State Board of Certified Public Accountants of Louisiana

A Component Unit of the State of Louisiana

Financial Statement Audit
For the Year Ending June 30, 2014
Issued May 18, 2016

LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of $1.45. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 3430 or Report ID No. 80140165 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

TABLE OF CONTENTS

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 12, 2016

Independent Auditor's Report

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the State Board of Certified Public Accountants of Louisiana (Board), a component unit of the state of Louisiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Board as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress for the Other Postemployment Benefits Plan on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The Schedule of Per Diem Paid Board Members on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Per Diem Paid Board Members is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Per Diem Paid Board Members is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

MET:DG:BDC:EFS:aa

CPA2014

Statement A

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA

Statement of Net Position, June 30, 2014

ASSETS	
Current assets:	
Cash (note 2)	$1,383,711
Receivables	184,451
Prepayments	9,755
Total current assets	1,577,917
Noncurrent assets:	
Capital assets, net (note 3)	NONE
Total noncurrent assets	NONE
Total assets	1,577,917
LIABILITIES	
Current liabilities:	
Accounts payable	18,761
Current portion of long-term liabilities - compensated absences payable (note 5)	9,996
Total current liabilities	28,757
Noncurrent liabilities:	
Compensated absences payable (note 5)	12,395
Other postemployment benefits payable (notes 5 and 6)	535,810
Total noncurrent liabilities	548,205
Total liabilities	576,962
NET POSITION	
Unrestricted	1,000,955
Total net position	$1,000,955

The accompanying notes are an integral part of this statement.

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

OPERATING REVENUES	
Licenses, permits, and fees	$955,850
Fines and settlements	116,937
Other income	3,672
Total operating revenues	1,076,459
OPERATING EXPENSES	
Personal services	613,356
Professional and contractual	77,641
Operating services and supplies	248,282
Total operating expenses	939,279
OPERATING INCOME	137,180
NONOPERATING REVENUES	
Interest earnings	3,287
Change in net position	140,467
TOTAL NET POSITION AT BEGINNING OF YEAR	860,488
TOTAL NET POSITION AT END OF YEAR	$1,000,955

The accompanying notes are an integral part of this statement.

Statement C

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from licensees and registrants	$972,097
Cash received from customers	3,672
Cash payments to suppliers for goods and services	(330,042)
Cash payments to employees for services	(592,579)
Net cash provided by operating activities	53,148
Cash flows from capital and related financing activities:	
Acquisition of capital assets	NONE
Cash flows from investing activities:	
Interest received	3,287
Net increase in cash	56,435
Cash at beginning of year	1,327,276
Cash at end of year	$1,383,711
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$137,180
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	NONE
Changes in assets and liabilities:	
(Increase) in receivables	(95,471)
Decrease in prepayments	97
(Decrease) in accounts payable	(2,468)
(Decrease) in compensated absences payable	(2,750)
Increase in OPEB payable	21,310
(Decrease) in unearned revenues	(4,750)
Total adjustments	(84,032)
Net cash provided by operating activities	$53,148

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The State Board of Certified Public Accountants of Louisiana (Board), a component unit of the state of Louisiana, was created by the Louisiana Legislature in 1908 and is established under the provisions of Louisiana Revised Statute (R.S.) 37:74. The Board is a licensing agency of the state of Louisiana. Effective July 1, 2001, the Board was among those transferred from the Department of Economic Development to the Office of the Governor by the legislature. The Board's enabling legislation, the Louisiana Accountancy Act, is comprised of R.S. 37:71 *et seq*. The Board is composed of seven members who are appointed by the governor — five from designated geographic areas and two at-large. The Board acts in Louisiana's public interest to promote the reliability of public accounting and financial reporting. The Board is charged with the responsibility of regulating the practice of certified public accountants (CPA) and firms in the state by enforcing the Accountancy Act, promulgating and enforcing rules of conduct, administering examinations of CPA candidates, and issuing and renewing licenses to practice as a CPA or CPA firm. Operations of the Board are funded through self-generated revenues primarily derived from fees for the issuance, application, and annual renewal of CPA certificates and licenses. The Board has nine full-time authorized employee positions. As of June 30, 2014, there were 7,288 active (licensed) and 3,111 inactive (unlicensed) certified public accountants and 2,189 CPA firms with licenses in Louisiana.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by GASB. The accompanying financial statements have been prepared on the full accrual basis in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the state of Louisiana. The Board is considered a component unit (enterprise fund) of the state of Louisiana because the state has financial accountability over the Board in that the governor appoints the board members. The accompanying financial statements present information only as to the transactions and activities of the Board.

Annually, the state of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements. The Louisiana Legislative Auditor audits the basic financial statements of the state of Louisiana.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the Board is considered a special-purpose government engaged only in business-type activities. All activities of the Board are accounted for within a single proprietary (enterprise) fund.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the Board are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position.

Under the full accrual basis, revenues are recognized in the accounting period when they are earned, and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. BUDGET PRACTICES

The Board prepares its budget in accordance with the Louisiana Licensing Agency Budget Act, R.S. 39:1331-1342. The budget is prepared on a modified accrual basis of accounting. Although budget amounts lapse at year-end, the Board retains its unexpended net position to fund expenses of the succeeding year.

E. CASH

Cash consists of the amounts in interest-bearing demand deposit accounts, cash on hand, and petty cash. Under state law, the Board may deposit funds within a fiscal agent bank organized under the laws of the state of Louisiana, the laws of any other state in the Union, or the laws of the United States.

F. CAPITAL ASSETS

Capital assets consist of office and computer equipment and are capitalized at historical cost. The Board follows the Louisiana Property Assistance Agency and Office of Statewide Reporting and Accounting Policy guidance for capitalizing and reporting equipment. Only equipment valued at or over $5,000 and computer software valued at or more than $1,000,000 are capitalized and depreciated for financial statement purposes. Depreciation for financial reporting is computed by the straight-line method over an asset's useful life, which is five years for computer equipment and six years for office equipment. Equipment, furniture, and software acquisitions with costs less than the above thresholds are charged as an administrative expense.

G. NONCURRENT LIABILITIES

Noncurrent liabilities at June 30, 2014, include compensated absences and other postemployment benefits (OPEB). A summary of changes in long-term obligations is presented in note 5.

H. EMPLOYEE COMPENSATED ABSENCES

Employees of the Board earn and accumulate annual and sick leave at varying rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits.

Employees who are considered having nonexempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave (K-time) earned. Upon termination or transfer, an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer.

The cost of leave privileges, computed in accordance with GASB Codification Section C60, is recognized as an expense and a liability in the financial statements in the period in which the leave is earned.

I. NET POSITION

The Board's net position is unrestricted. Unrestricted net position represents resources derived from the Board's licenses, permits, and fees and is used for transactions related to the Board's general operations. Unrestricted net position may be used at the discretion of the Board.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. ADOPTION OF NEW ACCOUNTING PRINCIPLE

The Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources. This Statement had no significant impact on the financial statements other than limiting the use of the term "deferred" to only the deferred outflows or inflows of resources as defined in the statement. Therefore, *deferred revenues* are now reported as *unearned revenues*.

2. CASH

The Board has cash (book balances) totaling $1,383,711 at June 30, 2014, which consists of the following:

Demand deposits	$1,383,611
Petty cash	100
Total	$1,383,711

Custodial credit risk is the risk that in the event of a bank failure the Board's deposits may not be recovered. Under state law, the Board's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the Board or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. As of June 30, 2014, the Board's total deposits (collected bank balances) was $1,411,427, which was secured from risk by federal deposit insurance plus pledged securities held in the Board's name.

3. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Beginning Balance July 1, 2013	Additions	Deletions	Ending Balance June 30, 2014
Equipment	$44,582		($11,250)	$33,332
Less accumulated depreciation	(44,582)		11,250	(33,332)
Capital assets, net	NONE	NONE	NONE	NONE

4. PENSION PLAN

Substantially all employees of the Board are members of two statewide, public employee retirement systems: the Louisiana State Employees' Retirement System (LASERS) and the Teachers' Retirement System of Louisiana (TRSL).

Plan Description - LASERS and TRSL are cost-sharing, multiple-employer defined benefit pension plans administered and controlled by separate boards of trustees. LASERS and TRSL provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The retirement systems issue annual publicly-available financial reports that include financial statements and required supplementary information. The reports may be obtained online at www.lasersonline.org and www.trsl.org.

All full-time Board employees are eligible to participate in LASERS unless an election is made to continue as a member in another retirement system, such as TRSL, for which they remain eligible for membership. Eligibility for retirement benefits and the computation of retirement benefits are provided for in R.S. 11:444. Benefits vest with LASERS after 10 years of service and with TRSL after five years of service. Vested employees eligible to begin participation in LASERS before July 1, 2006, are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. Those hired on or after July 1, 2006, may retire with full benefits at age 60, with five years of service. In addition, members have the option of reduced benefits at any age with 20 years of service. In the LASERS plan, the basic annual retirement benefit for members is equal to a percentage (between 2.5% and 3.5%) of average compensation multiplied by the number of years of service, generally not to exceed 100% of average compensation. Average compensation in the LASERS plan is defined as the member's average annual earned compensation for the highest 36 consecutive months of employment for members employed prior to July 1, 2006, or highest 60 consecutive months of employment for members employed after that date.

Funding Policy - As required by state statute, employees contribute either 7.5% or 8% of covered salaries to LASERS or contribute 8% to TRSL. Act 75 of the 2005 Regular Legislative Session requires that employees hired on or after July 1, 2006, contribute 8% of their salaries to LASERS. The Board is required to contribute at an actuarially determined rate as required by R.S. 11:102. The Board's LASERS contribution rate for the fiscal year ended June 30, 2014, increased to 31.3% of annual covered payroll from the 29.1% and 25.6% required in fiscal years ended June 30, 2013, and 2012, respectively. The Board's contributions to LASERS for the years ended June 30, 2014, 2013, and 2012 were $102,206; $93,839; and $81,254, respectively, equal to the required contributions for each year. The Board's TRSL contribution rate for the fiscal year ended June 30, 2014, increased to 27.2% of annual covered payroll from the 24.5% and 23.7% required in fiscal years ended June 30, 2013, and 2012, respectively. The Board's contributions to TRSL for the years ended June 30, 2014, 2013, and 2012 were $9,806; $7,609; and $3,852, respectively, equal to the required contributions for each year.

5. CHANGES IN LONG-TERM LIABILITIES (CURRENT AND NONCURRENT PORTION)

The following is a summary of long-term liability transactions of the Board for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Compensated absences payable	$25,141	$83,072	($85,822)	$22,391	$9,996
OPEB payable	514,500	61,000	(39,690)	535,810	
Total long-term liabilities	$539,641	$144,072	($125,512)	$558,201	$9,996

6. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. Employees of the Board voluntarily participate in the state of Louisiana's health insurance plan administered by the Office of Group Benefits (OGB). OGB offers several standard healthcare plans for both active and retired employees. OGB provides an agent, multiple-employer defined benefit OPEB Plan that provides medical, prescription drug, and life insurance benefits to eligible retirees and their eligible beneficiaries. The postemployment benefits plan is a cost-sharing, multiple-employer defined benefit plan, but is classified as an agent multiple-employer plan for financial reporting purposes since the plan is not administered as a formal trust. Participants are eligible for plan benefits if they retire under one of the state retirement systems and are covered by the active medical plan immediately before retirement. R.S. 42:801-883 provide the authority to establish and amend benefit provisions in the plan.

OGB does not issue a publicly-available financial report of the OPEB Plan; however, the entity is included in the state of Louisiana's Comprehensive Annual Financial Report (CAFR). The CAFR may be obtained from the Office of Statewide Reporting and Accounting Policy's website at www.doa.la.gov/osrap.

Funding Policy. The OPEB Plan is currently funded on a "pay-as-you-go" basis through a combination of retiree and Board contributions. Employees do not contribute to their postemployment benefits costs until they become retirees and begin receiving those benefits. The retirees contribute to the cost of retiree healthcare based on a service schedule. Contribution amounts vary depending on what healthcare provider is selected from the OPEB Plan, and if the member has Medicare coverage.

The contribution requirements of plan members and the Board are established and may be amended by R.S. 42:801-883. Employer contributions are based on plan premiums and the employer contribution percentage. This percentage is based on the date of participation in an OGB plan (before or after January 1, 2002) and employee years of service at retirement. Employees who begin participation or rejoin the plan before January 1, 2002, pay approximately 25% of the cost of coverage (except single retirees under age 65, who pay approximately 25% of the active employee cost). For those beginning participation or rejoining on or after January 1, 2002, the percentage of premiums contributed by the employer and employee is based on the following schedule:

Service	Employer Contribution Percentage	Employee Contribution Percentage
Under 10 years	19%	81%
10 - 14 years	38%	62%
15 - 19 years	56%	44%
20+ years	75%	25%

In addition to healthcare benefits, retirees may elect to receive life insurance benefits. Basic and supplemental life insurance is available for the individual retirees and spouses of retirees subject to maximum values. The total monthly premium for individual retirees is approximately $1 per thousand dollars of coverage of which the employer pays 50% of the premium.

Annual OPEB Cost and Net OPEB Obligation. The Board's Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation at the end of the year for the Board were as follows:

Beginning net OPEB obligations at July 1, 2013	$514,500
Annual Required Contribution	60,100
Interest on net OPEB obligation	20,600
ARC adjustment	(19,700)
Annual OPEB cost	61,000
Contributions made	(39,690)
Increase in net OPEB obligation	21,310
Ending net OPEB obligation at June 30, 2014	$535,810

The following table provides the Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$63,165	25.6%	$474,875
June 30, 2013	$61,600	35.7%	$514,500
June 30, 2014	$61,000	65.1%	$535,810

Funding Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$960,700
Actuarial value of plan assets	NONE
Unfunded actuarial accrued liability (UAAL)	$960,700
Funded ratio	0%
Covered payroll (active plan members)	$314,500
UAAL as a percentage of covered payroll	305%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the projected unit credit actuarial cost method was used. The UAAL was amortized as a level percentage of projected payroll over the maximum acceptable period of 30 years on an open basis. The RP-2000 Mortality Table was used in making actuarial assumptions. The actuarial assumptions included a 4.0 percent investment rate of return (discount rate). Retirement rate assumptions differ by employment group and date of plan participation. The health care cost trend rate assumption is used to project the cost of health care to future years. The valuation uses a health care cost trend rate of 8.0% and 6.0% for pre-Medicare and Medicare eligible employees, respectively, scaling down to ultimate rates of 4.5% per year. Assumptions also include payroll growth of 3%.

7. OPERATING LEASE

The Board's total rental and lease expense for June 30, 2014, was $86,328, which includes an operating lease for office space with a monthly rental of $5,342, currently in a five-year extension of the amended lease that ends as of August 31, 2016. The Board has no capital leases. Future minimum operating lease payments under this operating lease for the years ending June 30 are as follows:

	Fiscal Year		
Nature of Lease	2015	2016	2017
Office space	$64,104	$64,104	$10,684

8. RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General Fund appropriation.

There is no pending litigation or claims against the Board at June 30, 2014, which if asserted, in the opinion of the Board's legal advisors, would have at least a reasonable probability of an unfavorable outcome or for which resolution would materially affect the financial statements.

9. DEFERRED COMPENSATION PLAN

Employees of the Board may participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Disclosures relating to this plan are available in the Plan's separate audit report, which is available from the Louisiana Legislative Auditor's website at www.lla.la.gov.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the
Other Postemployment Benefits Plan

The Schedule of Funding Progress (Schedule 1) is required supplementary information that presents certain specific data regarding the funding progress of the Other Postemployment Benefits Plan, including the unfunded actuarial accrued liability.

Schedule 1

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA

Schedule of Funding Progress for the Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Cost (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2011	NONE	$779,700	$779,700	0.0%	$227,000	343%
July 1, 2012	NONE	$824,900	$824,900	0.0%	$263,000	314%
July 1, 2013	NONE	$960,700	$960,700	0.0%	$314,500	305%

Factors contributing to the increase in the Office of Group Benefits plan were:

1. Updated disability classification, mortality tables, and retirement rates
2. Favorable claims experience
3. Adjustment to the life insurance participation assumption
4. The substantive plan to eliminate the premium deficiency

SUPPLEMENTARY INFORMATION

Schedule of Per Diem Paid Board Members
For the Year Ended June 30, 2014

The Schedule of Per Diem Paid Board Members (Schedule 2) is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Officers of the board receive compensation of $150 per month, and other members receive $100 per month in accordance with Act 473 of 1999.

Schedule 2

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA

Schedule of Per Diem Paid Board Members
For the Year Ended June 30, 2014

Michael A. Tham, CPA - Chairman	$1,800
Michael D. Bergeron, CPA - Member	1,200
Michael B. Bruno, CPA - Secretary (July 2013), Treasurer (August 2013 - June 2014)	1,800
Letti Lowe-Ardoin, CPA - Member	1,200
Mark P. Harris, CPA - Treasurer (July 2013), Member (August 2013 - June 2014)	1,250
Desiree W. Honore', CPA - Member (July 2013), Secretary (August 2013 - June 2014)	1,750
Lynn V. Hutchinson, CPA - Member	1,200
Total	$10,200

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Exhibit A

The following pages contain a report on internal control and on compliance with laws and regulations and other matters as required by *Government Auditing Standards* issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 12, 2016

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANTS OF LOUISIANA
STATE OF LOUISIANA
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the State Board of Certified Public Accountants of Louisiana (Board), a component unit of the state of Louisiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated May 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Board's internal control to be a material weakness:

Inadequate Controls over Payroll and Leave

The Board did not adequately review time sheets before processing payroll, did not properly post or track employee leave balances, and made an improper payment. During our review of the Board's records, we noted the following:

- Employee payroll is processed before time sheets are due, which does not allow adequate time for management to review time entry and leave balances prior to payment. In one instance, an employee was paid for 24 hours of "leave without pay" that wasn't recouped from the employee until three months later.

- Employee records reflected negative leave balances. In one instance, an employee had a negative leave balance for four consecutive pay periods, but the time sheets reflected additional leave approved and taken during this period.

- Employee leave records did not match time sheet postings for two employees over multiple pay periods.

By advancing leave and paying an employee for time not worked, the Board may have violated Article 7, Section 14 of the Louisiana Constitution.

These exceptions occurred because the Board's payroll practices did not incorporate good internal control over payroll. Further, the Board's practices were not documented in its written policies. Good internal control should include current written policies that address time sheet review and approval prior to payment and proper tracking of leave balances.

Management should update its written policies to require that (1) employee time sheets are reviewed and approved before payroll is processed, (2) the sufficiency of employee leave balances are verified before leave requests are granted, and (3) employee leave balances are timely updated to reflect leave earned and taken each time period. The Board should further reconcile its employee leave records to time sheets and leave accruals for the entire fiscal year ending June 30, 2014, to ensure that leave balances on that date are accurate. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not include a significant deficiency in this report relating to the Board's information technology operations because of the sensitive nature of the deficiency. This matter has been separately communicated to management and those charged with governance. Management has represented that it is currently addressing this issue.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance for improper employee payments that is required to be reported under *Government Auditing Standards* as described on the previous page.

Board's Response to the Finding

The Board's response to the finding identified in our audit is attached in Appendix A. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Board of Certified Public Accountants of Louisiana's internal control and compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

MET:DG:BDC:EFS:aa

CPA2014

APPENDIX A

Management's Corrective Action Plan and Response to the Finding and Recommendations

**STATE BOARD OF
CERTIFIED PUBLIC ACCOUNTANTS
OF LOUISIANA**

601 Poydras Street, Suite 1770
New Orleans, LA 70130

Phone: (504) 566-1244
Fax: (504) 566-1252
www.cpaboard.state.la.us

April 20, 2016

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Inadequate Controls Over Payroll and Leave - FYE 06/30/14

Dear Mr. Purpera:

This is in response to the reportable audit finding of "Inadequate Controls Over Payroll and Leave" for the FYE 06/30/14. Management concurs with the individual findings noted as to payroll processed prior to receipt and review of timesheets, negative *annual* leave balances shown on employee records, and the time-worked calculations not agreeing to the timesheet postings for several pay periods.

It has been a long standing policy of our agency to process payroll for the 15th and 31st of each month, which has always been prior to the receipt and review of timesheets. Timesheets are due the day following the end of each pay period for management review. Our payroll policies reflect those that are generally appropriate for a relatively small agency. The agency has been pro-active in monitoring leave balances and there has not been an actual loss of dollars resulting from our payroll process. Over the recent years, those employees with very low leave balances were counseled.

One exception, as noted in the findings, was an employee who had returned from maternity leave and was mistakenly paid for 24 hours of LWOP upon returning. That overpayment was recovered a few months later, when an internal review of payroll was performed.

Annual leave was approved during the year in question *under the misunderstanding* that sick leave balances could be used as an offset in the event annual leave was not available. To that end, the employee found with negative annual leave balances of 1.20, 3.27, 2.98, and .25 hours over four consecutive pay periods had more than enough sick leave to cover the overage. Additionally, leave was often approved after the fact due to unavoidable time off (e.g. child's illness, daycare issues, etc.) It is now known that Civil Service rules do not provide for *sick leave* to be used to cover negative *annual leave* balances, although it works the other way around.

Management acknowledges the audit findings, and is considering steps to help ensure adequate controls are in place to maintain 100% error free payroll and leave records. Changes include moving to a bi-weekly pay period, which will necessitate additional accounting procedures, but provide for timely review of timesheets and leave balances in advance of a pay date. Also under consideration is the use of a timeclock to perform the tedious but necessary calculations of every employee's work day time calculations to ensure that the actual time documented as worked agrees to the timesheet hours reported.

As suggested, timesheets for the four employees still on staff will be audited for the entire fiscal year ended June 30, 2014, and necessary adjustments to leave balances will be made prospectively. An initial review in order to respond to this matter found small calculation errors in worked time reported which varied from .25 – 2 hours in either direction, so it does not appear that it will result in significant adjustments to any employee's leave balance.

The agency's Executive Director, Darla M. Saux, CPA, is the contact person responsible for implementing corrective action. Management is already reviewing its policies regarding leave, timesheets, and payroll processes, and will update its dated policies within the next few months. We are committed to successfully resolving this after consideration of "best practices" for small agencies in state government.

Thank you for your suggestions and comments.

Sincerely,

STATE BOARD OF CPAs OF LOUISIANA

Darla M. Saux, CPA
Executive Director