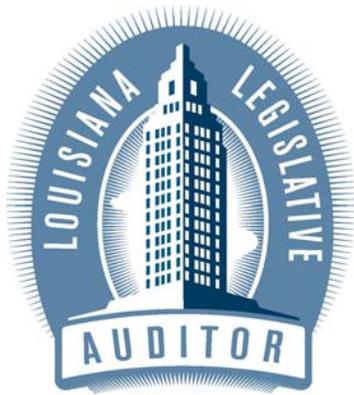


2010

State of Louisiana

Legislative Auditor



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Our Vision: We envision an accountable, transparent, responsive government that provides efficient and effective services for the benefit of the people of Louisiana.

Our Mission: To foster accountability and transparency in Louisiana government by providing the legislature and others with audit services, fiscal advice, and other useful information.

Our Goals: Plan and perform the right work (quality audit and advisory services of state government, local governments, and non-profit organizations) the best way.

Improve communication among all areas of the organization and coordinate work efforts.

Improve communication of information to the legislature, public officials, and other decision makers.

Recruit, develop, and maintain a diverse, credible, professional work staff while balancing quality of life.

Obtain and maintain resources and work environment conducive to efficient and effective work.

Message from the Legislative Auditor Daryl G. Purpera, CPA, CFE

I am pleased to provide this report on the activities of the Louisiana Legislative Auditor (LLA) during 2010, highlighting the various audit services performed by my office and summarizing significant issues addressed. During 2010, the LLA provided the legislature and others with a wide range of audit services, fiscal advice, and other useful information. I trust this report will provide valuable insight into the role the Legislative Auditor plays in fostering accountability and transparency throughout government in Louisiana.

The LLA invests the vast majority of our resources providing audit services for state government. Our audit of the State of Louisiana financial statements is our largest endeavor annually. This audit encompasses all state departments and provides the legislature, agency management, and the public with assurance that our state resources are properly accounted for and used in compliance with state and federal laws. Our performance audits examine the economy, efficiency, and effectiveness of state government programs, functions, and activities. Suspected fraud and/or abuse is examined by our forensic auditors, and our recovery assistance teams provide assurance that federal funds received by state agencies for recovery purposes are spent for appropriate purposes and in accordance with federal guidelines.

The LLA is responsible for providing oversight for the audit of over 3,500 units of local government. We partner with private practicing certified public accountants to ensure that local government is audited in a timely, efficient, and effective manner as required in state law. The LLA plays a key role in ensuring quality audits of local government through our engagement, enforcement, and quality assurance efforts. When appropriate, the LLA works closely with the Legislative Audit Advisory Council in its oversight efforts aimed at correcting reported deficiencies. Our local government experts routinely provide guidance and training to assist local government in improving accounting practices and improving their delivery of government services. The LLA communicates the results of our efforts primarily through written public reports. These reports are accessible at www.lla.la.gov.

The LLA is committed to providing quality audit and fiscal advisory services for our customers including the legislature; state, local, and federal government agencies; financial rating entities; and the public. We are confident that our efforts are making a difference, fostering accountability and transparency, throughout Louisiana government.

Organizational Structure of LLA

The LLA is structurally organized to provide effective audit and fiscal advisory services throughout the state. Staff members with expertise in various areas are organized to provide the following specialized services for state and/or local government entities and non-profit organizations that receive public funds:

- Financial auditing
- Performance auditing
- Actuarial analysis and advice
- Compliance auditing
- Recovery assistance
- Advisory services

To meet the needs of our clients, staff in these service areas often collaborate on projects that require multiple skill sets and expertise. Underlying support services are provided through our human resources, legal, accounting, information technology, professional development, and general administrative functions.

During 2010, the LLA staff conducted 176 audits and other specialized engagements. The resulting reports address a variety of issues ranging from our professional opinion on the fairness of state agency financial statements, to our assessments of the management and performance of state programs, to evidence uncovered by our forensic experts in response to allegations of fraud and abuse. The reports include recommendations to agency management which, if implemented, should improve the overall control environment and management of state and local agencies and programs. The following table provides a summary of the numbers and types of reports prepared by LLA staff and issued during 2010.

Type of Report	State Agencies	State Universities	State Courts	Local Government	Total
Financial Statement Audit	18	19			37
Management Letter	21	26			47
Procedural Report	27	7	7		41
Performance Audit	8			1	9
Compliance Audit	4			13	17
Agreed-Upon Procedures	17				17
Informational	6				6
Advisory				2	2
Total	101	52	7	16	176

During the same time period, the LLA also oversaw audits of approximately 3,500 units of local government and non-profit organizations that received public funds, which were performed by independent certified public accountants (ICPAs). ICPAs submitted 3,862 audit reports to LLA during 2010. These reports represent the ICPAs' work and conclusions rather than those of the LLA. The LLA's role regarding ICPA audits has historically been one of oversight, enforcement, and quality assurance: LLA staff approve the engagement agreements between the ICPAs

and the entities they audit, and LLA staff review the resulting audit reports to ensure that the audits were conducted in conformity with generally accepted auditing standards.

In addition, LLA staff provided consultation and technical assistance to local government entities and non-profit organizations throughout the state. During the regular and special legislative sessions that took place in 2010, LLA staff provided fiscal impact analysis and statements for over 115 bills affecting local government units and state boards and commissions.

Also in 2010, LLA developed plans to provide quality control services for ICPA audits through agreed-upon procedures engagements. Our plans involve providing quality control reviews of the audits performed by ICPAs to detect weaknesses and deficiencies in the audits. Our staff will either develop training or refer ICPAs to training sources in cases where we identify problems.

Financial Audit Services

In addition to the financial statement audit reports, management letters, and procedural reports completed for fiscal year 2010, we issued an unqualified opinion on the State of Louisiana Comprehensive Annual Financial Report. In audit terms, this is the best opinion an auditee can get. We also issued the annual Single Audit for the State of Louisiana, which contained 62 findings and cited over \$296 million in questioned costs. The single audit represents our audit of federal programs for which Louisiana received federal funds. The term “single audit” means that all federal programs are included in one report rather than a separate report for each program. The decision of whether a cost is not allowable is the decision of the federal agencies. Therefore, we only question costs when we see that federal rules may not have been followed. The following paragraphs highlight some of the more significant issues noted for the period ended June 30, 2010. We classified these issues into the following general categories:

- Collection of Receivables
- Federal Programs
- Payroll Issues

Collection of Receivables

Our audits identified significant problems related to the collection of receivables at Grambling State University (GSU) and Southern University - Shreveport (SU-S). GSU did not effectively pursue the collection of \$8.1 million of past due student and other receivables in accordance with its own policies. This is the third consecutive year that this problem has occurred. In addition, GSU did not deduct unpaid traffic fines from employees' paychecks, as required by internal policy.

At SU-S, \$1,832,104 in federal receivables had not had any collection activity for over two years -- \$51,060 of this amount was from two to three years ago; \$447,327 was from three to four years ago; \$184,618 was from four to five years ago; and \$1,149,098 was from over five years ago. In addition, SU-S did not request reimbursement from federal programs timely and may have lost its ability to claim those federal funds within the period of availability. Because the federal programs are operated on a reimbursement basis, the campus has been using existing resources to operate programs without drawing the proper source of funds.

Federal Programs

Our financial audits also reported numerous findings related to federal programs, which may have adversely impacted state services or resulted in federal disallowed costs. The 2010 Comprehensive Annual Financial Report shows \$529 million in estimated liabilities from disallowances and settlement agreements with the federal government. Some or all of this amount may have to be repaid with state funds. We reported an additional \$296 million in questioned costs, which could result in additional federal disallowances and liabilities to the state. Significant federal findings include the following:

- The Division of Administration (DOA) did not comply with the level of effort requirements for the State Fiscal Stabilization Fund - Education State Grants, Recovery Act. The state has applied for a waiver which, if granted, could reduce the negative impact. Questioned costs total \$289 million.
- The DOA, Office of Community Development (OCD), failed to fully implement procedures to recover Homeowner Assistance Program (HAP) awards. Our review of 30 homeowners with HAP awards disclosed that 23 (77%) homeowners with awards totaling \$2,145,547 had not provided adequate evidence of compliance with one or more award covenants. OCD has not taken sufficient action to recover benefits paid to the noncompliant homeowners. Questioned costs total \$2,145,547.
- DOA, OCD, disbursed multiple awards totaling \$755,587 for the same damaged property from the Homeowner Assistance Program (HAP) and Small Rental Property Program (SRPP). A comparison of property addresses for which HAP and SRPP awards were disbursed identified five individuals who received duplicate benefits. For these five properties, applicants were paid \$376,211 and \$379,376 under HAP and SRPP, respectively.
- For the third consecutive year, the Louisiana Workforce Commission (LWC) paid Unemployment Insurance (UI) benefits to other states without recouping the cost of these claims from Louisiana employers. During fiscal year 2010, LWC paid \$44.5 million in UI benefits to other states. Over the past three years, benefits paid to other states that have not been recouped exceed \$86 million.
- LWC received American Recovery and Reinvestment Act - Community Services Block Grant award letters in April 2009. However, because of delays in the contracting process, the funds were not made available to the subgrantees until November 2009, thereby reducing the time available for subgrantees to obligate the funds. As of December 31, 2010, the subgrantees have expended \$21,825,209 (93.9%) of the grant funds available. LWC expects to return the unused amount of \$1,413,434 to the federal government.
- For the sixth consecutive year, the Department of Social Services (DSS) did not comply with certain federal and state requirements for administering the federal child care cluster. DSS did not compare provider reimbursement requests to supporting documentation such as provider attendance logs before making payments totaling more than \$109 million during fiscal year 2010, thereby increasing the risk of errors, fraud, and/or abuse.
- DSS, through its internal investigations, identified instances of ineligible benefits in the Disaster Supplemental Nutrition Assistance Program (DSNAP), formerly the Disaster Food Stamp Program, including 46 employee cases and 58 non-employee cases in which intentional program violations were committed. As of August 2, 2010, DSS records indicate that DSNAP benefits totaling \$686,965 were provided to ineligible DSS employees and their relatives. DSS reports that DSNAP benefits totaling \$510,369 have been repaid to the department.
- DSS did not follow program regulations and existing departmental procedures in the administration of the Temporary Assistance for Needy Families program (TANF - CFDA 93.558). In five (17%) of

30 contract payments reviewed, we identified \$6,274 for costs specifically disallowed in the contract, unreasonable charges from contractors, and mathematical errors on invoices.

- For the fourth consecutive year, LWC did not retain employer wage records for the UI program (CFDA 17.225). Employer wage records are the basis for determining whether applicants for UI benefits have earned sufficient wages in a base period to qualify for those benefits. Our tests of 60 claimants' eligibility for UI benefits disclosed that employer wage records for 24 (40%) claimants were not retained by LWC. Benefits paid to the 24 claimants totaling \$205,616 were considered questioned costs. In addition, LWC did not retain employer wage records received on electronic media that supported tax payments to LWC for six (67%) of nine electronic payments tested. These wage records will be needed in the future to verify wages for UI claimants.

Payroll Issues

The Southern University System's campuses do not have adequate control procedures in place to ensure that employee leave records reflect accurate leave balances. This is the third consecutive year for the Baton Rouge campus and the second consecutive year for the New Orleans campus to have this finding. Our review of leave records from the Baton Rouge campus revealed employees with negative balances, inaccurate beginning leave balances, and leave entries that were posted up to six months late. For the New Orleans and Shreveport campuses, management did not ensure that employees' leave records were adequately posted and leave balances were adequately maintained. Therefore, the correct employee leave balances for approximately 306 New Orleans campus employees and 278 Shreveport campus employees could not be determined.

We also identified, for the fourth consecutive year, overpayments made to employees of the Recovery School District (RSD). The district did not ensure that employee separation dates were accurate or timely and did not have adequate documentation to support certain payroll charges. Payroll overpayment claims identified by RSD during fiscal year 2010 totaled \$18,206.

Performance Audit and Actuarial Services

For the period January 2008 through January 2011, we issued 44 performance reports with a total of 365 separate recommendations. From these reports, the most prevalent themes regarding management practices across state agencies are as follows:

Category	Description	Number of Recommendations
Cost Savings	Audited entities could save money or eliminate duplication of services.	34
Revenue Generation	Audited entities could generate additional revenue, either by improving or expanding current activities.	5
Contract Oversight	Audited entities demonstrated deficiencies in oversight and management of contractors.	52
Data Management/Issues	Audited entities do not collect performance data; do not effectively use performance data in decision-making; or do not ensure the completeness or reliability of data.	103
General Management Practices	Audited entities do not have good management practices and controls in place for activities.	171

Of particular interest from our 2010 work efforts are the projects conducted in the areas of economic development, health care, and juvenile justice. Significant findings resulting from those audits are described in the following paragraphs.

Economic Development

Neither the legislature nor the taxpayers of Louisiana know the benefits the state receives from business incentive programs administered by the Louisiana Department of Economic Development. These programs cost the state approximately \$217 million in tax revenue. However, since the department does not evaluate the effectiveness of most of the programs, there is no assurance that taxpayers’ money used to fund the programs is well spent.

Health Care

The Louisiana Department of Health and Hospitals did not ensure that Medicaid acute care inpatient hospitalizations, which cost almost \$900 million in fiscal year 2009, were medically necessary and clinically appropriate. Approximately 219,000 patient admissions took place during the period covered by our audit at an average cost of \$4,112 per admission.

Juvenile Justice

The average cost per youth residing in secure care facilities was \$424 per day during fiscal year 2009. In addition, the Office of Juvenile Justice was paying approximately \$1.1 million in insurance on square footage that was not being used at one of the secure care facilities. Our audit also questioned the reasonableness of the rates paid to contractors for non-secure residential facilities and identified cases where incorrect per diem rates were paid to detention centers. Potential cost savings measures identified in the audit could result in savings of over \$7 million per year. We also identified deficiencies in the monitoring of services provided to youth.

Cost Savings from Work Effort		
Areas of Cost Savings		
Report	Recommendation	Dollar Amount of Potential Savings
Office of Juvenile Justice (OJJ), 2010	OJJ could realize cost savings by placing non-violent offenders in less restrictive environments.	\$4 to \$6 million annually
	OJJ could realize cost savings by providing non-violent offenders with evidence-based services.	Approximately \$7 million annually
Department of Public Safety and Corrections (DOC), 2011	DOC could realize cost savings by increasing its use of electronic monitoring for eligible non-violent/non-sexual offenders as an alternative to incarceration.	\$1.1 million annually for every 100 offenders
	DOC can realize cost savings by increasing the number of offenders who earn good time credit for completing Certified Treatment and Rehabilitation Programs (CTRP), which will reduce the total number of incarceration days for these offenders.	\$337,950 for every 100 eligible offenders who earn 180 days of good time credit by completing one CTRP
Louisiana Property Assistance Agency (LPAA), 2009	LPAA could realize cost savings by reducing the number of home storage vehicles and eliminate 10% of state’s fleet and underutilized vehicles.	\$25 million (one-time cost savings)*
Department of Public Safety (DPS), Louisiana State Police (LSP), Gaming Enforcement Division, 2009	LSP could realize cost savings by replacing 29 trooper positions in the Gaming Enforcement Division with non-commissioned personnel.	\$1.2 million annually

*This amount is not calculated in the report. It is based on information documented in audit documentation.

Revenue Enhancements from Work Effort		
Potential Revenue Generation		
Report	Recommendation	Estimated Additional Revenue
Department of Natural Resources (DNR), 2010	By increasing its audit coverage of oil and gas royalty payments, DNR's Office of Mineral Resources (OMR) could identify and collect additional unpaid state royalties. Currently, each OMR auditor brings in an estimated \$1.2 million a year with only 21% of royalty payments audited in the past 5 years. DNR management stated that they would like to increase the percentage of audit coverage to 33% and hire 10 new auditors.	Hiring 10 additional auditors may potentially generate \$12 million more in royalty revenue each year
Louisiana Department of Revenue (LDR), 2010	By cross-checking its non-filer data with data collected by other state agencies, LDR could identify additional tax dollars owed to the state. A cross-reference with DHH's Medicaid database identified Medicaid claims from providers who did not appear in LDR's database as paying taxes; however, additional follow-up work by LDR is necessary to confirm this amount.	\$22 million
Department of Public Safety, Louisiana State Police (LSP), Gaming Enforcement Division, 2009	Louisiana appears to fall somewhere in the middle of the range for tax rates regarding casinos and toward the lower end regarding video poker. Louisiana's tax rate for video poker is between 22.5% to 32.5% which is the second lowest for states with video poker. Additional revenue could reasonably be generated by moving the video poker tax rate closer to the median rate for other states.	If tax rate for video poker was raised by 5%, the state could have generated approximately \$34 million more in revenue in FY 2010*
*This amount is not calculated in the report. It is based on information documented in audit documentation.		

State Retirement Systems

We also addressed concerns over the state's ability to continue to fund pension benefits through concentrated actuarial analyses related to the state's four pension plans. We concluded that a defined benefit plan would not result in cost savings for the state. We also identified major problems with the unfunded accrued liability of the plans.

Compliance Audit Services

During 2010, LLA's forensic audit staff completed investigative audits resulting in 17 written reports. One common problem noted in almost every investigative audit is a lack of oversight and monitoring. Many of the audits issued in 2010 contained findings dealing with public money transferred from public entities to either public or quasi-public entities with little to no oversight over the use of these public funds by the transferring entities. We also observed that the governing bodies of the public and/or quasi-public entities often did not exercise sufficient control over the operations of the entities.

Some of the more significant issues disclosed in these audits are listed below.

- Purchases made without competitive bids
- Lack of policies on the use credit cards
- Undocumented travel allowances and travel expenditures
- Improper billings from quasi-public entities and private contractors to governmental entities
- Duplication of services by different vendors

- Unauthorized use of public money and/or debit cards
- Improper related party transactions
- Gifts to board members
- Lack of training and guidance to service providers
- Personal and private use of public assets
- Contributions and gifts from public funds
- Personal use of credit cards
- Inappropriate use of e-mail and computer systems
- Lack of monitoring contracts

The following exhibit quantifies the results of our work during 2010:

Agency Type	Questioned Costs ¹	Possible Criminal Infractions ²
State Government	\$6,228,790	\$5,252,338
Local Government	6,494,877	317,714
Not-for-Profit	1,079,084	211,237
Total	\$13,802,751	\$5,781,289

¹**Questioned Costs** are public fund expenditures that may result in violations of the Louisiana State Constitution and laws, violations of a state or federal program, or public funds spent in an abusive manner.

²**Possible Criminal Infractions** are the portions of **Questioned Costs** that may violate state criminal law and/or federal criminal law.

Recovery Assistance Services

During 2010, the LLA issued 15 recovery assistance reports. The findings included in these reports can be classified into the following categories:

- Lack of sufficient supporting documentation
- Noncompliance with contract provisions
- Noncompliance with federal regulations or program policies

Lack of Sufficient Supporting Documentation

Division of Administration, Office of Community Development - Disaster Recovery Unit (OCD-DRU)

Of 116 Road Home Program (RHP) grant applicant files, eight of those files indicated that different values should have been used in the grant calculation. For six of those files, RHP updated the grant calculation after the appeals process to reflect the values that should have been used. Furthermore, documentation in an additional nine files did not support the determinations made by RHP. For seven of those files, RHP updated

the grant calculation after the appeals process. The documentation in 31 of 491 grant applicant files did not support the factors used in the grant calculation, meaning that the grant award amount could be affected.

In addition, \$5,140,380 of the \$45,849,213 in labor, unit costs, and other direct costs billed to OCD-DRU by its contractors lacked sufficient documentation to support the charges.

The documentation in 31 of 491 grant applicant files examined by the auditors did not support the factors used in the grant calculation, meaning that the grant award amount could be affected. Based on their sample results, the auditors estimated that from 918 - 3,033 of the 30,355 grant files contained exceptions.

Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP)

A total of \$81,153,922 of \$1,570,363,931 in sub-grantee requests for reimbursement under GOHSEP's Public Assistance and Hazard Mitigation programs lacked sufficient documentation to support the amount requested. In most cases, GOHSEP required the sub-grantee to provide complete documentation before receipt of additional funds.

Noncompliance With Contract Provisions

Division of Administration, Office of Community Development - Disaster Recovery Unit (OCD-DRU)

A total of \$1,309,793 of \$45,849,213 in labor, unit costs, and other direct costs billed to OCD-DRU by its contractors for payment under the Road Home program during the period examined was not billed in accordance with contract terms.

Noncompliance With Federal Regulations or Program Policies

FEMA Other Needs Assistance

Our examination of the \$15,281,079 state share of Other Needs Assistance that the Federal Emergency Management Agency provided to Louisiana registrants after hurricanes Gustav and Ike showed that registrants were not eligible or were overpaid \$1,925,179.

Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP)

A total of \$23,505,436 of \$1,570,363,931 in sub-grantee requests for reimbursement under GOHSEP's Public Assistance and Hazard Mitigation programs did not comply with federal regulations. In most cases, GOHSEP required sub-grantees to provide complete documentation before receipt of additional funds.

Advisory Services

An important portion of our work efforts in the advisory services area involved enforcing the audit law, processing the statutorily required reports, providing guidance to the independent auditors who audit local governments, and monitoring legislative changes. Our staff reviewed and processed the following engagements and reports during 2010:

Type of Report	Number
Agreed-Upon Procedures	25
Audits	2,145
Reviews/Attestations	250
Compilations	436
Sworn Financial Statements	971
Other Types of Reports	35
Total	3,862

Our advisors provided training resources for numerous governments and their advocacy groups, the Society of Louisiana CPAs, and various other professional organizations. Our professionals also provided technical assistance and management consulting advice to numerous local government auditees, including municipalities, parish governments, school boards, sheriffs, assessors, water districts, road districts, and non-profit organizations. Projects were completed on 20 municipalities, two assessors, three police juries, 16 miscellaneous other governments, and one non-profit organization. We also provided monthly articles for the Louisiana Municipal Association newsletter pertaining to recommended fiscal management practices. We posted three brochures on our Web site providing advice to local governments on the effects of the gulf oil spill as well, and we began outreach efforts on technical issues through Web-based learning modules.

Our staff is responsible for preparing fiscal notes for legislative instruments affecting expenditures of political subdivisions as well as receipts, expenditures, allocations, and dedications of funds of any state board, commission, or other entity not appropriated funds in any appropriation bill. During the 2010 Regular Legislative Session, our analysts prepared 300 versions of fiscal impact statements or fiscal notes.

Also in 2010 our staff, in cooperation with the Division of Administration, developed and maintained a comprehensive database on Louisiana Boards and Commissions. In addition, we provided special reports to the legislature, including an annual report on public defenders, and assistance to legislative committees upon request.

LLA has statutory authority to approve all millages levied in the state. In that capacity, our millage experts approved 2,705 millages in 2010, and our tax review officer verified all assessors' salaries and certified pension contributions to certain retirement systems. Our staff conducted 15 state-wide training sessions to assist local governments with the legal requirements of levying millages.



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