

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Executive Department
State of Louisiana
Baton Rouge, Louisiana

November 17, 1999



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

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**EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Management Letter
Dated November 9, 1999**

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 has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

November 17, 1999



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

November 9, 1999

HONORABLE M. J. "MIKE" FOSTER, JR., GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1999, we conducted certain procedures at the Executive Department. Our procedures included (1) a review of the department's internal control; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The June 30, 1999, Annual Fiscal Report of the Executive Department was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with selected management personnel and other selected departmental personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior management letter dated December 11, 1998, we reported findings concerning internal audit function, inadequate fund balance - Patients' Compensation Fund, electronic data processing control weaknesses - Patients' Compensation Fund, inadequate uniform payroll system controls - Executive Office, weaknesses in controls over claims payments - Patients' Compensation Fund, inadequate subrecipient monitoring, and inaccurate federal financial reports. The findings relating to the internal audit function, inadequate fund balance - Patients' Compensation Fund, electronic data processing control weaknesses - Patients' Compensation Fund, inadequate uniform payroll system controls - Executive Office, and inadequate subrecipient monitoring have not been resolved and are addressed again in this report. The remaining findings addressed in our previous management letter were resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

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EXECUTIVE DEPARTMENT STATE OF LOUISIANA

Management Letter, Dated November 9, 1999

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Internal Audit Function

For the eighth consecutive year, the Executive Department did not have an effective internal audit function to examine, evaluate, and report on its internal controls (including data processing) and to evaluate compliance with the policies and procedures that comprise internal controls.

Considering the department's reported assets of \$108,892,316 and its operating revenues of \$337,239,832, an effective internal audit function is important to ensure that the department's assets are safeguarded and that the department's policies and procedures are uniformly applied. Furthermore, the Appropriation Act (Act 19, Section 6C) of the 1998 Regular Session of the Louisiana Legislature states that the budget request of any agency with an appropriation level of \$30 million or more must include within its existing table of organization the position of internal auditor. The department did not include the position of internal auditor in its budget request for fiscal year 1999 as required by state law.

The Executive Department should take the necessary steps to establish an effective internal audit function. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Payroll System Controls - Executive Office

For the third consecutive year, the Executive Office did not have adequate internal control procedures relating to payroll transactions input into the Uniform Payroll System. Adequate controls require that employees and supervisors certify the hours of attendance or absence from duty on time and attendance records.

In a review of time and attendance records for 13 unclassified employees for two pay periods, the following exceptions were noted:

- Six executive staff employees who earn annual and sick leave did not have time and attendance records--five for two pay periods and one for one pay period.
- One employee who was required to certify her hours of attendance and absence from duty under an interagency agreement with the Louisiana Department of Education did not have time and attendance records for one pay period.
- One employee did not submit a leave slip for leave taken.

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These exceptions are the result of either isolated problems or management's policy not to require time and attendance records for executive staff, which increases the risk that errors and fraud could occur and not be detected timely.

Management should establish internal control procedures that require time, attendance and leave records for each employee, which would be signed by the employee and approved by the appropriate supervisor. Management partially concurred with the finding and has implemented a plan of corrective action (see Appendix A, page 2). By policy, management exempts executive staff members appointed by the Governor from submitting time sheets on a regular basis.

Additional Comments: Time and attendance records should be maintained for all employees including executive staff to ensure that state expenditures are supported by written documentation and that state employees are accountable for their time.

Electronic Data Processing Control Weaknesses - Patients' Compensation Fund

For the second consecutive year, the Patients' Compensation Fund Oversight Board did not establish adequate internal controls over the electronic data processing (EDP) system used by the board to process over \$60 million in claims-related payments for the Patients' Compensation Fund (PCF). General EDP controls are part of an adequate control environment as are control procedures over (1) application program development and maintenance, (2) logical access to programs and data, and (3) segregation of duties. Good general EDP controls are necessary to preserve the integrity and security of the system and to provide reliance on the results produced by the system. Good EDP application controls are necessary to ensure that transactions and financial information are complete, timely, and accurate.

During a review of the general and EDP application controls, the following deficiencies were noted:

1. Information system responsibilities of management and staff were not adequately defined either in job descriptions or in agency policies and procedures.
2. Procedures in place were not adequate to document and ensure that current or new computerized information systems were properly planned, developed, implemented, modified, secured, and supported to meet PCF objectives and user needs.

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3. Policies and procedures were inadequate to limit access to the information systems network or to secure the database for claims payments.
4. There was inadequate written documentation of input or output reports available for management to monitor and ensure that all data were complete and accurate.
5. Key data elements containing reserve amounts, payable amounts, and paid amounts with related calculations were not explained in the system documentation.

These deficiencies could affect the integrity and security of programs, processing, and data. As a result, there is a risk that programs and data could be accessed and modified without proper authorization, review, and approval.

The Patients' Compensation Board should establish adequate internal controls over EDP to ensure the integrity of programs, processing, and data and to ensure the completeness and accuracy of financial information. Management concurred or concurred in part with the findings and recommendations. For item 2, management did not concur because progress has been made since the auditor's review in June 1999. Management is implementing a plan of corrective action (see Appendix A, page 5).

Lack of Controls Over Medical Malpractice Premiums - Patients' Compensation Fund

The Patient's Compensation Fund Oversight Board did not have adequate segregation of duties, did not deposit and record approximately \$13 million in receipts timely, and did not have proof of financial responsibility on file for all self-insured health care providers as required by state law. A good internal control system requires the department to establish procedures to properly safeguard its assets and segregate duties to ensure that one person is not in the position to both initiate and conceal errors or fraud. Proper cash management practices and Article 7, Section 9 of the 1974 Louisiana Constitution also require that monies be deposited immediately upon receipt in the state treasury. In addition, Louisiana Revised Statute 40:1299.42(E) requires self-insured health care providers to deposit with the board \$125,000 in money or other security as proof of financial responsibility.

The following weaknesses were noted in internal controls over the collection of medical malpractice premiums:

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- The same person who receives the payments records the payments in the subsidiary records, prepares billing statements, and reconciles the subsidiary records to amounts deposited and recorded in the general ledger system (AFS).
- As of January 14, 1999, the department had not deposited approximately \$13 million in checks received between December 4, 1998, and December 30, 1998.
- In a test of 17 receipts and related health care provider files, none of the 17 receipts were recorded in the subsidiary records, and there was no evidence in the files to document that two self-insured health care providers deposited \$125,000 in money or securities with the board as required by law.

Failure to develop and implement adequate controls over cash collections for medical malpractice premiums increases the risk that funds could be lost and that fraud and errors could occur and not be detected timely.

Management should segregate the incompatible duties of receiving and recording payments, establish procedures to ensure payments are deposited immediately according to the constitution, and maintain evidence of security deposits on file according to state law. Management concurred with the finding and recommendations and outlined a corrective action plan (see Appendix A, page 9).

Inadequate Fund Balance - Patients' Compensation Fund

For the eighth consecutive year, the Executive Department, Patients' Compensation Fund Oversight Board, did not maintain an adequate surplus in the Patients' Compensation Fund as required by Louisiana law. Louisiana Revised Statute 40:1299.44(A)(6)(a) requires that a surplus of 50% of the annual surcharge premiums, reserves established for individual claims, reserves established for incurred but not reported claims, and expenses be maintained in the fund.

For the fiscal year ended June 30, 1999, the accumulated balance of surcharges, reserves, and expenses is estimated to be \$410,722,038, which under Louisiana law would require a fund balance of \$205,361,019. As of June 30, 1999, the actual fund balance was \$71,597,885, resulting in a shortfall of \$133,763,134. This shortfall resulted from practices in effect before the Patients' Compensation Fund Oversight Board was created, whereby rates for medical malpractice premiums were not set

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based on experience ratings, including historical losses, interest payments, and future medical amounts.

The board should establish an adequate rate level to achieve the 50% surplus requirement over a reasonable period of time. The board concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 13).

Inadequate Subrecipient Monitoring

For the second consecutive year, the Louisiana Federal Property Assistance Agency (LFPAA) did not have an adequate monitoring system to ensure that subrecipients receiving federal funds complied with applicable federal regulations and agency policy. The receipt of surplus property under the Donation of Federal Surplus Personal Property Program (CFDA 39.003) is considered a federal award under federal regulations. The Office of Management and Budget (OMB) Circular A-133 requires that the LFPAA, as a pass-through entity, ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year receive a single audit or program specific audit for that year. Furthermore, agency procedures require the compliance officer to monitor the receipt of audit reports from subrecipients needing audits.

Audit tests of 20 subrecipients that received federal surplus property during fiscal year 1999 disclosed that no audit reports were on file for these subrecipients. Also, there was no evidence that LFPAA asked the subrecipients for their prior year expenditures of federal funds from all sources to determine whether or not an audit was required.

Management has not implemented a system to ensure that required audits are performed. Failure to ensure that federal subrecipients are audited subjects the agency to noncompliance with federal regulations and agency policy.

LFPAA should provide for an adequate monitoring system to ensure that subrecipients spending \$300,000 or more in federal funds are audited in accordance with federal regulations and agency policy. Management did not concur with the finding and recommendation because it does not believe LFPAA is required to monitor and maintain a file of audited financial reports for agencies that receive federal funding in excess of \$300,000 from all federal agencies (see Appendix A, page 15).

Additional Comments: OMB Circular A-133 requires that the LFPAA, as a pass-through entity, ensures that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year receive a single audit or program specific audit for that year. Furthermore, agency procedures require the compliance officer to monitor the receipt of audit reports from subrecipients needing audits.

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EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

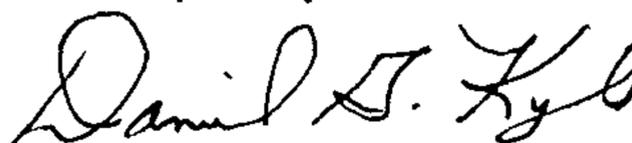
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The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings related to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended for the information and use of the Executive Department and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

BM:WMB:PEP:ss

[EXEC]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

M. J. "MIKE" FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

August 26, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

Re: Audit Comment-Lack of Internal Audit Function in the Executive Department

We concur with the finding on this issue. This department did submit a request for 3 positions and \$167,241 dollars in its fiscal year 1999-2000 budget request. Due to revenue constraints and inadequate pay levels this item was not approved for funding within the Governor's Executive Budget submission. We will again request funding for this activity in our fiscal year 2000-2001 budget submission.

While funding has been an issue, another issue remains which has prevented implementation within this agency. Although Civil Service positions have been established, it remains our opinion, that the pay grade allocations provided are inadequate to attract the level of personnel having the qualification to perform this function. Filling of positions with personnel not having the experience and qualifications to perform the functions is not a practical resolution.

We agree this issue is important, not only to this department, but to all departments.

Sincerely,

Mark C. Drennen
Commissioner of Administration

MCD/wjk



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana

OFFICE OF THE GOVERNOR

Baton Rouge

70804-9004

POST OFFICE BOX 94004
(225) 342-7015

October 13, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

My office is in receipt of your audit findings within the Office of the Governor's payroll system controls. Upon receipt and review of your findings, we are providing the following response.

Finding 1:

- ◆ We concur with your findings. However, these are employees that are not required to submit time sheets. Time sheets are only required by these employees when there is no contact with the office. (Memorandum attached)

Finding 2:

- ◆ We concur with the finding. However, that employee does submit a time and attendance sheet. It was our policy that an exempted employee did not have to submit a time and attendance sheet until that exempted employee was unable to be reached by cell or pager. This has been corrected for the employee in question.

Finding 3:

- ◆ We concur with your findings. This has been corrected.

In response to our policy not to require time and attendance records for all employees, you indicated that we lack emphasis on compliance with existing internal control procedures and state rules and regulations, thereby increasing the risk that errors and fraud could occur and not be detected timely. We do not agree with your statement on this particular issue.

Dr. Daniel Kyle
Page 2
October 13, 1999

The employees that are exempted from submitting a time and attendance sheet on a regular basis are the senior staff members that have been appointed by Governor Foster and answer directly to him for their time.

These individuals are on call twenty-four hours a day, seven days a week. Therefore, it is the policy of this office that such individuals are required to submit a time and attendance sheet only when they are out of the office and cannot be contacted by the Governor or anyone on staff. (See attached memorandum)

The above findings in your report have been corrected. All necessary corrections have been made to insure that all time and attendance records are properly maintained according to Executive Order MJF 95-79.

Sincerely,

A handwritten signature in black ink that reads "Stephen Perry" followed by a stylized flourish.

J. Stephen Perry
Chief of Staff

cdn

M E M O R A N D U M

To: Senior Management Staff
From: Stephen Perry/ Suson Hoffman
Subject: Payroll Issues
Date: May 11, 1999

Just a few issues I would like to cover since the Governor has signed the Executive Order allowing all unclassified exempted employees to earn leave. The Governor signed this order on May 21, 1998. This memorandum shall be consider on official rule that has been set forth by this office.

As stated in the executive order Section 21-A; Leave records shall be maintained for all unclassified appointees. This simply means that if you are an unclassified exempted employee, which you are, you would have to complete a time sheet and leave slip only if you are on leave. If you are out of the office and cannot be contacted because of illness, vacation, ect., you are considered on leave and will be required to submit a time sheet and leave slip for that particular pay period. If you are out of the office and you are called, paged or summonsed back to the office, you are not considered on official leave and no time sheet or leave slip is required.

I am requesting that all exempted employees, which are the Senior Management Staff, please adhere to these rules that have been set forth by this executive order.

If there are any questions, please advise.

Thank you for your usual and continued cooperation.

OFFICE OF THE GOVERNOR
M. J. "MIKE" FOSTER, JR.
GOVERNOR



P.O. BOX 3718
BATON ROUGE, LA 70821
(504) 342-8784

State of Louisiana
PATIENTS' COMPENSATION FUND

August 20, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

This will acknowledge receipt of the audit findings relative to the electronic data process controls within this agency. The Patient's Compensation Fund Oversight Board's response to the deficiencies is attached.

While we concur in part with all the findings, we are still undergoing the computer system conversion, which was begun last year. We are very near the completion of the project and are continuously addressing the concerns cited in this audit finding.

Sincerely,

A handwritten signature in black ink that reads "Seth E. Keener, Jr." with a stylized flourish at the end.

Seth E. Keener, Jr.
Acting Executive Director

SEK/ll

August 20, 1999

PATIENT'S COMPENSATION FUND

RESPONSE TO LEGISLATIVE AUDIT FINDINGS REGARDING EDP CONTROLS

Contact persons responsible for corrective action:

Lorraine LeBlanc, Claims Manager

Dianne Gafford, Information Systems Network Tech 2

1. Responsibilities not adequately defined – Concur in part.

Due to the audit findings last year, the job duties of the computer support person were redefined and a new position description written to upgrade the position. This has been accomplished and it is felt the job description defines the responsibilities of the information systems person as it relates to management. The position description, the organizational flow chart show the IS Tech is directly supervised by the Claims Manager. The Interagency Agreement between the PCF and ORM, clearly shows the ORM is responsible for maintaining all data and records. The ORM person directly responsible for this function is, again, the State Risk Claims Manager. The position description states the IS Tech is expected to assist all office personnel with the computer system. This includes generating reports requested by the executive office and the Board.

As we are now entering the final stages of the computer system renovation, steps are being taken to develop interoffice procedures to be used to report problems that arise. This will further define the duties of the IS Tech as they relate to all personnel within the agency, especially during the one year post-installation period allowed in the contract.

2. Procedures are inadequate regarding new computer system – Do not concur.

The new computer system was planned and developed by Camsoft per the RFP approved by the State Office of Contractual Review's Procurement Support Team, the proposal submitted by Camsoft, which was drawn up after reviewing the old systems, and several meetings with various personnel from this office. It is being implemented and modified on a daily basis and we are in the final stages at this time. A great deal of progress has been made since the review by the Legislative Auditor in June 1999. As the system is being used, all personnel within this office compile lists of problems or "bugs" that need correcting and these are given the IS Tech to forward to Camsoft. Camsoft continues to address these problems on a daily basis. The number of problems has been greatly reduced in the last two weeks.

We are completely in the new system and use the two old systems as means of checking the new system for accuracy. We are also testing to be sure that all necessary functions and features are included and working properly. This is done on a daily basis. Final payment will not be made until all terms of the contract have been met.

The contract mandates Camsoft to continue to correct problems not found prior to the project being considered complete for up to one year. Procedures have now been written regarding the flow of complaints and problems during this period, to ensure the integrity of the overall system.

For further support of the new system, PCF and Camsoft have entered into maintenance and technical support contract that will enable us to further modify the program to meet needs as they arise in the future.

1. Policies and Procedures are inadequate regarding access – Concur in part.

All personnel are required to use passwords to access the network. Each employee has a level of authorization established in the computer, which is set based on his or her job duties. This was set up in the old system. The new system continues to have a security system, which limits access to employees outside their specific job functions. The new security system is in place. As employees leave, their ability to access the network is terminated as they are placed on an inactive status. The security system is maintained by the IS Tech and she is the only person within the PCF that has access to the program at this time (other than the vendor installing the system). The new security has been tested and found to work appropriately.

The servers are kept locked to prevent unauthorized use. They are not kept in a locked room, as one is not available in our current situation.

All software and hardware is cataloged and inventoried as appropriate. Software and licenses are kept in a secure place. The backup and recovery system was upgraded to Backup Exec when the new server was purchased to support the new system. Backups are run daily and tapes stored at the PCF Executive Office, an offsite location.

We feel we have more than adequately limited access to the systems network and have secured the database. Formal written policies and procedures are being developed regarding the program security, although several interoffice memos have been written regarding this issue.

4. Inadequate documentation of reports available – Concur

The agency has been able to produce quarterly reports and annual reports as necessary using the old system. This system was extremely complicated and not user friendly, thus limiting the ability of non-programming personnel to obtain information. The new system is expected to be simpler; however, we have not been provided samples or training on the use of the reporting capabilities of the system. A user manual has been prepared and it being revised by Camsoft. It is expected to be available within a week. Specific lists of required reports were given to Camsoft and are expected to be programmed into the system by Camsoft, as part of the contractual agreement. Camsoft is still setting up these reports within the system. Once that is accomplished, Camsoft will initiate training of key personnel and then PCF will begin testing. Additional training will be obtained from an outside source to ensure that PCF optimizes the capability of the Access program now on the system.

However, there are some reports currently in use, which do allow monitoring of data. These include the check register, the refund batch report and the surcharge batch report. All these features are in the new system and working correctly. Also, the current system determines the panel and claim numbers automatically. This increases accuracy and helps to eliminate duplicates. This feature was not available with the old system. As a further check on information input, work has been segregated so that no one person inputs all the computer information. This allows the first person's work to be reviewed during the initial input process and errors identified and corrected.

5. Key data elements not explained - Concur in part.

We have requested a copy of the record layout showing every data element used along with a complete flowchart of the entire system. This documentation will show the precise flow of the data process, every file used and all data elements used. This information will verify and document not only the key data elements used, but also every data element in the application. Because this information was not provided by the previous vendor, the contract was specifically structured to require that Camsoft, the current vendor, provide this information and, as much of the project is complete, this information should now be available. The only changes that might be made might be in the flow chart, as the application is changed to fix "bugs" and tighten security.

OFFICE OF THE GOVERNOR
M. J. "MIKE" FOSTER, JR.
GOVERNOR



P.O. BOX 3718
BATON ROUGE, LA 70821
(504) 342-8784

State of Louisiana
PATIENTS' COMPENSATION FUND

May 6, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

09 MAY 7 AM 11:35
L. 1000

Dear Dr. Kyle:

This will acknowledge receipt of the audit findings relative to the controls over medical malpractice premiums. The Patient's Compensation Fund Oversight Board's response to the itemized deficiencies is attached.

It is felt that with additional personnel and the implementation of the new computer system, there will be no further findings of deficiencies in these areas.

Sincerely,

A handwritten signature in cursive script that reads "Seth E. Keener, Jr.".

Seth E. Keener, Jr.
State Risk Director

SEK, Jr./11

May 3, 1999

RESPONSE TO LEGISLATIVE AUDIT FINDINGS OF APRIL 27, 1999

Contact Persons responsible for corrective action:

Lorraine LeBlanc, Claims Manager
Cheryl Jackson, Medical Malpractice Director
Sandra Alford, Accountant II

- **One person with multiple duties – Concur with finding.**

We were already aware of the problem with the handling of the receipts of and posting of the payments. Due to lack of personnel, corrective action was delayed. The 1998-1999 budget included an additional person, an accountant technician, who was to be given some of these duties. This position was filled on 2/15/99 and the responsibility for receipt of the checks has been transferred to the new person.

Corrective action taken: As of 2/16/99, all checks are being sent daily to the account tech, who then prepares the batch list and copies the checks. The actual checks are given to the accountant who prepares the deposit lists and sends the checks to the Treasurer's office. The tech then sends the batch list, copies of the checks and any documentation that was sent with the checks, back to the administrative specialist. The specialist records the payments to the appropriate health care provider's record in the computer. The specialist reconciles the computer records with the batch list upon completion of posting. The accountant sends the medical malpractice director the monthly ledger system printout and this is reconciled with the payments posted during that month. Further, the billing statements will be done by the statistical tech as of May 1, 1999. Thus, the incompatible duties have now been segregated

- **Checks not deposited – Concur.**

Disciplinary action has been taken towards the individual responsible for this task. She was well aware of the three-day timeframe allowed for checks to be received and deposited. A student worker had been assigned to her in November 1998 due to the volume of work she was expected to handle. She stated she thought her supervisor was aware of the backlog. Her supervisor was not aware that checks were not being sent.

Corrective action taken. These duties were reassigned 2/16/99. Checks are now sent daily to the executive office where the account tech copies them, prepares the batch list and gives the checks directly to the accountant for timely deposit. With the addition of the account tech and the segregation of duties, the checks are deposited timely.

- **17 receipts not recorded – Concur**

This is the result of a lack of sufficient personnel to accomplish all the duties of the office. It was also due to the lack of computer capabilities, as the system being used at the time of the audit did not allow for more than one person to enter receipts at a time.

Corrective action taken - An additional person was added 2/15/99 in an effort to remove some duties from the person responsible for recording receipts, thus allowing more time for the posting. Also, the new system does not restrict the number of persons posting. On April 19, 1999, two additional staff members were trained on posting in an effort to catch up; however, this is being done in addition to their other duties. The person that posts the receipts must also verify that the proper amount has been paid. It is a time consuming task and too much for one person, especially when it is not their sole duty. The 1999 – 2000 budget calls for two additional positions, one of which will share these duties with the current specialist. However, due to the paperwork and procedures necessary to fill a new position, it is not anticipated that the position will be occupied until September 1999. It is felt that this addition will allow the duties of posting to be done timely.

- **Lack of documentation in the file – Concur**

There is no permanent position assigned to the duty of filing. Thus, the filing is extremely behind. The office has student workers to file; however, this is on a part-time basis and is inadequate for the volume of mail received within this office. Office personnel have worked on Saturdays in an attempt to reduce the backlog of filing that needs to be done.

- Corrective Action taken: The 1999-2000 budget includes the addition of a full time position to handle the filing, in addition to student workers. It is felt this will allow the files to contain current information. However, due to the paperwork and procedures necessary to obtain a new position, it is anticipated that the position will not be occupied until September 1999. Student workers will be working full time during the summer months and will be filing.

Basically, the negative audit findings revolve around the lack of personnel and proper computer programs. The Fund has grown over the years and the total number of necessary staff has not kept up with the volume of work. We have added staff each of the

past 3 years in an effort to ensure the Fund is run efficiently. We have hired emergency personnel, restricted personnel and authorized overtime to the extent our budget allows.
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We are currently in the process of a computer conversion, which is expected to be completed by May 12, 1999 (although the original completion date was December 15, 1998, then March 31, 1999) but numerous problems have been encountered with the program conversions. The new computer system should simplify some of the procedures and allow the office to be run more effectively and efficiently.

State of Louisiana



PATIENTS' COMPENSATION FUND
OVERSIGHT BOARD
OFFICE OF THE EXECUTIVE DIRECTOR
650 NORTH SIXTH STREET
BATON ROUGE, LA 70802
(504) 342-6052
FAX (504) 342-6053

September 9, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P O Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Fund Balance – Patient's Compensation Fund

Dear Dr. Kyle:

As requested, the Patient's Compensation Fund Oversight Board (Board) submits herein its response to the above-captioned finding.

The Board concurs with the finding. The corrective action plan is attached. The undersigned is the contact person responsible for the corrective action. At the present time there is no anticipated completion date.

Please call if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Seth E. Keener, Jr." with a long, sweeping flourish extending upwards and to the right.

Seth E. Keener, Jr.
Acting Executive Director

LEGISLATIVE AUDIT - PATIENT'S COMPENSATION FUND - 1999

Inadequate Fund Balance

- In answer to the specific finding, the following information is offered. In October 1998, the Louisiana Patient's Compensation Oversight Board proposed a rate increase of 15% per year for the next four years based on information supplied by our actuary. It was the actuary's finding that this 15% increase per year for four years would bring the Fund to the point that there would be no continuing escalation of the unfunded liabilities. After it had addressed the issue of stopping the escalation of unfunded liabilities, it was the plan of the Patient's Compensation Fund Oversight Board to continue with increases to reduce the unfunded liabilities, and thus achieve an adequate level of surplus over a period of four years.

Due to opposition from the Louisiana Medical Society, and the individual doctors, to the Louisiana Insurance Rating Commission, the Rating Commission denied the rate increase. As a result of the disapproval of the requested rate increase by the Louisiana Insurance Rating Commission, no increase in rates was granted for this year (1999). We are now in the process of getting new actuarial figures to recommend an appropriate rate increase for the upcoming year, with hope again, that we can come up with a figure which will eliminate the escalation of the unfunded liabilities within four years. The Patient's Compensation Fund Oversight Board is attempting to have the necessary documentation for an October presentation to the Louisiana Insurance Rating Commission.



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION

LOUISIANA PROPERTY ASSISTANCE AGENCY

September 10, 1999
A-99-061

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

Dr. Daniel G. Kyle, CPA, CFE
LEGISLATIVE AUDITOR
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

Re: Response to Legislative Auditor Finding
Re Inadequate Sub-recipient Monitoring

Attached is the response to your request of August 24, 1999 regarding audit findings at the Louisiana Federal Property Assistance Agency (LFPAA). We were under the impression that the Schedule 8-3 submitted to your office on September 3, 1999, was a sufficient response to these findings.

Should you desire additional information, please do not hesitate to contact us.

Sincerely,

Irene Babin
Director

IB/MMc/jmc

Attachment

Response to Legislative Auditor Finding re Inadequate Sub-recipient Monitoring

- The Louisiana Federal Property Assistance Agency does not concur with this finding.

In a meeting held at LFPAA on May 21, 1999, auditors from the Legislative Auditors Office and LFPAA management agreed that LFPAA would require agencies receiving over \$300,000 FMV of federal surplus property provide LFPAA with a copy of their audited financial statement as required by OMB Circular A-133.

During the 1998-99 fiscal year, there were no recipients that received federal surplus property in excess of \$300,000 FMV.

LFPAA does not agree with the Legislative Auditor's interpretation of OMB Circular A-133. We do not believe that LFPAA is required to monitor and maintain a file of audited Financial reports for agencies that receive federal funding in excess of \$300,000 from all federal sources. However, LFPAA will advise all recipients of federal surplus property of their responsibility to provide LFPAA with an audited financial statement if their combined federal funding exceeds \$300,000.