the fraud and theft of \$63,000 was still on the books. Because the outstanding checks were not cleared off the bank reconciliations and had to keep it on the books for several years because of the fraud investigation.

Chairman Stokes asked if the previous clerk had committed the fraud. Ms. Richard said it was a previous employee that collected the utility payments in cash. Mayor Lanceslin said that the checks and money orders were recorded but in 2014 and 2015 approximately \$63,000 cash money was stolen. She started noticing something was wrong six months into her administration. She called the attorney, and Stuart Dickey at the LLA because of her suspicion that money had been taken. They determined the employee had been stealing since she began working for Baldwin in March 2014. Ms. Richard said there is a current court case and had been subpoenaed three times already. Mayor Lanceslin said most of the stolen money was repaid by their insurance company.

Ms. Richard testified that bank reconciliations are being done and matched to the subsidiary accounts in the general ledger monthly. She provides the financial statements monthly to the LLA since she began as interim clerk. The police ticket books are now at the city hall and must be signed out by the officers. They implemented Quick PD a month ago which is software that will have the police tickets submitted to all the entities where the funds are transferred online for the state. They have a quote for the workman's comp insurance and she is questioning the high rating code, as well as getting more quotes. Mayor Lanceslin said Baldwin has not carried worker's compensation since 2009 and blessed that no one has been in an accident.

Chairman Stokes asked about the use of sales and use taxes. Ms. Richard said under the previous clerk that happened but she is personally consulting with the LLA if any questions.

Mr. Gerald Thibodeaux testified that his office has been performing the audit for Baldwin for about 12 years. He said that most of the numerous findings were from before Mayor Lanceslin's term which started in 2015. Primarily the findings were bond related and regarding various contingency funds, and the other issues were about proper bank reconciliations, maintaining the general ledger and basic financial information. The parish and Baldwin are heavily tied to the oil and gas industry so the economy tanked two years ago and still has not recovered. The issue was the ability to generate revenues to continue operations.

Chairman Stokes asked if they strictly enforce disconnecting for nonpayment of utilities could they get out of the going concern issue. Mr. Thibodeaux responded that it depends on Baldwin's revenues but the issue is that the water lines and water plant need repairs. The utility funds are the biggest part of small government and can bring in substantial revenue but maintenance issues hinder that income.

Chairman Stokes said she can tell that they are trying but need to see a good plan laid out with good internal controls to ensure no further stealing. Mayor Lanceslin said she sees Baldwin going in the right direction. Ms. Richard pointed out that the water plant is currently down. Mayor Lanceslin explained that ammonia was found in the water plant. She is getting help from Senator Bret Allain and Representative Sam Jones.

Right now they are receiving city water from District 4 who is charging more than Baldwin is collecting from residents, so getting into a deficit.

Chairman Stokes asked if they have called the Department of Health (LDH). Mayor Lanceslin said that LDH was sympathetic but could not do anything. Ms. Richard said they had a grant approved for \$306,000 to use on the water plant but an engineer presented a report that it will cost almost \$1.7M to repair the water plant. The water loss from the pipes is causing Baldwin to lose money because unable to bill residents for the lost water. Baldwin is ordering water meters to replace broken ones. They have asked District 4 to take over Baldwin's water system but due to the poor infrastructure and water loss, they do not want to.

Mayor Lanceslin added that they are collecting past due water and gas bills. Chairman Stokes concurred with LLA's opinion to give some leniency since they see that efforts are being made but very concerned about the water problems.

Mr. Cryer said the LLA suggests for all three towns to have them return in six months with a firm plan showing what they have corrected and plan to fix. His concern is that these same issues have been ongoing for several years and just now being addressed. If their utility rates are set not to cover their costs then Baldwin will continue to lose money. If they are losing 50% of the water going through the distribution system, they have to increase the rates to recover the costs. That is why there are multiple findings about garbage fees and utility fees. The LLA recommendations are fairly simple to either increase revenue or decrease costs. The rates need to be increased to a more realistic rate or else downsize government. He believes once the auditor finishes the audit by 12/31/18 that will show what has been fixed and what is still outstanding. Chairman Stokes suggested Baldwin work with LMA and getting outside help as much as possible before returning to LAAC in January.

Senator Walsworth encouraged Mayor Lanceslin to gain wisdom and assistance from Representative Sam Jones who was a mayor previously. He also entreated the mayor to collect the utilities and cut off those who do not pay and treat everyone the same because otherwise Baldwin will fold. He recommended that if Baldwin cannot afford its own water system repairs, then look into the other options such as turning all of it over to District 4. Mayor Lanceslin remarked that Representative Jones works well with them.

Representative Hunter asked the mayor if she has tried the Community Water Enrichment Fund (CWEF), the Local Government Assistance Program (LGAP), and the Interim Emergency Board (IEB) on the applications for grants or non-interest or low-interest loans. Mayor Lanceslin responded that they have applied for them and asked the U.S. Department of Agriculture (USDA) in Alexandria but do not have the money for the ones that they want to match. Some grants could not get when they started because of their financial situation but later learned that a grant they applied for earlier for the water was awarded for \$35,000. When they checked there was another \$35,000 grant that she had signed up for.

Ms. Richard said they are working with Ms. Martha Casaubon with South Central Planning & Development Commission (SCPDC) and received a \$30,000 search grant approved from USDA for the sewer. Ms. Casaubon also sent Ms. Richard information on a grant for water meters.

Representative Hunter asked about LGAP funding and Ms. Richard answered that is the grant they used for sewer pumps. Representative Hunter said if there is a leak in the water pipes Baldwin can request to the IEB to get immediate funding. Mayor Lanceslin said they only received emergency funding when the senator called for the state to assist Baldwin.

Representative Hunter shared there is a November deadline for requests for capital outlay requests called “bricks and mortar” and asked if Baldwin requested that in the last calendar year or for the upcoming year. Mayor Lanceslin answered it would be in the upcoming year.

Representative Hunter said his request for Baldwin would be to capitalize on the CWEF, LGAP, IEB, and then the in state and out of state grants dealing with the USDA. Once you have done all that, then you can come to the House Ways and Means Committee to ask for brick and mortar funding which will then go to the Bond Commission to get the structure that you need in place. It is a gargantuan task to think that a town can fix the water supply independent of the state and federal government’s input. If you are not realizing those funds and capitalizing on the available grants, then those funds may be going to something not as important as water quality. You need to work on that before the end of this calendar year as well as get your timely request in with capital outlay, so we can make sure that your request is handled more importantly than playgrounds and things of that nature. There is no way we can assist you if you do not submit those requests.

Ms. Richard responded that they are working on grant requests for LGAP, CWEF, LCDGB (Louisiana Community Development Block Grant program) capital outlay which are due on September 14 and November 30. Representative Hunter urged Mayor Lanceslin to apply with the IEB as well which is like a savings account for repairs to water systems because water quality is one of those instances that do qualify. IEB has helped the Town of Richwood and other small towns, as well as helping with sewer system issues. But no one will send the towns a letter offering these funds, but you will have to go after these funds. He wants to see Baldwin be successful and get the funds. It becomes your problem from day one as soon as you take the job of mayor. He offered to help further and provide as much information as possible.

Chairman Stokes commended Representative Hunter’s efforts fighting for better water quality in his part of the state. She asked Mayor Lanceslin to follow up with Representative Sam Jones, Representative Hunter and LMA before returning in January before the Council. She wants Baldwin to also return with a long term budget forecast based on the new rates and grants that you have applied for and all the plans you have made to put this ship back on the right course. To not fall into the snare of the 3-Strikes Law, return with that plan to show that you care, and have done all the ground work to correct the problems and that you are on the right track. Mayor Lanceslin thanked the Council for the good advice and support.

**b. Village of Epps**

Next, Mr. Cryer said that LLA began monitoring the Village of Epps (Epps) in 2014 based on significant financial and operational issues as well as a follow-up on a 2009 LLA Advisory Services report with numerous findings. Although LLA Advisors have communicated with the village on many occasions, providing recommendations on ways to address its controls and other problems, there has been little progress. As of August 23, 2018, Epps still had not engaged a CPA for its 2017 financial report, which was due on June 30, 2018. Epps has the following repeat significant findings in its December 31, 2016 review report, which also includes a going concern for the 2016 calendar year: receivable balances not reconciled to subsidiary records; contributions not remitted timely to Municipal Employees Retirement System of Louisiana (MERS) and Municipal Police Employees Retirement System (MPERS); federal and state income tax not remitted timely; and payroll taxes not remitted timely. There are also a lot of underlying issues as far as basic controls, not tracking budget, keeping records updated, and not segregating tasks. A follow up was done about 1 ½ years ago and there had been no changes whatsoever from the previous year. Epps has to take responsibility to pay the taxes and other necessary responsibilities.

Senator Walsworth welcomed the mayor and town clerk and commented that Epps is in his district and AT&T cut the village's water line the other day. Mayor Shirley Gibson testified that the retirement contributions have been paid completely and payroll taxes are paid in full and kept current now. Water customers are required to pay their water bills by the 15<sup>th</sup> monthly and if not, they are cut off and a reconnect charge of \$75 is charged in addition to the bill. The monthly bills are being paid timely. The contingency and debt service accounts have been set up for all three USDA loans monthly through automatic deductions. The USDA annual loan of over \$16,000 has been brought up to date and is paid monthly. Mayor Gibson said a new CPA has been secured and helping now with their accounts to be sure all is kept current and paid timely.

Chairman Stokes commented that it sounds like all has been addressed. Mr. Cryer said they have been told all this but no auditor has been engaged yet and the deadline was two months ago. The LLA has no current financial information for over 1 ½ years at this point.

Town Clerk Ms. Holly Cooper said that they have engaged with an auditor named Jeff Maxwell. They had been looking since May for an auditor and been turned down by so many because auditors told them that they do not do reviews anymore. She finally secured one and has an engagement letter on the way to LLA.

Mr. Cryer said that he spoke with Mr. Maxwell a few days prior and at that point nothing official had been agreed upon. Chairman Stokes commented that the audit would be for fiscal year ended 12/31, and asked how long does it normally take for the audit to be completed. Ms. Cooper said that Mr. Maxwell told her between two weeks to a month to complete an audit. Mr. Cryer said Epps only has about \$116,000 of revenue as per the last issued report, so that time frame is possible. He is recommending for Epps to also return in six months after a review report is completed to get a better update. Chairman Stokes commended Mayor Gibson and Ms. Cooper's progress and encouraged them to continue resolving all the findings. The highest concern is the retirement contributions being paid since that is other people's money, as well as payroll taxes.

Ms. Cooper shared that she replaced the previous clerk that served 35 years and came in blind. The prior clerk was taking money out of the chief of police's payroll but was not paying it to the retirement system. She just caught up on the \$16,000 of owed retirement contributions, and the Epps does not participate in any retirement systems any longer. The police chief participates in another law enforcement company's retirement system. The payroll taxes were her fault for lack of knowledge and experience. The prior CPA firm that worked for many years was not even balancing their bank statements. Epps has hired a new CPA firm that has caught everything up since February.

Chairman Stokes commented that since the books are closed by December 31, the report might be completed by February. Mayor Gibson said they might have a new mayor because she does not receive any income and does the work strictly for the community. She has to work a full time job too. But Ms. Cooper reads water meters, gets into the holes, digs ditches and does it all.

Senator Walsworth complimented Ms. Gibson as one of the toughest mayors he knows and appreciates all she and Ms. Cooper does for Epps. Mayor Gibson added that the council members do not receive any payments. One council member is leaving this year and said that Epps could be sued for not paying them. When she was on the council about six years ago the council and mayor volunteered to receive no pay because Epps did not have any money. Senator Walsworth said he understands that statutes require payment to council members even though members may agree to voluntarily not receive payments. He added shame on that council member if he comes back on Epps.

Senator Walsworth commented that the female prison closed about five or six years ago which was the main income so that really impacted Epps. Hopefully Epps being the home of Poverty Point and going forward might get more tourism dollars. Mayor Gibson said that there is talk that the prison is trying to reopen but that Epps will not reap one cent. Chairman Stokes suggested Epps return in February with their audit report showing most of this has been fixed and Mr. Cryer concurred on that time frame.

**c. Town of Independence**

Next was the Town of Independence (Independence) which Mr. Cryer said the LLA worked with them during 2016 to follow-up on possible fraud issues relating to the prior administration. In August 2015, LLA Investigative Auditors identified \$4,242 in cash payments that were not deposited, town employees not enrolled in retirement systems (resulting in the former mayor's indictment for malfeasance in March 2018), and utility bills reduced for the former mayor's son. For the past two years Mayor Mannino and the current administration have been resolving a number of issues and the mayor is continuing to work to resolve the remaining issues that were included in the June 30, 2017, audit report, including: use of bond revenues to pay prior year liabilities which is not legal; water and sewer fund have operating deficits; and delinquent town receivables and not enforcing utility cut-offs. Independence was invited to give a status on their corrective action but every indication from speaking with the CPA doing their accounting work and from the auditors, they are on a recovery trajectory.

Mayor Angelo Mannino testified that Independence has greatly decreased the findings because under the previous administration there were about 30 findings. From the retirement issues to the water system, they have managed to get Independence back in order thanks to all the gentlemen who have worked so hard. They began the audit for the most recent fiscal year 6/30/18 just two weeks ago.

Mr. Phil Hebert, CPA, started working in Independence when Mayor Mannino was elected and both have worked very hard to address the 31 findings for the year end 6/30/16 under the previous administration. They owed about \$600,000 to retirement systems MPERS and MERS. They also had over \$200,000 in accounts payables at the beginning of Mayor Mannino's administration. They hit the ground running and very proactive, hiring a new utility billing clerk. The utility billing for two larger customers was a flat rate of a couple thousand a month when their actual bill was almost \$20,000 a month. He began creating financial statements every month showing budget to actual and got spending under control.

Mr. Hebert was told by the retirement boards that Independence owed \$800,000 and 15% interest, so Mayor Mannino and others met afterwards and pulled all the resources and borrowed from some restricted debt funds to pay it off for around \$600,000. By June 30, 2017, the town had not paid back over \$123,000 to that restricted debt fund because of repairs to the water system but by May 2018 all was paid back to the restricted funds which should eliminate that finding. They recently also amended the cut off procedures for delinquent customers because previously they allowed 90 days but now allow only 30 days. They were very proactive on collecting water bills. In June 2017's audit they were down to four internal control findings and two compliance findings. Those findings should be eliminated going forward. In September they will be completing the compilation full disclosure footnotes for the auditor. The mayor has been very proactive in bringing people in and everyone has worked together, so now a normal town and maybe a model town. They have very good controls and financial reporting now.

Mr. Paul Riggs, partner in charge for the audit firm, stated that this is the fourth year to perform Independence's audit. The first two years under the previous administration, the controls were very poor and the first year under Mayor Mannino we have seen a significant improvement over just about everything including controls and much better environment to do the audit. He expects that to continue and expects

Mr. Hebert to have the numbers completed in late September or early October, so that his firm can have the audit completed on time by the end of the year.

Senator Walsworth recognized the great job done by Mr. Hebert under Mayor Mannino's leadership. Mayor Mannino said that Mr. Hebert has been an excellent accountant for his own business, so he brought Mr. Hebert in to handle the town's finances too. Senator Walsworth commented that Independence is the smallest of the three municipalities brought before the Council. Mayor Mannino said they have about 1,600 residents. Chairman Stokes invited them back in January with an expected clean audit report and complimented them on their diligent work.

Mr. Cryer pointed out that the three entities brought today were only the tip of the iceberg. The LLA has 34 auditees on the list with moderate to severe findings but there are many more out there with similar problems. His staff of seven advisors covers the entire state and continually advising and working with auditees. He asked the Council what protocol they would like to continue hearing from the 3-Strikes auditees. The three auditees presented today had the largest number of findings not already being addressed through fiscal administration or another mechanism. Chairman Stokes suggested bringing the highest priority with the most severe concerns to each meeting a few at a time. There is some good counsel given to the auditees and could only help them understand the severity and importance of addressing their findings. Mr. Purpera suggested putting this agenda item on each meeting will help to move these towns along to address their legal responsibilities. Chairman Stokes said they do not want to be punitive but must make them want to rectify mistakes. She worries about the auditees' ability to fix their problems but requiring them to return with a long term budget solution forces them to come up with that plan.

### **Fiscal Administration Update**

Mr. Purpera gave a brief update on the three entities still under fiscal administration: Madison Parish Hospital Service District (District), Town of St. Joseph, and the City of Jeanerette. The District is a success story coming from a \$5M fraud and totally underwater financially when they went into fiscal administration and today they are profitable, planning to build a new hospital, have a new board constituted and the fiscal administrator is working himself out of that job by this fall.

The Town of St. Joseph's water system infrastructure has been completed. There are some concerns about lead because of the pipes between the meter and the inside of the home is causing some problem but the Town cannot replace or repair that because of the constitutional law prohibiting donation of property or cash. The fiscal administrator is now primarily focusing on the accounting infrastructure and hiring a clerk to continue that process in the future. That fiscal administrator should be completed by the spring of 2019.

The City of Jeanerette is in the early stages of fiscal administration and he expects multiple years because so many problems with their finances, accounting infrastructure, accountability and transparency issues. There is a potential fraud that his staff is working there right now, and issues with the mayor in her private business.

Chairman Stokes asked how the 3-Strikes law relates to the entities under fiscal administration. Mr. Purpera responded that if an entity has not paid obligations or not able to pay their current obligations, then the state treasurer, attorney general and he have hearings to review their financial situations. They do not want to put anyone under fiscal administration but after several hearings with coaching and assistance and if the entity still cannot pay their financial obligations, then by a unanimous vote to put the entity under fiscal administration the attorney general petitions the court to appoint a fiscal administrator. The issue with some towns is that there is no money to pay a fiscal administrator and finding a qualified person to work for free

is next to impossible. The fiscal administration position is not a fun job for anyone because usually not liked by anyone and having to make the hard decisions and basically replacing the elected members. That is why appointing a fiscal administration is not done until absolutely necessary. His office urges all auditees to correct their findings and address their issues first.

**Other Business**

No other business was discussed.

**Adjournment**

Senator Walsworth offered the motion to adjourn and with no objection, the meeting adjourned at 1:30 p.m.

***Approved by LAAC on:*** \_\_\_\_\_

The video recording of this meeting is available in House Broadcast Archives: [http://house.louisiana.gov/H\\_Video/VideoArchivePlayer.aspx?v=house/2018/aug/0830\\_18\\_LegislativeAudit](http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2018/aug/0830_18_LegislativeAudit)