

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting February 21, 2019 House Committee Room 6 State Capitol Building

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

Chairman Julie Stokes called the Legislative Audit Advisory Council (Council) meeting to order at 1:15 p.m. Ms. Liz Martin called the roll confirming quorum was present.

Members Present: Representative Julie Stokes, Chairman
Senator W. Jay Luneau
Senator Danny Martiny
Senator John Smith
Representative Ted James as proxy for Representative Jimmy Harris
Representative Clay Schexnayder

Members Absent: Senator Mike Walsworth, Vice Chairman
Senator Wesley Bishop
Representative Blake Miguez

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

Approval of Minutes

Senator Luneau made a motion to approve the minutes for the December 13, 2018, meeting and with no objection, the motion was approved.

Extension Requests

Mr. Bradley Cryer, Director of Local Government Audit Services, stated there are 58 extension requests. He stated that the LLA received about 1,200 external certified public accountant (CPA) reports between December and January. He asked the council if he could just cover the extension requests with multiple years of repeat late filings. Chairman Stokes agreed to just cover the ones with repeat late filings.

The Town of Vivian is listed because of their accounting staff turnover which was caused by a potential fraud with one or two of the staff. The CPA did work to follow up on the fraud to make sure all those issues were addressed in the audit report. Chairman Stokes asked what year the fraud occurred. Mr. Cryer responded fiscal year 2018.

The CPA performing the audit for the Town of Jonesville was following up on allegations from our office and a theft was investigated and prosecuted by the sheriff's office. So the CPA had extra work because of those allegations and theft.

The Town of Jonesboro's previous administration had a number of problems with their operations. The report had more than a dozen findings and was being monitored by the LLA because of the audit disclaimer that year. The report coming in this year will be late because of that disclaimer. There is a new mayor and the town has an accountant who was the former fiscal administrator for the Town of Jonesboro who is working with us to make sure all those problems are resolved.

The City of Winnsboro has a new mayor that came into office under the old administration and we had continuous late reports. The new administration asked us to come in and help them get their books in order. We worked with the mayor and a contract accountant they hired. We are satisfied that they are moving the right direction. We are still in constant contact with them on things that are coming up and trying to work through some of those old problems to get them a fresh start for this year.

The Town of Lake Arthur has a fiscal year that is one month different than everyone else. The way the pension systems work, the town cannot use the prior year pension report - they have to use a brand new one. So they will be habitually late until either they changed their fiscal year or they can get with the actuaries to get those numbers faster. We are going to be discussing that with the auditor. Chairman Stokes asked if it is just the complication of trying to change the fiscal year end. Mr. Cryer responded that the town's fiscal year end is July 31 and the accounting rules say that you cannot use an actuarial report more than 12 months old, so they are always one month off. Other towns changed their fiscal year last year to avoid that same problem.

The Madison Parish School Board was late on audits three and four years ago but has not been late in the most recent two years. This year they had some accounting issues to work out. We have received their report and are satisfied that they are on the right track.

Natchitoches Parish School Board's auditors identified some problems with the pension numbers that they had been using. They came to us and we have been working with them to try to get those numbers corrected which is part of our quality control process. We are satisfied that they have the correct numbers and their report is expected at any time.

The Tensas Parish School Board has OPEB delays. This is the first year that the accounting standards change to deal with other post-employment benefits which is retiree healthcare benefits. In the past few years local school boards and local governments have been allowed to add incremental bits to their liability. This is the first year that they have to put the entire OPEB liability on their books, much like pension liability. About three years ago the state had a positive position and all of a sudden they were in a negative net position overnight because they put all of that pension liability on the books. The same thing happened this past year in 2018 for the OPEB liability.

The issue is with local school boards and local governments using a multitude of different actuarial firms. Because this is the first year, the actuarial firms were all bombarded by government asking for that work to be done quickly. We had about eight or ten of these on this list that had those types of delays. This school board is choosing a contract accountant plus their auditors are contracting with another firm to look at the OPEB side of things. We are confident that this report would have been on time or very close to on time if it wasn't for those actuarial issues that came up.

The Union Parish School Board is using the same actuary firm, same auditor, and the same contract accountants as Tensas Parish School Board. We had the identical issues between both of them. They had fraud in Union Parish this year. The business manager has been working with the sheriff's department to try to work through some of those problems.

The CPA for the Village of Kilbourne has been doing the compilation for them for many years. When she started her work in December and realized they went over the revenue threshold that requires them to have a review report through our office. Because she was not independent, they had to bring someone else in to do that work and they're trying to complete that work now.

The West Feliciana Parish Fire Protection District's fire chief retired last year. The assistant chief took his position and then died in an accident. They still haven't filled those positions permanently and we are expecting that report to come in by the end of March because they are dealing with part time firefighters that are filling in those gaps.

We have approved these extension requests internally and would ask for your confirmation of our approvals.

Representative Schexnayder made a motion to approve the nonemergency extension request 90 days or less and with no opposition that motion was adopted.

Evaluation of Louisiana's Framework for Preventing and Addressing Elder Financial Exploitation – Performance Audit Issued January 23, 2019

Mr. Purpera stated this issue gets more important to him every year. Most everyone has been the subject or the recipient of a potential scam and our elderly are vulnerable to these scams in many ways. We wanted to look at the framework for preventing and addressing and know how we are doing as a state.

Ms. Karen LeBlanc, Director of Performance Audit and Ms. Misty Perry, Auditor in Charge, presented an overview of the report and the recommendations. Ms. LeBlanc explained that this report not only points out some issues that we have in Louisiana, it provides some good recommendations and a good roadmap for where as a state we need to go to address this important issue of elder financial exploitation. Elder financial exploitation is a long word for financial abuse of the elderly. It involves misusing an elder's assets, such as using their credit card, taking their cash, withdrawing money. It also involves identity theft and scams. It can involve changing a will or abusing power of attorney.

There are many different types of cases of elder financial abuse and in the report we have several examples of actual cases in Louisiana. We have changed a lot of the details for confidentiality purposes but it really provides a human element to this issue. Some of the cases are minor, such as stealing a cell phone at a veteran's home to something major such as stealing all the assets of a grandmother and then refusing to feed her and keeping her in bed. This type of abuse usually occurs with physical abuse, emotional abuse and neglect. It is unfortunate that the elderly are targeted but most of the time they're targeted because they do accumulate wealth with retirement. They often have cognitive disabilities which cause them to be confused. Many of you may experience this in your own life, in your own families. It is estimated that one out of 20 people will have an issue with this.

Ms. LeBlanc continued explaining that this report really looked at five critical areas and we developed 14 recommendations for the agencies involved as well as six matters for legislative consideration. The five critical areas that our audit focused on: 1) Addressing victims' allegations and making sure victims do not fall through the cracks and get the services that they need. 2) We need to make sure that we hold perpetrators accountable. Sometimes these are not considered crimes but they are. 3) We need good data on the prevalence of how the extent to which this exists in Louisiana. 4) Address training and public awareness. Some of our law enforcement needs specialized training on how to deal with some of these cases as they can become complex. 5) Addressing laws, which is where you can help. We need strong comprehensive laws to protect the elderly.

The first area looks at all the different agencies that are involved. The protective services role which is addressing perpetrators that are in the community or family members is handled by the Governor's Office of Elderly Affairs (GOEA). That function had moved in 2012 to the Department of Health (LDH), but it has

since moved back. The Department of Justice-Attorney General's Office (AG) handles and mediates consumer disputes. Those include identity theft, scams, and dealings with businesses. When individuals are in a long-term care setting, a nursing home or a veteran home, you have the ombudsman who is kind of a victim's advocate for residents of nursing homes. They often see families who do not pay the nursing home bill and residents are involuntarily discharged. LDH has health standards and deal with cases of licensed providers such as nursing homes and home and community based providers. The Department of Veterans Affairs (LDVA) investigates grievances within the war veteran homes that they operate. The Office of Financial Institutions (OFI) deals with securities and financial type cases.

There are a number of different entities involved and are all important and all play a role, but it is important that we make sure that we can coordinate. Right now there is no mechanism to make sure that these entities coordinate. We are recommending the laws are changed or mandating a task force or an entity that is responsible for determining how best to coordinate all these entities because we really want to make sure that no one falls through the cracks. And we did identify some instances when cases were not accepted and cases were not referred to the right agency. So we definitely want to make sure that that coordination is there. We always look at other states and best practices. There are several states that do have a task force in law that is required to coordinate and could serve as examples of what we could do.

The second area that we looked at was perpetrators. It's important to hold perpetrators accountable for their actions so it does not reoccur. There is a state law that requires agencies to report physical and sexual abuse of the elderly to law enforcement, but there is no similar law for financial exploitation. When LDH had the protective services function, they did have a policy to refer it to law enforcement and we found that was not done all the time. It's important to prevent these reoccurrences because in the data that we looked on those cases, we found about 41 perpetrators that had multiple cases. So important to refer those to law enforcement and hold them accountable.

Senator Luneau asked about the age group considered for this report. Ms. LeBlanc answered 60 years old and above. Senator Martiny stated he was a victim of identity theft and not sure if because people think that I have wealth or that they know I'm over 65. The problem is once you determine that you've been a victim then you have to deal with the credit bureau and they are the worst. It is very confusing and complicated. He believed that a lot of elderly people never get issues resolved. He thanked the LLA for their work.

Ms. LeBlanc continued to the third area which is critical to have sufficient and reliable data. We found some of the agencies did not have complete data on these cases or they did not categorize the data in such a way that allows us to quantify the number of substantiated cases. We made recommendations related to all of those. The agencies agreed with most except one of our recommendations. The other thing that we found with data is that some entities were not reporting anything which looked peculiar. Nursing homes and veteran homes are required to report all incidents that they have and that can be a fall or an injury or abuse, which can happen frequently. We looked at data to see if nursing homes had all reported that and we found about 24% to 30% of nursing homes had not reported any incidents over a year period. We recommended that Health Standards, who oversees them, should use that data and when they conduct inspections, make sure that they are reporting as they should.

The fourth area is public awareness. Many of these crimes go unreported because the victim is a family member or a caretaker and the elderly person does not want to report it. It is important that the public recognize elder financial exploitation and that these agencies have a coordinated effort to do that public awareness. The AG and GOEA do conduct some public awareness activities, but funds can sometimes be an obstacle to that. They would like to do a TV campaign but do not have the funding. They could apply for some federal grants to do some of this but sometimes they cannot afford the state match. But I would like to

reiterate, there are plenty of federal resources out there such as organizations like the National Center of Elderly Abuse which does not require a lot of funds. The other thing we recommended that GOEA does is since they do have limited funds to target their public awareness efforts to those people who you would think would be reporting these cases and aren't. We looked at GOEA's data and found that banks and family members were actually the ones that were reporting most of these cases. I think banks over the last few years have made a concerted effort to provide their staff with training and we have had some law changes that help with that. But some of the other entities were law enforcement and councils on aging hardly had any complaints reported. We recommended using that data to kind of target your limited resources for public awareness, training especially for law enforcement. We did a survey of district attorneys (DAs) and sheriffs and a lot of them have had no training in this issue and it is a different and somewhat complex issue, something that they may not be used to investigating. It's important that they receive training.

The fifth area that we looked at was the laws that we have on the books and we do have pretty strong laws. We compared some of our laws to other states. For example, the banks have passed laws in the last couple of years that give them more authority so they can place a hold on transactions if they suspect a financial exploitation is occurring. But there are some other areas where we could look at implementing laws.

One is the uniform power of attorney. This is something that 26 states have adopted and it is recommended by the AARP and one of the benefits of that is that it requires powers of attorney to keep detailed records on transactions and credit card receipts and any sort of receipts that they use, so that can be used in an investigation. The other thing that we could probably consider as related to background checks, sometimes elders are interdicted and they need a curator or a guardian. Louisiana does not require background checks for individuals who want to be a guardian, so that would be a good idea. We do not require employees at long-term care facilities to have fingerprint background checks. We only do name based checks because it cheaper and quicker but a fingerprint background check would provide more protection.

Ms. LeBlanc said that the report contains much more research, laws and information. Her staff also has more information at their office and would be happy to share that with the council and can answer any questions. Chairman Stokes thanked her for the great work and can understand why she loved it. If there is legislation that you think would be beneficial, let's talk about it.

Senator Luneau stated he had received calls in the past about elderly people who were being defrauded by people who had been hired to come into their home and assist them and were living there so they could stay at home and not have to being a nursing home. And apparently from what law enforcement folks tell me that's the kind of fraud, other than the people that do it over the Internet and through the computer system, that's the most common one. He asked if that was found to be the case. Ms. LeBlanc responded she does believe there is a problem with caregivers or home and community based workers that come in because there's no one else to be there and a lot of these elderly have cognitive disabilities. But I think family members and just strangers in the community are most often perpetrators.

Senator Luneau stated some of these were relatives that were doing the caregiving type things. I guess my question is some of the callers say they have talked to two or three agencies and were sent back and forth between agencies. I am not sure if I'm telling them the right thing, but I tell them if it's theft to go to the police and file your complaint there but sometimes they're hesitant. He asked what is the solution and how do we best address that. Ms. Perry stated it's important that everybody coordinates their efforts to assist in arresting the perpetrators.

Senator Luneau stated maybe this could be a byproduct of your audit and maybe you could disseminate to the legislature because we get those calls and disseminate under this scenario, this is the agency you call. That would be very helpful for us so we can know who to send these folks to and how to start the process. Ms. LeBlanc agreed and reiterated that coordination is important because it is difficult, especially if you're elderly to navigate all these different agencies and each is responsible for different things. We really need an easy process and some sort of document would help that lists out where to go for various types of allegations.

Senator Martiny asked how much of this is done locally where somebody actually confronts an elderly person and scams him and gets caught. Ms. LeBlanc responded the AG's office is really responsible for tracking those scams and they enter information in a database called the Consumer Sentinel Network.

Senator Martiny asked how engaged are Louisiana agencies with the feds since the vast majority of this stuff has to do with crossing state lines. Ms. LeBlanc responded that is why they have that database. All states put their scam cases in there and a lot of times law enforcement can see that these happen across state lines. Senator Martiny asked do they go in on state charges or on federal charges or I guess they do both. Ms. Perry answered she was not sure about that but we do know that the Federal Trade Commission (FTC) database was not being utilized as best as it could be. The AG was not always entering the cases in the Sentinel database but they are not required to. Also law enforcement and DAs were not always utilizing that database and so that is what we recommended in our report. Senator Martiny said thank you.

Mr. Purpera stated this is another reason why we want to consider some type of task force or group that continuously looks to see if all the agencies are involved or continuously communicating using the tools that they have or coming up with what tools they need. Chairman Stokes stated hopefully we can do a task force and be able to coordinate efforts to make the state a safer and better place to grow old. We appreciate your work and thank you.

Oversight of Pharmacy Benefit Manager – Office of Group Benefits - Performance Audit Issued February 6, 2019

Ms. Gina Brown, LLA Performance Audit Manager, presented a summary of this report that evaluated the Office of Group Benefit's (OGB) oversight of its pharmacy benefit manager (PBM) MedImpact. OGB contracted with MedImpact to process and pay for prescription drug claims for approximately 212,000 OGB members. MedImpact is also responsible for negotiating prices and rebates with drug manufacturers and contracting with pharmacist to fill prescriptions. This is actually our second report evaluating oversight of PBMs that operate in the state. We issued a report last May on the Department of Insurance (LDOI) on this same topic. One reason that we chose to evaluate OGB monitoring is because in over a four and a half year period, OGB paid MedImpact over \$27 million to administer the drug program and paid over \$1.5 billion for prescriptions for OGB members. Overall, we found that OGB could improve its oversight of MedImpact. While OGB has taken steps like contracting with an independent actuarial firm, this firm is not evaluating all contract requirements and it is not sufficient for actively overseeing the MedImpact contract. OGB did disagree with 8 of our 12 recommendations.

Ms. Julie Floyd, Performance Senior Auditor, presented the key findings for the report. First finding, we found that OGB did not ensure that MedImpact complied with the payment terms related to rebates. Rebates are paid by the drug companies to MedImpact and then should be passed on to OGB within 60 days after the end of each quarter, those are the terms that are defined in the contract. We found that OGB was

getting these payments roughly 180 days after the end of the quarter and as a result, OGB missed out on interest revenue and OGB could have assessed penalties to MedImpact for the late payments.

Second finding, we looked at was pricing of medications and we identified an error in the way that MedImpact was pricing some of the prescriptions that are filled by mail. When you get a prescription from your doctor, you have the option to go to walk-in pharmacy or you can have that prescription mail to you, so we're talking about the mail order prescriptions. The pricing error caused OGB to overpay nearly \$90,000 over an 18 month period. Based on our work MedImpact was able to identify the error and fix it and they are going to reimburse OGB the overpaid amount.

For the last finding I just want to explain about performance guarantees. These are the minimum acceptable performance levels required by the contract. For example, MedImpact guarantees that it will answer plan members phone calls by a live voice within a certain number of minutes. The 60 day payment requirement, that is another performance guarantee – there are about 20 in the contract. If MedImpact does not achieve the minimum performance level then it has to pay penalties to OGB. What we found that was that OGB did not insure the accuracy of the information that MedImpact provided to show how well they were doing in comparison to the performance guarantees. We looked at some of the reports that MedImpact send to OGB and we found errors. Now I want to be clear that in that instance MedImpact did achieve the performance guarantee, but our bigger point is that if OGB is not testing the accuracy of the information they can't insure that MedImpact is always achieving the minimum guarantees.

Senator Luneau asked how is it determined that they achieved their performance guarantees. Ms. Floyd answered the expectations are set in the contract and then MedImpact submits reports to OGB that says, yes we did achieve those guarantees and based on that, if they did not achieve any guarantees, they have to pay a penalty. It is all self-reported information that MedImpact submits to OGB.

Senator Luneau said MedImpact has told legislators that they met all those guarantees and we had two legislators who said they did not and I was one of them and they did not for me. I think there is a lot more that goes on with this than what we see because they are self-reporting and just say that they met every performance guarantee. Ms. Brown explained that is why we brought it up as an issue and a finding in our report that they do rely on self-reported data. MedImpact sends them every month that they met or did not meet their performance guarantees and MedImpact tells OGB what the fine should be. Senator Luneau commented that he would like that deal and we have to do better. Chairman Stokes thanked LLA for their hard work.

Mr. Tommy Teague, CEO of the OGB and Ms. Renita Williams, Chief Operating Officer, were there to address some of the findings. Mr. Teague addressed the issue of rebates not being paid within 60 days and agreed that is in the contract. It shouldn't be in the contract because the industry standard is that the manufacturers do not pay rebates to the PBMs until 120 to 180 days after the end of the quarter in which they earned. At 60 days after the end of the quarter, the PBM does not even have the rebates to pay to us so that provision should never been in this contract. We have now signed an amendment to the MedImpact contract changing that 60 days to 120 days.

The second issue, there was a system error in the MedImpact system that was charging us a minimum fee for mail orders when they should not have been doing so. The auditors caught that and it would have been caught by our vendor's audit except they have not gotten to 2018 yet. We are in the process of being refunded approximately \$90,000 that we were erroneously charged.

Mr. Teague said that all of the performance guarantees in the system were met. It is true that we did not individually verify each and every performance guarantee. We have done two things. One, we have instructed our benefits consultant, who gets regular information feeds from MedImpact, they are going to independently verify the performance guarantees are met. Secondly, we have charged that company with doing two audits, one 100% claims audit to make sure that there's no spread that we're getting all the discounts we should get and that we're getting all the rebates that we should get. That consists of essentially four audits, a claims audit for the retiree plan, one for the active plan and a rebate audit for each of those plans. We have actively been working with this contract. We have negotiated for 2019 better discounts and better rebates, which is going to result in guaranteed savings in 2019 of an additional \$31 million. We are actively pursuing the advantages where we can. We have gotten one of those four audits back recently, the rebate audit for the retiree plan and the outcome of that was, we got \$13.3 million in rebates and they actually overpaid us by about \$14,000 due to an invoicing error. We are doing additional training on contract monitoring because we have not only this contract but several other large contracts that we monitor with 42 employees overseeing a \$1.5 billion budget. A lot of our work is done by outside contracts which cause us to have to monitor those contracts closely.

Chairman Stokes asked if a representative from MedImpact was present. Mr. Teague answered no.

Senator Luneau asked what kind of controls are in place to determine if what they are telling us is accurate. Mr. Teague answered as far as performance guarantees, those show up on a monthly billings, for example, last year they did not meet a performance guarantee on rebates with regard to the active plan. They brought that to our attention and there was a \$12 million payment that was due because they did not meet that performance guarantee and we collected that. We are putting together scenarios with the help of Ms. Williams, identifying where the most risk on those performance guarantees exist and we are going to do some independent digging on those particular guarantees. We have also charged our benefits consultant with ongoing monitoring of the performance guarantees. There are literally hundreds of different bits of information that are given to us and there is no way we can independently verify every one of them, so we are going to be randomly checking where we think the greatest risk is.

Senator Luneau asked if the PBM is causing harm to the beneficiaries of the plan and asked what protections do we have in place to look at those kinds of issues. Mr. Teague responded an appeal process. For an active plan, if a member is not satisfied with the outcome of an issue with MedImpact, they write to me and in many cases we overturn a denial of medication if all steps have been taken and nothing else will help that member. With the retiree group, due to CMS medication regulations, MedImpact actually handles those appeals and gives us a summary of that every quarter.

Senator Luneau said that is one area he has great concern about because of his own personal experience. They may say technically they are meeting responsibilities per the contract. However I don't think that they are - I think they are using a very technical sense. It wasn't a doctor who determined outcome but a pharmacist. It is misleading. They are not doing what they say they are doing for the beneficiaries of the plan. We have to do something to get this in check. We can't say our bottom line is to reduce prescription cost and it costs another entity of group benefits alot money. We really have to do something to correct this problem and potential abuse.

Mr. Teague responded we do not have unlimited funds. Our actuary determined we needed \$72 million more in 2019. The state said we do not have it. So we have been trying to take some measures to save money. A couple of them have been in the prescription drug arena and of necessity that sometimes requires people to change medication. It requires some formulary changes to increase rebates and to try to lower the

cost. We help the members when we become aware that there's a problem but many of these exchanges, like yours, go on between MedImpact and the member themselves.

Senator Luneau said that he called OGB who have him MedImpact's number and that's the process I was told to use. To reiterate what I said, I do have great respect for you, I think you do a wonderful job. But this is an area where we need to work on and we need to do something that makes sense for the members and to try to do cost savings without risking people's health. Mr. Teague responded I understand and thank you.

Mr. Purpera explained that overall this report is saying there needs to be a greater level of oversight between the department and its contractor. Look at some of the responses where they disagree. I wanted to point out to you one of the reasons we're saying there needs to be greater oversight looking at total rebates received from MedImpact. Calendar year 2015 was \$40 million, calendar year 2016 was \$47 million then you get to calendar year 2017 and it is roughly \$63 million. Quite a bit of difference from calendar year 2015. You look at the three asterisks there and you will see that according to MedImpact the increase in rebates is because of improved rebate negotiations. I think that we as a state wanted improved negotiations back in 2015 and if we're having a problem having personnel to oversee this then there's where you invent your money is by doing a better job of oversight. I just want to point out that sometimes we have to spend a few dollars to do proper oversight so that we can gain the \$20 million.

Chairman Stokes stated that the first six months of 2018 we had \$47 million. So we are heading toward \$92 million that year theoretically. Mr. Teague responded I actually have a rebate chart and beginning in 2014 you do see a dramatic rise in rebates that coincides with the contract change from one PBM to another. When we contracted with MedImpact, the rebates actually took a dramatic upswing. When you ask MedImpact what the difference is there's really two things. One is the deluge of new brand name drugs on the market and the fact that these manufacturers are vying for sales, so they will actually do some ridiculous type of rebate arrangements. The second thing is MedImpact has started using what they call an aggregator. They actually get together and form a loose coalition with other large users of prescription drugs and they bundle all like usage together and submit that bundled usage to the manufacturer and the rebates are based on volume and so the greater volume, the greater rebates. We have seen a dramatic increase in the amount of rebates. In fact benefit year 2018 rebates were up 34.4% over 2017 and when we did the market check, that's what allowed us to get an additional guaranteed \$31 million in rebates and discounts for 2019. The ability to get rebates has changed with the market and with new techniques and with the change of our PBM contracts.

Chairman Stokes asked if OGB changed PBM in 2014. Mr. Teague responded the actual change was 2015. The current contract with the same PBM began 1/1/17 but you saw almost an instant increase in rebates that coincided with the changing of the PBM. They actually were there for the 2016 year on an emergency contract and then in 2017 we signed a contract for three years with an optional two year period. Chairman Stokes asked if in 2014 and 2015 it was another company. Mr. Teague replied yes.

Chairman Stokes asked if OGB could compare to other states plans. Mr. Teague responded we have a quarterly meeting with MedImpact and part of their presentation to us is this comparison of other large plans in other parts of the country and how we are doing with regard to rebates and generic utilization and that type of thing. I'll be happy to send you the charts on those comparisons. Chairman Stokes said she would like the charts and appreciates his work but encouraged him to keep pushing those rebates.

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

- a) **Town of Baldwin**
- b) **Village of Epps**
- c) **Town of Independence**

Mr. Cryer explained that the Council began examining entities that qualified for the “3-Strikes Law” in August of 2018. The first three agencies discussed were Baldwin, Epps, and Independence and have been invited to this meeting for an update on their progress.

a) Town of Baldwin

Mr. Cryer said the LLA received an updated audit report for the year ending June 30, 2018. Many of the issues have been going on for about six or eight months that we are just trying to get an update on where things stand right now. A new mayor was elected who is getting his feet on the ground as of January. Once we receive an update, our plans are to continue monitoring the town going forward and work with the new mayor and administration to make sure they stay on track.

Chairman Stokes questioned if the 3-Strike entities would provide a five year projection showing what they have changed and plan to change over the five years to show how they would mitigate their losses. Mr. Cryer agreed and referred to the simplified spreadsheet with a couple of highlights on it that is called the combined income and cash flow statement for the Town of Baldwin.

Baldwin’s June 30, 2018 audit report no longer includes a going concern. The audit report shows management resolve those findings relating to enforcing cut off policies, not maintaining worker's comp, improperly reconciling bank statements and improper use of restricted funds.

However, there were some findings that existed in the 2017 report that became the three strikes finding in the 2018 report. The first one is obligations to adjust rates. The town did not adjust utility rates to maintain those revenues required for its bond obligations resulting in not being able to meet required monthly transfers. Required monthly transfers, reserve fund requirements and contingency fund requirements these are all things that are in the bond indentures that the town is required to make these transfers and fund certain accounts and that was not being done. Garbage service charges were not being assessed in accordance with the town’s code of ordinances resulting in loss of revenue. Net position and fund balance deficits in the governmental activities, business type activities, general funds, sinking funds so just a general overall unhealthy financial situation. Police ticket books and tickets not maintained properly, not being accounted for and the staff not being able to provide documents. Customer deposits not reconciled, which means that if you asked for a refund back from the deposit you made, they may or may not have the record to support that. Water purchased not reconciled to water billed. So if you are receiving 100 gallons of water, you are only billing for 50% because you have a loss of 50%. The town is losing money because billing for the amounts that are coming in versus the amount that actually being distributed. The town also failed to comply with the Local Government Budget Act. We had prepared a spreadsheet and began working with the town clerk about a year and a half ago. Because the accounting system was complicated, we gave them a spreadsheet that would actually make it easier to reconcile their budget and see where they are at any given point and obviously that has not happened either.

Our real concerns with Baldwin, as of the 2018 audit report, the first highlight is water operations and that shows a \$251,000 deficit. To put that in perspective with 712 connections, that comes out to roughly \$30 per month per connection in order to maintain that water system at a solvent level to just a cover costs. The

total change in net position is \$254 negative that is 95% comprised of a loss on the water system itself. So it does highlight the fact that those water rates is a significant issues as two of the findings that were listed dealt with water rates. The reason that the cash flow only went negative up \$5,700 is because of net changes in asset and liability accounts. Accounts payable increased by \$250,000 during that same year. So the town created cash flow by not paying their bills during the same period. Governmental fund operations are fairly stable, but the utility obviously with a water system that is creating some major issues and it's something that we would like to see the town work toward resolving. If that requires rate increases, it requires more efficiency in water distribution but that's really the big issue can cause this town to fail if they can't get a handle on that. So that is the issue that we wanted to bring up and we're certainly willing to work with the new administration to give them a chance to get their feet on the ground, but we just want to highlight those areas that are high concern for us. Chairman Stokes asked if the reason the town does not have a five year kind of plan is because of the new mayor and being in transition. Mr. Cryer responded affirmatively.

Mayor Abel Prejean stated he would like to answer questions about what is happening. The first one about the adjusted rate is that we currently have contacted the Louisiana Rural Water Association (LRWA). We have provided them all necessary information required for a rate study and it is being done as we speak. I cannot speak for all my councilmen but I am sure they are reluctant to raise rates, but if it's going to require raising rates certainly we are going to do that. We buy water now from the water district near us. The simple fact is that all our water system went bad, the wells are bad and the alternative to that we could not resolve. We had money to repair the plant, but it was not the plant's problem. The issue is that in the wells is naturally occurring ammonia and high volumes that prevented the water from being treated. So when we bought the water from the water district we started having a deficit. We were buying more water than we were receiving payment for. LRWA told us we have about a 40% loss in your water system and looked at all the water mains. We have no catastrophic loss of water - there's no water gushing out the ground that should account for that type of loss. What was determined is that the old water meters are not working properly. From my research I have found that the older the meters become less accurate in reading. LRWA determined that at least a minimum of 20% of the water that is missing is missing because of the meters. We are addressing that now and we are requesting proposals to completely change every meter in the town.

Chairman Stokes questioned to clarify they do not have a 40% loss of water but rather the meters are reading usage inaccurately. Mayor Prejean responded they found some meters were not functioning at all and some people have been getting flat rates for years which should not have been. So in the short term we bought sixty or seventy meters and each month we look at what is the high and low bills and tried to figure out what's the problem. Chairman Stokes asked how old are the meters. Mayor Prejean responded old as the hills but are looking to get the newer type of meters which are all out automatic with no moving parts in them and they measure all the water. We acknowledge that is our main pitfall is that loss of revenue in the water system causing us to have a quite a deficit.

Chairman Stokes asked if he was providing public education so that the people know what to expect from these more accurate water meters. Mayor Prejean answered yes and explained they found a firm that rents the meters so the town will not have to go into debt. We just pay them a few dollars each month for each for each customer and they provide brand new meters. That is something we can do rather quickly.

Mayor Prejean explained about the requirement of monthly transfer of funds saying he did not mean to be critical of people, but we had some trouble with previous clerks. I do not think they were competent for the work we had them doing and they tried to make some corrections in our accounting systems that just did not work. We have since July of last year brought in another clerk who is more savvy in accounting and the financial section and we have had the clerk correct all these things. Going back to July is when the

corrections have started and that is why they are not reporting and you do not have them. We are making transfers now into the reserve funds. Maybe not quite at the amount we want but there is money going into all of them since that time. We have reconciled the garbage service charges and actually found that we were paying for more garbage service than we were receiving because they were charging us by the can and we had more cans than necessary. We reduced that cost and made sure that everybody pays what is charged. The net position in fund balance deficit is getting money each month for those funds.

Chairman Stokes asked what about his plan to address the accounts payable. Mayor Prejean responded we are pretty much current on that other than the water debt. Chairman Stokes asked how long did he think it would take to convert all the old meters. Mayor Prejean responded that within two budget cycles our bonded indebtedness will start falling off. Then we will have the money to make deposits to do it. So the plan is when the bonded indebtedness starts coming off we will be able transfer that obligation to this obligation. In the meantime, we are trying to renegotiate the rate that we have with the water district. We currently pay the residential rate for bulk water so we are renegotiating to pay more reflective of a commercial user.

Mayor Prejean said they installed Quick PD in July of 2018 so all the tickets are entered into the system and accounted for. In January, all the ticket books were brought back in and we issued brand new ticket books. So we are staying on top of that. I have a police chief that is elected and he does what he pleases. We can suggest and ask them to do things and sometimes they get done, sometimes they drag a little bit. We are making strides and we were able to account for all the traffic tickets when they were submitted to us in January. The customer deposits are not reconciled because of the two computer systems not being integrated. We have a consultant coming in that is going to tie in the two systems to talk the same language so to speak.

Last year's budget required no contingencies and there was no money budgeted to put into reserve funds. We have since done that and that was a non-budget area that we took money and did something with. We acknowledge the findings and are responding to all of them. We feel that within three years we should be able to significantly reduce the water deficit. In fact, if the changing of those meters produce the revenues that we think it will then we will probably be able to reduce it even faster.

Chairman Stokes noted to really be at a net zero and not losing anything on water operations that shows a negative \$251,000 and then depreciation that they need to be positive like \$100,000 probably. Mr. Cryer answered yes and the goal is just to get to the breakeven point or beyond that. They cannot just meet cash flow and pay current bills but also need to put aside some money for replacement and for repairs. The experience we have had the last two or three years with the previous administration has been things move along at a flat pace, and have not seen a lot of improvements. We are hopeful with the new mayor that we are going to see that changing and we are going to closely monitor and work with LRWA as well.

Chairman Stokes expressed her excitement about the new mayor and her hopefulness that he can get it turned around. Mr. Cryer recommended allowing the mayor to get his feet on the ground and would be looking at their action plan. His staff will review their five year projections and make sure that the mayor understands the plans that they are creating and effects on their budget long term. But I think more importantly in the short term is making sure the cash flow stays positive, making sure that there is some money put aside for those reserves, not just from a legal standpoint, but just to cover emergencies and things that may come up. But we will be glad to work with them to get that plan of action and then bring that back to the Council at a future date.

Representative Sam Jones shared that Mayor Prejean was the former director of the West Saint Mary Parish port. Representative Jones said that they mayor has balanced many budgets and is really strong in management. I feel very confident except for the water situation but he is working on that. He has a cooperative majority on the city council, so they are all driving in the in the same direction. Our area has suffered from the oil decline. We have come back and revenues are up. The other operations of the city budget are good and strong. The town has the ability with its sales taxes and other collections to have adequate revenue streams for all the other things. We do have some grant money that is being pursued for the water plant situation, but that is just not an overnight thing. I feel very confident much more so than I did a couple of months ago. I am not saying anything disparaging about the mayor who left because she walked into a problem too. But I think we are well along the way to solving it and with the management that we have there now. Chairman Stokes thanked everybody and said they would rely on Mr. Cryer to let them know when it's time to bring the mayor back for an update.

b) Village of Epps

Mr. Cryer introduced the new mayor, Mayor Josh Jones. Mr. Cryer said he has received the December 31, 2017 review report which came in late last year. It still includes the going concern and includes some additional findings that now meet the three strike criteria as well. Receivable balance is not reconciled to subsidiary records that deal with water and sewer counts not being reconciled. Contributions not remitted timely to MPERS. The auditor did adjust his finding from last year that had been to different systems, both MPERS and MERS - it should have been MPERS the whole time, so they have corrected that finding to reflect just MPERS.

Federal and state income taxes and payroll taxes not remitted timely were two findings in our prior discussion. The auditor put those findings into one for this year. We also have concerns about sales tax filings. The town did not submit any sales tax returns or remit collected sales tax collected during the year. Roughly about \$1,500 for bank accounts were not being reconciled to the general ledger. The village does not have a customer deposit listing so if someone asks for a refund they do not know always what that amount should be to refund those balances. Because water and sewer operations are all being lumped into one, what we will be doing in the future for this is breaking those out separately, going back with the auditor to get those individual numbers to see in more detail.

Depreciation is about \$80,000 and change in net position is a negative \$52,000. The village is meeting basic cash flow, but there is nothing being put aside for any kind of emergency contingency. There is a \$3,400 transfer, which is just a plug entry because governmental operations are running out of cash. Without that transfer on the books, they would have been a negative cash flow, or negative cash for the year end. Total revenues and governmental funds are \$125,000. The village is working on a very fine margin. Trying to bring those utility rates up to not just cover cash flow but actually cover real cost and future costs would be a big help. The mayor because of the various small amounts of cash that does come in is going to have a challenge trying to make sure to have enough cushion there to operate without having to worry about emergencies coming up.

Mayor Josh Jones said he started January 1st and like many communities I am working with a very small budget. The budget was put together from the previous administration for this fiscal year and I walked into it. There needs to be some decrease in our cost for the general fund. Our labor percentage runs around 60% of our entire budget and to me that is extremely high and there needs to be some adjustments made accordingly for that.

In regards to the utilities, we only have water and sewer. We do need an increase in the rates. It actually came up on the agenda at last month's meeting, but I asked to table it. We have a main pump that is down. We have some things that are not up to code that we could be fined for. I am a process guy and I want to see a plan where the money, if we go up utilities, that the money is applied towards fixing what is broken first before we can start moving money into other funds, into the general fund, to get to where we are not having a cash flow issue. My council does not really see it the way I see it, so I am having to try my best to explain the importance of getting up to code versus fixing the general fund first.

Mayor Jones addressed the unreconciled receivable balances that are being handled by a new accountant who is going great getting all the information she needs to make sure that the reconciliations are being handled. They were not being done by the previous CPA. Regarding the contributions not remitted timely to MPERS, we are completely caught up on that. The federal and state income tax not remitted timely and payroll taxes were actually completely caught up on that as well. The previous administration and our clerk had done a really good job of getting all that stuff caught up. I think that handles the old business.

We have the new sales tax filings that have been done. The bank accounts are getting reconciled now through the accountant. We do have a plan in action regarding deposits that consists of figuring out, since our new clerk has to figure out the deposit she has taken since she has been there. The previous clerk did not keep a record of that. We are going to have to assume a dollar amount of what the meters before the new clerk came in. Our goal by the end of 2019 is to have the money in the fund to cover that dollar amount. So we are two-thirds of the way there based on what we are projecting now. We are not far from it, but the time is going to come from figuring out all the meters of what she is putting in as a deposit in the previous meters as well.

Chairman Stokes commented that the mayor has been there for a month and a half now and went into a situation with a lot of loose ends. Mr. Cryer stated he is encouraged by the fact that there is some action taking place to move in the positive direction. The water system is a concern. Epps was on the top 10 list for water system issues in the state. It is also on our top 15 lists for financial issues. So a lot of that just comes back to trying to make sure that water system is self-sustaining long term. I believe the water system is probably the most pressing need right now is to try to get that sustainable, trying to get those repairs made and upgrades done to be stabilized. Once that is done the other pieces will fall in place afterwards. But we will certainly work with the mayor and keep tabs on what is happening. We will make recommendations and here for feedback. He strongly encouraged having LRWA involved with that process because they assist many other municipalities all over the state. So it would be a good way to at least look at your own ideas, where you think things are at and then get some professionals in to look at that, the actual status of it. We will be glad to work on that whole process with the mayor.

Chairman Stokes stated that the village is at a point of transition and hopefully with the new mayor's leadership they will become table. I rely on Mr. Cryer to keep an eye on this, keep us abreast of the issue and help the new leadership find their way. But it is definitely really important that you can get it together and get to a point where there is a solvent future. So I hope that you will take the opportunity here to work hand in hand with the auditor's office and get things straightened out.

c) Town of Independence

Mr. Cryer stated the mayor is not able to attend because of medical issues but their auditor Mr. Paul Rick is present. We already knew from the last time we were here they were moving in a positive direction. The mayor had taken up very difficult situation when he took office about two years ago. He started getting bills paid off and started getting caught up in the retirement contributions. So we are already seeing a positive

improvement from that previous report. Based on the 2018 audit report the town has resolved most of those findings related to the improper use of bond reserve monies and water sewer fund operating deficit. The remaining three strike finding at this point is delinquent town receivables and the mayor did give an update last time that they were working through those one at a time trying to resolve all balances.

Mr. Rick stated he spoke with the town attorney about a week ago and is drafting a resolution for the board that they are basically going to write off about \$80,000 of old outstanding receivables which most stemmed from the previous administration. Fictitious customers were created, balances were moved between existing customers and old customers, balances were deleted and the new administration walked into a mess. They have worked very diligently for the past two and a half years to try to fix this to see what is good and what is fictitious and fraudulent. They have done a wonderful job and I think they are at a point to throw their hands up and say it is time to just get rid of it and move on. Mr. Rick understood that the previous mayor was under indictment and so they were holding a lot of this due to court issues but I think they have gotten to the point where they are just going to write it off and move forward. I spoke with the attorney last week and I am guessing that this will be done within the next few weeks. I am hoping that this will be resolved during the June 30, 2019 audit.

Mr. Cryer stated there are still some financial concerns that they are still not covering the full depreciation for the utility operations so not covering their actual cost. But moving from 2017 to 2018 that deficit was cut basically in half. There is positive cash flow and catching up on old bills. Last year they had negative cash flow. The fact that those bills have been paid off and the fact that they are generating good cash flows are certainly a positive. The unrestricted cash balance at year end was about double what they were last year so all that is moving the right direction. On the governmental fund operations there is still a negative cash flow but that is a lot better than it was last year when you look at the \$236,000 in the hole. We have seen improvements since the new mayor took office every year. If they can resolve these last issues with receivables then all their issues will be on track. Chairman Stokes said we appreciate your work and we look forward to seeing continued progress.

Key Audit Issues 2019 and Act 461 Report – Annual Report to the Legislature

Mr. Purpera stated this report is required by law once a year to the legislature. The Key Audit Issues Report is a culmination of the reports that we have given to JLCB during the year and an overview of all of the reports of the office. We try to organize it each year in a way that can be easily used by the appropriation committees.

Other Business

No other business was discussed.

Adjournment

Senator Luneau offered the motion to adjourn and with no objection, the meeting adjourned at 3:00 p.m.

Approved by LAAC on: April 2, 2019