

LOUISIANA STATE BOARD OF MEDICAL EXAMINERS

DEPARTMENT OF HEALTH

A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDING DECEMBER 31, 2017
ISSUED SEPTEMBER 6, 2018

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

September 4, 2018

Independent Auditor's Report

LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
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 Louisiana State Board of Medical Examiners (Board), a component unit of the State of Louisiana, as of and for the year ended December 31, 2017, 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 December 31, 2017, 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.

Emphasis of Matter

As disclosed in note 7 to the financial statements, the net pension liability for the Board was \$8,162,649 at December 31, 2017, as determined by the Louisiana State Employees' Retirement System (LASERS). The related actuarial valuations were performed by LASERS's actuaries using various assumptions. Because actual experience may differ from the assumptions used, there is a risk that this amount at December 31, 2017, could be under or overstated.

As discussed in notes 1-K and 6 to the financial statements, the Board implemented Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – superseding portions of GASB Statement No. 45 and GASB Statement No. 57*, for the year ended December 31, 2017. The adoption of these standards required the Board to record its proportionate share of other postemployment benefits related to its participation in a defined-benefit, multiple-employer other postemployment benefit plan, restating the previous year. As a result of the implementation, the Board's net position decreased by \$1,895,381.

Our opinion is not modified with respect to the matters emphasized above.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9, the Schedule of the Board's Proportionate Share of the Net Pension Liability on page 31, the Schedule of Board Contributions on page 31, and the Schedule of the Board's Proportionate Share of the Total Collective OPEB Liability on page 32 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, 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 inquiries 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.

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 to Board Members on page 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Per Diem Paid to 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 to 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 September 4, 2018, 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 solely 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 effectiveness of the Board's internal control over financial reporting or on compliance. That 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,



Thomas H. Cole, CPA
First Assistant Legislative Auditor

MANAGEMENT’S DISCUSSION AND ANALYSIS

INTRODUCTION

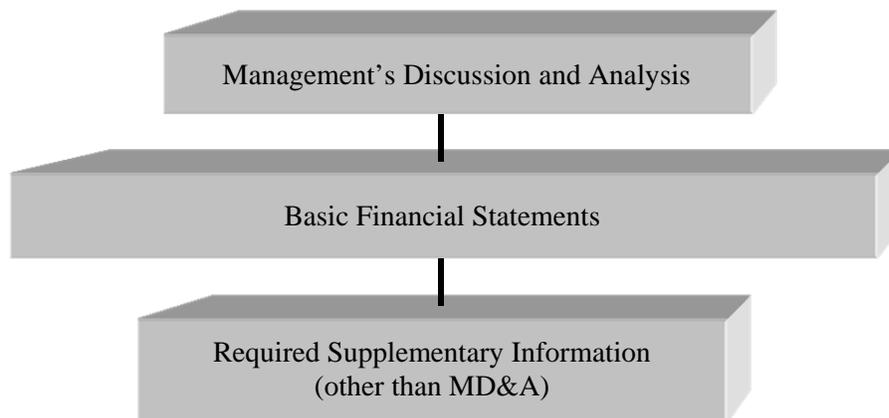
Management’s Discussion and Analysis of the Louisiana State Board of Medical Examiners’ (Board) financial performance presents a narrative overview and analysis of the Board’s financial activities for the year ended December 31, 2017. This document focuses on the current-year’s activities, resulting changes, and currently-known facts in comparison with the prior-year’s information. Please read this document in conjunction with the Board’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Board’s assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2017 by \$919,322, and net position decreased by \$570,195.
- The Board’s operating revenue increased by \$556,800, or 7.66%, and the Board’s operating expenses decreased by \$362,173, or 5.29%, resulting in increased operating income of \$918,973, or 219%.
- Although the Board’s operating income increased in 2017, the reduction in the Board’s ending net position was primarily due to a \$2 million restatement of the Board’s liability for other postemployment employment benefits (OPEB) resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for government entities engaged in business-type activities established by GASB.



These financial statements consist of three sections – Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements), and required supplementary information. This report also contains supplementary information in addition to the basic financial statements.

The Board's activities are reported in a single proprietary fund. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Board's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred.

Basic Financial Statements

The basic financial statements present information for the Board as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

This statement presents the current and long-term portions of assets, deferred outflows of resources, the current and long-term portions of liabilities, and deferred inflows of resources, with the difference reported as net position and may provide a useful indicator of whether the Board's financial position is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents information showing how the Board's net position changed as a result of current-year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

Statement of Cash Flows

This statement presents information showing how the Board's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB Statement No. 34.

FINANCIAL ANALYSIS OF THE ENTITY

The condensed statements of net position consist of the following at December 31:

Statement of Net Position				
As of December 31, 2017, and December 31, 2016				
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current assets	\$6,047,718	\$4,840,523	\$1,207,195	24.94%
Noncurrent assets	<u>9,038,333</u>	<u>9,088,731</u>	<u>(50,398)</u>	<u>(0.55%)</u>
Total assets	<u>15,086,051</u>	<u>13,929,254</u>	<u>1,156,797</u>	<u>8.30%</u>
Deferred outflows of resources	<u>1,349,381</u>	<u>1,417,802</u>	<u>(68,421)</u>	<u>(4.83%)</u>
Liabilities				
Current liabilities	559,195	423,834	135,361	31.94%
Noncurrent liabilities	<u>14,017,700</u>	<u>12,459,910</u>	<u>1,557,790</u>	<u>12.50%</u>
Total liabilities	<u>14,576,895</u>	<u>12,883,744</u>	<u>1,693,151</u>	<u>13.14%</u>
Deferred inflows of resources	<u>939,215</u>	<u>973,795</u>	<u>(34,580)</u>	<u>(3.55%)</u>
Net position:				
Investment in capital assets	6,269,648	6,576,550	(306,902)	(4.67%)
Restricted	2,235,608	1,676,005	559,603	33.39%
Unrestricted	<u>(7,585,934)</u>	<u>(6,763,038)</u>	<u>(822,896)</u>	<u>(12.17%)</u>
Total net position	<u>\$919,322</u>	<u>\$1,489,517</u>	<u>(\$570,195)</u>	<u>(38.28%)</u>

The investment in capital assets consists of capital assets net of accumulated depreciation. Restricted net position represents those assets that are not available for spending as a result of legislative requirements. Conversely, unrestricted net position represent assets that do not have any limitations on how these amounts may be spent.

Total liabilities increased by \$1,693,151, or 13.14%, from December 31, 2016, to December 31, 2017. The primary reason for the increase is the implementation of GASB Statement No. 75, which changed the reporting requirements for OPEB.

Net position decreased by \$570,195, or 38.28%, due to the increase in liabilities for OPEB that are offset by increases in operating income as explained in the following section.

The condensed statements of revenues, expenses, and changes in net position consist of the following for the years ended December 31:

**Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017, and December 31, 2016**

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues	\$7,825,515	\$7,268,715	\$556,800	7.66%
Operating expenses	<u>6,487,468</u>	<u>6,849,641</u>	<u>(362,173)</u>	<u>(5.29%)</u>
Operating income	<u>1,338,047</u>	<u>419,074</u>	<u>918,973</u>	<u>219.29%</u>
Nonoperating revenues	<u>7,654</u>	<u>4,008</u>	<u>3,646</u>	<u>90.97%</u>
Change in net position	1,345,701	423,082	922,619	218.07%
Net position at beginning of year	1,489,517	(1,949,851)	3,439,368	176.39%
Prior period adjustments	<u>(1,915,896)</u>	<u>3,016,286</u>	<u>(4,932,182)</u>	<u>(163.52%)</u>
Net Position, end of year	<u><u>\$919,322</u></u>	<u><u>\$1,489,517</u></u>	<u><u>(\$570,195)</u></u>	<u><u>(38.28%)</u></u>

The Board's operating revenues increased by \$556,800, or 7.66%. This is predominately due to increases in revenues from licenses, permits, and fees. Operating expenses decreased by \$362,173, or 5.29%. This is predominately due to decreases in contracted professional services.

CAPITAL ASSETS

As of December 31, 2017, the Board had \$6,269,648 invested in a broad range of capital assets, including land, buildings, furniture, fixtures, computer equipment, and computer software. This amount represents a net decrease (including additions and deductions) of \$306,903 over the past year.

DEBT ADMINISTRATION

The Board had no bonds or notes outstanding. The Board's noncurrent liabilities consist of compensated absences, amounts for the Board's proportionate share of the Louisiana State Employees' Retirement System's actuarially accrued net pension liability, and of the actuarially accrued liability for OPEB.

VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGET

The Board is required to submit an annual budget to the Joint Legislative Committee on the Budget as required by the Louisiana Licensing Agency Budget Act. Actual revenues for 2017 approximated budgeted revenues and actual expenses were approximately 17% under-budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board has made significant investments in its information technology infrastructure that supports its core mission, investigations, and overall day-to-day operations. These investments will (1) decrease the amount of time between application and licensure; (2) ensure connectivity with national databases; (3) increase and improve online services for licensees; (4) safeguard continuity of information within the Board's divisions (i.e., Licensure and Investigations); (5) provide more and greater dissemination and access of information of interest to the public; and (6) reduce the overall cost of operations. The Board will continue to identify opportunities for automation and modernization to develop efficiencies within the agency. For 2018, the Board has budgeted its expenses at \$7.3 million.

CONTACTING THE BOARD'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Board's finances and demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Denise Businelle
Director of Operations
P.O. Box 30250
New Orleans, LA 30250
www.lsbme.la.gov

**LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
STATE OF LOUISIANA**

Statement of Net Position, December 31, 2017

ASSETS

Current assets:

Cash (note 2)	\$6,024,885
Receivables, net (note 3)	8,170
Prepayments	14,663
Total current assets	<u>6,047,718</u>

Noncurrent assets:

Restricted cash (note 2)	2,768,685
Capital assets, net (note 4)	6,269,648
Total noncurrent assets	<u>9,038,333</u>
Total assets	<u>15,086,051</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions (note 7)	1,280,708
Deferred outflows related to other postemployment benefits (OPEB) (note 8)	68,673
Total deferred outflows of resources	<u>1,349,381</u>

LIABILITIES

Current liabilities:

Accounts payable	195,989
Accrued payroll expenses	269,120
Current portion of long-term liabilities - compensated absences payable (note 5)	94,086
Total current liabilities	<u>559,195</u>

Noncurrent liabilities:

Compensated absences payable (note 5)	167,277
Net pension liability (note 7)	8,162,649
Total OPEB liability (note 8)	5,687,774
Total noncurrent liabilities	<u>14,017,700</u>
Total liabilities	<u>14,576,895</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (note 7)	598,408
Deferred inflows related to OPEB (note 8)	340,807
Total deferred inflows of resources	<u>939,215</u>

NET POSITION

Investment in capital assets	6,269,648
Restricted	2,235,608
Unrestricted	(7,585,934)
Total net position	<u>\$919,322</u>

The accompanying notes are an integral part of this statement.

**LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
STATE OF LOUISIANA**

**Statement of Revenues, Expenses,
and Changes in Net Position
For the Year Ended December 31, 2017**

OPERATING REVENUES

Licenses, permits, and fees	\$7,670,098
Other income	155,417
Total operating revenues	<u>7,825,515</u>

OPERATING EXPENSES

Personnel services and related benefits	3,781,162
Contractual services	580,549
Travel	52,266
Operating services	766,215
Supplies	43,759
Professional services	923,676
Depreciation (note 4)	339,841
Total operating expenses	<u>6,487,468</u>

OPERATING INCOME

1,338,047

NONOPERATING REVENUES

Interest earnings	7,654
Total nonoperating revenues	<u>7,654</u>

Change in net position

1,345,701

NET POSITION - BEGINNING OF YEAR, Restated (note 6)

(426,379)

NET POSITION - END OF YEAR

\$919,322

The accompanying notes are an integral part of this statement.

**LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended December 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$7,860,304
Cash payments to suppliers for goods and services	(2,351,725)
Cash payments to employees for services	(3,967,641)
Net cash provided by operating activities	<u>1,540,938</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	<u>(32,938)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>7,654</u>
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NET INCREASE IN CASH

1,515,654

CASH AT BEGINNING OF YEAR

7,277,916

CASH AT END OF YEAR

\$8,793,570

**Reconciliation of operating income to net cash provided
by operating activities:**

Operating Income	<u>\$1,338,047</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	339,841
Changes in assets and liabilities:	
Decrease in receivables	34,789
Decrease in prepayments	17,165
Decrease in deferred outflows related to pensions	137,094
(Increase) in deferred outflows related to other postemployment benefits (OPEB)	(881)
(Decrease) in accounts payable	(2,425)
Increase in accrued payroll expenses	105,647
Increase in compensated absences payable	10,361
(Decrease) in net pension liability	(153,989)
(Decrease) in total OPEB liability	(250,131)
(Decrease) in deferred inflows related to pensions	(375,387)
Increase in deferred inflows related to OPEB	<u>340,807</u>
Total adjustments	<u>202,891</u>
Net cash provided by operating activities	<u><u>\$1,540,938</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Louisiana State Board of Medical Examiners (Board) is a component unit of the State of Louisiana created within the Louisiana Department of Health, as provided by Louisiana Revised Statute (R.S.) 37:1261-1292.

The Board is charged with the responsibility of administering practice acts providing for the licensure of Doctors of Medicine, Doctors of Osteopathy, Doctors of Podiatry, Physician Assistants, Acupuncturists, Acupuncturists Assistants, Occupational Therapists, Occupational Therapy Assistants, Respiratory Therapists, Respiratory Therapist Technicians, Midwives, Clinical Exercise Physiologists, Athletic Trainers, Radiological Technologists, Emergency Medical Technicians (Intermediate and Paramedic), and Clinical Laboratory Personnel. Operations of the Board are funded entirely through self-generated revenues.

As to all professions over which it has jurisdiction, the Board's principal functions are essentially the same and include the following:

- Licensing/Certification. The Board examines applicants for licensure or certification to validate minimum competence for practice by verifying that they possess the educational and other credentials prescribed by statute and Board rules, investigation of the applicant's licensure status and history in other jurisdictions, and by examination. Licenses/certifications are generally renewed annually (some biannually) pursuant to re-verification of certain requirements and conditions. Renewals for some categories are on a calendar year basis, but the majority is based on a birth month schedule.
- Regulations. Pursuant to its rulemaking authority under the practices acts it administers, and in accordance with the Administrative Procedures Act, the Board promulgates procedural rules implementing its licensing/certification authority and substantive rules regulating practice.
- Enforcement. The Board investigates consumer, patient and licensee complaints and alleged or indicated violations of the several practices acts and, upon a finding of probable cause initiates and conducts administrative disciplinary proceedings to adjudicate whether legal cause exists for the suspension, revocation or imposition of probationary terms and/or conditions on any license or certification. The Board's disciplinary authority includes limited authority to impose monetary fines and obtain reimbursement of costs and attorney fees incurred by the Board in the investigation and prosecution of licensees. The Board also possesses and employs authority to take action against unauthorized practitioners by means of civil injunctive proceedings.

- Advisory Rulings. The Board serves an informational and advisory role to the public, its constituent licensees and State government by providing declaratory rulings, advisory opinions and Statements of Position on various medical/legal issues within its jurisdiction.
- Other Activities. The Board participates in a Physicians Health Program, jointly organized and conducted with the Louisiana State Medical Society, to identify physically or mentally impaired (or potentially impaired) physicians toward securing timely treatment and rehabilitation for the protection of the public.

The Board is composed of seven voting members that are physicians appointed for four-year terms by the governor and subject to Senate confirmation as follows:

- (a) Two members from a list of names submitted by the Louisiana State Medical Society. One of the members appointed shall practice in a parish or municipality with a population of less than twenty thousand people.
- (b) One member from a list of names submitted by the Louisiana State University Health Sciences Center at New Orleans and the Louisiana State University Health Sciences Center at Shreveport.
- (c) One member from a list of names submitted by the Tulane Medical School.
- (d) Two members from a list submitted by the Louisiana Medical Association.
- (e) One member from a list submitted by the Louisiana Academy of Family Practice Physicians.

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 and that the Board is placed within the Louisiana Department of Health. The accompanying financial statements include only the operations of the Board.

Annually, the State of Louisiana issues a basic financial statement, which includes the activity contained in the accompanying financial statement. The basic financial statement is issued by the Louisiana Division of Administration - Office of Statewide Reporting and Accounting Policy and audited by the Louisiana Legislative Auditor.

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 with 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 accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the 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 the Board's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Board consist of licenses, permits, and fees. Operating expenses include administrative expenses and depreciation on capital assets.

D. NET POSITION

Net position comprises the various net earnings from operations, nonoperating revenues, and expenses. The Board's net position is classified in the following components:

- Investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation. The Board has no related debt attributable to its capital assets.
- Restricted net position consists of amounts with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation
- Unrestricted net position consists of all other amounts that do not meet the definition of restricted net position or investment in capital assets.

The Board's restricted net position as of December 31, 2017, resulting from legislative requirements, includes the following: Clinical Lab - \$1,194,933; Physicians Health Program - \$388,701; and Continuing Medical Education - \$651,974. It is the Board's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

E. 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.

F. CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Net Position and Statement of Cash Flows, cash and cash equivalents include all demand, savings accounts, and certificates of deposits of the Board with an original maturity of 90 days or less.

G. CAPITAL ASSETS

Capital assets are recorded at cost at their date of acquisition or their estimated fair value at the date of donation. For movable property, the Board's capitalization policy includes all items with a cost of \$5,000 or more. Depreciation is computed using the straight-line method over the estimated useful life of the assets, 40 years for buildings, and generally three to 10 years for furniture, fixtures, and equipment. Repairs and maintenance items are expensed as incurred.

H. COMPENSATED ABSENCES

Employees of the Board earn and accumulate vacation and sick leave at varying rates, depending upon their years of service. The amount of vacation 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 vacation leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused vacation leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

I. NONCURRENT LIABILITIES

Noncurrent liabilities consist of compensated absences, amounts for the Board's proportionate share of the Louisiana State Employees' Retirement System's (LASERS) actuarially accrued net pension liability, and of the actuarially accrued liability for other postemployment benefits (OPEB).

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of LASERS, and additions to/deductions from the retirement systems' fiduciary net position have been determined on the same basis as they are reported by the retirement system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Synthetic guaranteed investment contracts are reported at contract value. All other investments are reported at fair value.

J. REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

K. ADOPTION OF NEW ACCOUNTING PRINCIPLES

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the Board for the year ended December 31, 2017. This statement changed the accounting and financial reporting for postemployment benefits other than pensions (OPEB) that are provided to employees who participate in the state's multiple-employer OPEB plan. The cumulative effect of applying this statement is reported as a restatement of beginning net position for 2017 (see note 6). The restatement of all prior-year deferred outflows and inflows was not practical, so only deferred outflows related to 2016 contributions that were made subsequent to June 30, 2016, were recorded at implementation.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law the Board may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the Board may invest in time certificates of deposit in any bank domiciled or having a branch office in the State of Louisiana; in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts or federally or state chartered credit unions.

Deposits in bank accounts are stated at cost, which approximates market. Under state law these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The 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 pledged securities are held in the name of the pledging fiscal agent bank in a holding custodial bank in the form of safekeeping receipts.

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned to the Board. As of December 31, 2017, \$8,416,121 of the Board's bank balance of \$8,666,121 was exposed to custodial credit risk because the deposits were uninsured and collateralized with securities held by the pledging institution's trust department or agent but not in the Board's name.

3. ACCOUNTS RECEIVABLE

At December 31, 2017, the Board had net receivable balances as follows:

Class of Receivables	General	Restricted	Total
License fees and other assessments	\$62,487	\$300	\$62,787
Allowance for uncollectible accounts	<u>(54,317)</u>	<u>(300)</u>	<u>(54,617)</u>
Total	<u>\$8,170</u>	<u>\$0</u>	<u>\$8,170</u>

The allowance for uncollectible accounts includes all receivables greater than 90 days old.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance			Balance
	<u>Dec. 31, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2017</u>
Capital assets not being depreciated:				
Land	<u>\$100,000</u>			<u>\$100,000</u>
Capital assets being depreciated:				
Building	882,679			882,679
Building improvements	7,007,703			7,007,703
Furniture and equipment	1,223,979	\$32,938		1,256,917
Vehicle	<u>17,131</u>			<u>17,131</u>
Total capital assets being depreciated	<u>9,131,492</u>	<u>32,938</u>		<u>9,164,430</u>
Less accumulated depreciation	<u>(2,654,941)</u>	<u>(339,841)</u>		<u>(2,994,782)</u>
Total capital assets, net	<u>\$6,576,551</u>	<u>(\$306,903)</u>	<u>NONE</u>	<u>\$6,269,648</u>

5. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities of the Board for the year ended December 31, 2017:

	Balance Dec. 31, 2016	Additions	Reductions	Balance Dec. 31, 2017	Amounts Due Within One Year
Compensated absences	\$251,002	\$173,869	(\$163,508)	\$261,363	\$94,086
Total long-term liabilities**	<u>\$251,002</u>	<u>\$173,869</u>	<u>(\$163,508)</u>	<u>\$261,363</u>	<u>\$94,086</u>

**Changes in long-term liabilities for Pension and Other Postemployment Benefits can be found in notes 7 and 8.

6. RESTATEMENT OF NET POSITION

Net position at December 31, 2016	\$1,489,517
Correction of error in accrued payroll expense	(20,515)
GASB Statement No. 75 - Total OPEB liability	(1,963,173)
GASB Statement No. 75 - Beginning Deferred Outflows	<u>67,792</u>
Net position at December 31, 2016, as restated	<u>(\$426,379)</u>

7. PENSION PLAN

The Board is a participating employer in a state public employee retirement system, the Louisiana State Employees' Retirement System (LASERS). LASERS has a separate board of trustees and administers a cost-sharing, multiple-employer defined benefit pension plan, including classes of employees with different benefits and contribution rates (sub-plans). Article X, Section 29(F) of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions of all sub-plans administered by LASERS to the State Legislature. LASERS issues a public report that includes financial statements and required supplementary information, and a copy of the report may be obtained at www.lasersonline.org.

General Information about the Pension Plan

Plan Description and Benefits Provided

LASERS administers a plan to provide retirement, disability, and survivor benefits to eligible state employees and their beneficiaries as defined in R.S. 11:411-414. Act 992 of the 2010 Regular Legislative Session closed existing sub-plans for members hired before January 1, 2011, and created new sub-plans for regular members, hazardous duty members, and judges. Act 226 of the 2014 Louisiana Regular Legislative Session established new retirement eligibility for members of LASERS hired on or after July 1, 2015, excluding hazardous duty plan members. The age and years of creditable service required for a member to receive retirement benefits are established by R.S. 11:441 and vary depending on the member's hire date, employer and job classification. The computation of retirement benefits is defined in R.S. 11:444.

The substantial majority of the Board's members are regular plan members. Regular plan members hired prior to July 1, 2006, may retire with full benefits at any age upon completing 30 years of service, at age 55 upon completing 25 years of service, and at age 60 upon completing 10 years of service. Regular plan members hired from July 1, 2006, through June 30, 2015, may retire with full benefits at age 60 upon completing 5 years of service. Regular plan members hired on or after July 1, 2015, may retire with full benefits at age 62 upon completing 5 years of service. Additionally, all members may choose to retire with 20 years of service at any age, with an actuarially reduced benefit. The basic annual retirement benefit for regular plan members is equal to 2.5% of average compensation multiplied by the number of years of service, generally not to exceed 100% of average compensation. Average compensation for regular plan members is defined in R.S. 11:403 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. A member leaving service before attaining minimum retirement age but after completing certain minimum service requirements, generally 10 years, becomes eligible for a benefit provided the member lives to the minimum service retirement age and does not withdraw the accumulated contributions. The minimum service requirement for benefits varies depending upon the member's employer and service classification.

Eligibility requirements and benefit computations for disability benefits are provided for in R.S. 11:461. Generally, active regular plan members with ten or more years of credited service who become disabled may receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age. Upon reaching age 60, the disability retiree may receive a regular retirement benefit by making application to the LASERS Board of Trustees.

Provisions for survivor benefits are provided for in R.S. 11:471-478. Under these statutes, the deceased member, hired before January 1, 2011, who was in state service at the time of death must have a minimum of five years of service, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age 18 or age 23 if the child remains a full-time student. The minimum service requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the spouse or qualified handicapped child. The deceased member, hired on or after January 1, 2011, must have a minimum of five years of service credit regardless of when earned in order for a benefit to be paid to a minor child. The minimum service credits for a surviving spouse include active service at the time of death and a minimum of ten years of service credit with two years being earned immediately prior to death, or a minimum of 20 years regardless of when earned. In addition, the deceased member's spouse must have been married for at least one year before death.

LASERS has established a Deferred Retirement Option Plan (DROP). When a member enters DROP, their status changes from active member to retiree even though they continue to work and draw their salary for a period up to three years. The election is irrevocable once participation begins. During participation, benefits otherwise payable are fixed and deposited in

an individual DROP account. Upon leaving DROP, members must choose among available alternatives for the distribution of benefits that have accumulated in their DROP accounts.

Members eligible to retire and who do not choose to participate in DROP may elect to receive at the time of retirement an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits.

Cost of Living Adjustments

As fully described in Title 11 of the Louisiana Revised Statutes, LASERS allows for the payment of cost of living adjustments, or COLAs, that are funded through investment earnings when recommended by the board of trustees and approved by the Legislature. The projected benefit payments do not include provisions for potential future increases not yet authorized by the board of trustees as these ad hoc COLAs were deemed not to be substantively automatic.

Contributions

Employee contribution rates are established by R.S. 11.62. Employer contribution rates are established annually under R.S. 11:101-11:104 by the Public Retirement Systems' Actuarial Committee (PRSAC), taking into consideration the recommendation of the pension system actuary. Employer contribution rates are constitutionally required to cover the employer's portion of the normal cost and provide for the amortization of the unfunded accrued liability. Each LASERS plan pays a separate actuarially-determined employer contribution rate. However, all assets of LASERS are used for the payment of benefits for all classes of members, regardless of their plan membership.

Employer contributions to LASERS for 2017 were \$846,544, with regular plan active member contributions ranging from 7.5% to 8%, and employer contributions of 35.8% of covered payroll for January through June and 37.90% of covered payroll for July through December.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the Board reported a liability of \$8,162,649 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date. The Board's proportion of the net pension liability was based on projections of the Board's long-term share of contributions to the pension plan relative to the projected contribution of all participating employers, actuarially determined. As of June 30, 2017, the most recent measurement date, the Board's proportion and the change in proportion from the prior measurement date were 0.11597%, or an increase of 0.01006%.

For the year ended December 31, 2017, the Board recognized a total pension expense of \$454,259. The Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$149,775
Changes of assumptions	\$32,248	
Net difference between projected and actual earnings on pension plan investments	265,434	
Changes in proportion and differences between employer contributions and proportionate share of contributions	473,753	448,633
Employer contributions subsequent to the measurement date	509,273	
Total	<u>\$1,280,708</u>	<u>\$598,408</u>

Deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Net Amount Recognized in Pension Expense</u>
2018	(\$221,186)
2019	\$452,324
2020	\$106,222
2021	(\$164,333)

Actuarial Assumptions and Methodologies

The total pension liability for LASERS in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and methodologies, applied to all periods included in the measurements:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Approach	Closed
Expected Remaining Service Lives	3 years
Investment Rate of Return	7.70% per annum, net of investment exp.
Inflation Rate	2.75% per annum
Mortality - Non-disabled	RP-2000 Combined Healthy Mortality Table, improvement projected to 2015
Mortality - Disabled	RP-2000 Disabled Retiree Mortality Table, no projection for improvement
Termination, Disability, Retirement	2009-2013 experience study
Salary Increases	2009-2013 experience study, ranging from 2.8% to 14.3%
Cost of Living Adjustments	Not substantively automatic

There were several changes in assumptions for the June 30, 2017, valuation. The Board adopted a plan to gradually reduce the discount rate from 7.75% to 7.50% in .05% annual increments, beginning July 1, 2017. Therefore, the discount rate was reduced from 7.75% to 7.70% for the June 30, 2017, valuation. A 7.65% discount rate was used to determine the projected contribution requirements for fiscal year 2018/2019. The Board reduced the inflation assumption from 3.0% to 2.75%, effective July 1, 2017. Since the inflation assumption is a component of the salary increase assumption, all salary increase assumptions decreased by .25%. In addition, the projected contribution requirement for fiscal year 2018/2019 includes direct funding of administrative expenses, rather than a reduction in the assumed rate of return, per Act 94 of 2016.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3.25% and an adjustment for the effect of rebalancing/diversification. The resulting expected long-term rate of return is 8.69%. The target allocation and best estimate of geometric real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	0.00%	(0.24%)
Domestic equity	25.00%	4.31%
International equity	32.00%	5.35%
Domestic fixed income	8.00%	1.73%
International fixed income	6.00%	2.49%
Alternative investments	22.00%	7.41%
Global tactical asset allocation	7.00%	2.84%
Total	<u>100.0%</u>	<u>5.26%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from participating employers will be made at the actuarially determined rates approved by PRSAC taking into consideration the recommendation of the System's actuary. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the NPL to changes in the discount rate

The following presents the Board's proportionate share of the net pension liability using the current discount rate as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	1.0% Decrease	Current Discount Rate	1.0% Increase
	(6.70%)	(7.70%)	(8.70%)
Proportionate share of net pension liability	\$10,247,281	\$8,162,649	\$6,390,219

Pension plan fiduciary net position

Detailed information about LASERS fiduciary net position is available in the separately issued financial report at www.lasersonline.org.

Payables to LASERS

At December 31, 2017, the Board had \$122,105 in payables to LASERS for the December 2017 employee and employer legally-required contributions.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**General Information about the OPEB Plan**Plan Description and Benefits Provided

The Office of Group Benefits (OGB) administers the State of Louisiana Post-Retirement Benefits Plan – a defined-benefit, multiple-employer other postemployment benefit plan. The plan provides medical, prescription drug, and life insurance benefits to retirees, disabled retirees, and their eligible beneficiaries through premium subsidies. Current employees, who participate

in an OGB health plan while active, are eligible for plan benefits if they are enrolled in the OGB health plan immediately before the date of retirement and retire under one of the state sponsored retirement systems (Louisiana State Employees' Retirement System, Teachers' Retirement System of Louisiana, Louisiana School Employees' Retirement System, or Louisiana State Police Retirement System,) or they retire from a participating employer that meets the qualifications in the Louisiana Administrative Code 32:3.303. Benefit provisions are established under R.S. 42:851 for health insurance benefits and R.S. 42:821 for life insurance benefits. The obligations of the plan members, employer(s), and other contributing entities to contribute to the plan are established or may be amended under the authority of R.S. 42:802.

There are no assets accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement 75. Effective July 1, 2008, an OPEB trust fund was statutorily established; however, this plan is not administered as a trust and no plan assets have been accumulated as of June 30, 2018. The plan is funded on a "pay-as-you-go basis" under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments become due.

Employer contributions are based on plan premiums and the employer contribution percentage. Premium amounts vary depending on the health plan selected and if the retired member has Medicare coverage. OGB offers retirees four self-insured healthcare plans and one fully insured plan. Retired employees who have Medicare Part A and Part B coverage also have access to four fully insured Medicare Advantage plans.

The employer contribution percentage is based on the date of participation in an OGB plan 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 retiree is based on the following schedule:

OGB Participation	Employer Share	Retiree Share
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. Employers pay approximately 50% of monthly premiums for individual retirees. The retiree is responsible for 100% of the premium for dependents. Effective January 1, 2018, the total monthly premium for retirees varies according to age group.

Total Collective OPEB Liability and Changes in Total Collective OPEB Liability

At December 31, 2017, the Board reported a liability of \$5,687,774 for its proportionate share of the total collective OPEB liability. The total collective OPEB liability was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date. The Board's proportionate share of the restated total collective OPEB liability at December 31, 2016, totaling \$5,937,905, was determined using a roll back of the same valuation to July 1, 2016, using the discount rate applicable on that date, and assuming no experience gains or losses.

The Board's proportionate share percentage is based on the employer's individual OPEB actuarial accrued liability in relation to the total OPEB actuarial accrued liability for all participating entities included in the State of Louisiana reporting entity. At December 31, 2017, the Board's proportion was 0.0654%. Because the beginning balance was restated using a roll back of the July 1, 2017, valuation assuming no experience gains or losses, there is no change to the proportion since the prior measurement date.

The total collective OPEB liability in the July 1, 2017, actuarial valuation was determined using the following actuarial methods, assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial Cost Method – Entry Age Normal, level percentage of pay
- Estimated Remaining Service Lives – 4.48
- Inflation rate – Consumer Price Index (CPI) 2.8%
- Salary increase rate – consistent with the pension plan disclosed in note 7
- Discount rate – 3.13% based on June 30, 2017, Standard & Poor's 20-year municipal bond index rate
- Mortality rates - based on the RP-2014 Combined Healthy Mortality Table, or RP-2014 Disabled Retiree Mortality Table; both tables projected on a fully generational basis by Mortality Improvement Scale MP-2017.
- Healthcare cost trend rates – 7% for pre-Medicare eligible employees grading down by .25% each year, beginning in 2020-2021, to an ultimate rate of 4.5% in 2029; 5.5% for post-Medicare eligible employees grading down by .25% each year, beginning in 2020-2021, to an ultimate rate of 4.5% in 2023-2024 and thereafter; the initial trend was developed using the National Health Care Trend Survey; the ultimate trend was developed using a building block approach which considers Consumer Price Index, Gross Domestic Product, and technology growth.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.71% as of July 1, 2016, to 3.13% as of July 1, 2017.

Sensitivity of the proportionate share of the total collective OPEB liability to changes in the discount rate

The following presents the Board's proportionate share of the total collective OPEB liability using the current discount rate as well as what the Board's proportionate share of the total collective OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	<u>1.0% Decrease</u>	<u>Current Discount Rate</u>	<u>1.0% Increase</u>
	(2.13%)	(3.13%)	(4.13%)
Proportionate Share of Total Collective OPEB Liability	<u>\$6,678,591</u>	<u>\$5,687,774</u>	<u>\$4,906,126</u>

Sensitivity of the proportionate share of the total collective OPEB liability to changes in the healthcare cost trend rates

The following presents the Board's proportionate share of the total collective OPEB liability using the current healthcare cost trend rates as well as what the Board's proportionate share of the total collective OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current rates:

	<u>1.0% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1.0% Increase</u>
	(6% decreasing to 3.5%)	(7% decreasing to 4.5%)	(8% decreasing to 5.5%)
Proportionate Share of Total Collective OPEB Liability	<u>\$4,902,284</u>	<u>\$5,687,774</u>	<u>\$6,694,167</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2017, the Board recognized OPEB expense of \$225,977. At December 31, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions or other inputs		\$300,566
Differences between benefit payments and proportionate share of benefit payments		40,241
Amounts paid by the employer for OPEB subsequent to the measurement date	<u>\$68,673</u>	<u> </u>
Total	<u><u>\$68,673</u></u>	<u><u>\$340,807</u></u>

Deferred outflows of resources related to OPEB resulting from the Board's benefit payments subsequent to the measurement date will be recognized as a reduction of the total collective OPEB liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and/or deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Net Amount Recognized in OPEB Expense</u>
2018	(\$97,933)
2019	(\$97,933)
2020	(\$97,933)
2021	(\$47,008)

9. 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 the state's general fund appropriations.

There is no pending litigation or claim against the Board at December 31, 2017, 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.

10. SUBSEQUENT EVENTS

Effective August 1, 2018, Act 599 of the 2018 Regular Legislative Session increased the Board membership from seven to 10 voting members. The members now include:

- Two members from a list of names submitted by the Louisiana State Medical Society. One of the members appointed shall practice in a parish or municipality with a population of less than twenty thousand people.
- One member from a list of names submitted by the Louisiana State University Health Sciences Center at New Orleans, with at least every other member being a minority appointee.
- One member from a list of names submitted by the Louisiana State University Health Sciences Center at Shreveport, with at least every other member being a minority appointee.
- One member from a list of names submitted by the Tulane Medical School.
- Two members from a list submitted by the Louisiana Medical Association.
- One member from a list submitted by the Louisiana Academy of Family Practice Physicians.
- One member from a list submitted by the Louisiana Hospital Association, with at least every other member being a minority appointee.
- One consumer member, with at least every other member being a minority appointee.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Board's Proportionate Share of the Net Pension Liability

Schedule 1 presents the Board's Net Pension Liability.

Schedule of Board Contributions

Schedule 2 presents the amount of contributions the Board made to the pension system.

Schedule of the Board's Proportionate Share of the Total Collective OPEB Liability

Schedule 3 presents the Board's Other Postemployment Benefits Plan.

**LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
STATE OF LOUISIANA**

**Schedule of the Board's Proportionate Share
of the Net Pension Liability
For the Year Ended December 31, 2017**

Schedule 1

Fiscal Year*	Board's proportion of the net pension liability	Board's proportionate share of the net pension liability	Board's covered payroll	Board's proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
Louisiana State Employees' Retirement System (LASERS)					
2015	0.12386%	\$8,424,146	\$2,350,749	358%	62.7%
2016	0.10591%	\$8,316,638	\$2,072,889	401%	57.7%
2017	0.11597%	\$8,162,649	\$2,093,495	390%	62.5%

*Amounts presented were determined as of the measurement date (June 30) of the net pension liability.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Schedule of Board Contributions
For the Year Ended December 31, 2017**

Schedule 2

Fiscal Year*	(a) Statutorily-Required Contribution	(b) Contributions in relation to the statutorily-required contribution	(a-b) Contribution Deficiency (Excess)	Board's covered payroll	Contributions as a percentage of covered payroll
Louisiana State Employees' Retirement System (LASERS)					
2015	\$831,807 **	\$831,807	NONE**	\$2,350,749	35.4%
2016	\$756,599	\$756,599	NONE	\$2,072,889	36.5%
2017	\$846,544	\$846,544	NONE	\$2,276,469	37.2%

*Amounts presented were determined as of the end of the Board's fiscal year (December 31).

**Restated

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information (Schedules 1 and 2)

Changes of Benefit Terms include:

2016 A 1.5% COLA, effective July 1, 2016, provided by Acts 93 and 512 of the 2016 Louisiana Regular Legislative Session,

Changes of Assumptions include:

2017 There were several changes in assumptions for the June 30, 2017, valuation. The Board adopted a plan to gradually reduce the discount rate from 7.75% to 7.50% in .05% annual increments, beginning July 1, 2017. Therefore, the discount rate was reduced from 7.75% to 7.70% for the June 30, 2017, valuation. A 7.65% discount rate was used to determine the projected contribution requirements for fiscal year 2018/2019. The Board reduced the inflation assumption from 3.0% to 2.75%, effective July 1, 2017. Since the inflation assumption is a component of the salary increase assumption, all salary increase assumptions decreased by .25%. In addition, the projected contribution requirement for fiscal year 2018/2019 includes direct funding of administrative expenses, rather than a reduction in the assumed rate of return, per Act 94 of 2016.

**LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
STATE OF LOUISIANA**

**Schedule of the Board's Proportionate Share
of the Total Collective OPEB Liability
For the Year Ended December 31, 2017**

	Fiscal Year*	
	2017	2016
Board's proportion of the total collective OPEB liability	0.0654%	0.0654%
Board's proportionate share of the total collective OPEB liability	\$5,687,774	\$5,937,905
Board's covered-employee payroll	\$2,103,520	\$2,097,466
Board's proportionate share of the total collective OPEB liability as a percentage of the covered-employee payroll	270.39%	283.10%

*The amounts presented were determined as of the measurement date (July 1).

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information (Schedule 3)

There are no assets accumulated in a trust that meets the requirements in paragraph 4 of GASB Statement 75 to pay related benefits.

Changes in assumptions -

In the valuation for 2017, the discount rate increased from 2.71% to 3.13%.

SUPPLEMENTARY INFORMATION

Schedule of Per Diem Paid to Board Members For the Year Ended December 31, 2017

The Schedule of Per Diem Paid to Board Members (Schedule 4) is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Regular Session of the Louisiana Legislature. As authorized by Louisiana Revised Statute 37:1268, each board member shall be reimbursed when actually in attendance at a board meeting, when performing work related to the Board, or when required to travel for the official authorized business of the Board, and such reimbursement shall not exceed \$100 per day.

**LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
STATE OF LOUISIANA****Schedule of Per Diem Paid to Board Members
For the Year Ended December 31, 2017**

Name	Amount
Dr. Kweli Amusa	\$16,600
Dr. Roderick Clark	1,900
Dr. Mark Dawson	2,800
Dr. Kenneth Farris	5,900
Dr. Joseph Howell	1,200
Dr. Christy Valentine	200
Dr. Daniel Winstead	<u>600</u>
Total	<u><u>\$29,200</u></u>

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Exhibit A

The following pages contain a report on internal control over financial reporting 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

September 4, 2018

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

LOUISIANA STATE BOARD OF MEDICAL EXAMINERS
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 Louisiana State Board of Medical Examiners (Board), a component unit of the State of Louisiana, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 4, 2018. Our report was modified to include emphasis of matter paragraphs regarding actuarial assumptions and financial statement comparability.

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.

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 a 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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify the following deficiency in the Board's internal control that we consider to be a material weakness:

Inadequate Controls Over Financial Reporting

The Board does not have adequate controls over financial reporting, increasing the risk of material misstatement of the financial statements. Based on our procedures, we identified the following control deficiencies and errors in the Board's general ledger accounts:

- Revenues and cash were overstated by \$380,000 because an incorrect journal entry was posted to the general ledger that double counted cash and revenues. The Board did not detect this misstatement because reconciliations of the electronic payments received through the Board's online payment servicers and the cash held by the online servicers to the general ledger were not performed.
- Expenses and liabilities were understated by \$124,464 for goods and services received during 2017, but were not paid until the subsequent year. The Board records these expenses in its general ledger on a cash basis and has no process in place to identify expense accruals at year-end.
- Payables to the Louisiana State Employees' Retirement System (LASERS) for employer contributions were understated by \$66,379 due to current and prior year errors. Although the Board remitted the correct contributions to LASERS, current year employer contribution expense was understated by \$44,702 in the Board's general ledger because the Board did not post the expense and liability from the July 2nd payroll. The Board did not detect these errors since actual contributions remitted to LASERS and the actual contributions due to LASERS at year-end were not reconciled to the amounts recorded in the general ledger.
- The Board does not maintain an adequate detailed listing of its capitalized furniture, equipment, and software totaling \$181,540, net of accumulated depreciation, with historical costs totaling \$1,256,917. Between 2003 and 2016, the Board maintained its capitalized asset listing used for financial reporting by adding the amount of total annual additions and the amount of total annual deletions without the detailed description of the individual asset being added or deleted. The Board recognized this deficiency in 2017 and started adding each individual asset to the listing, but the Board has not performed a detailed analysis to identify those individual assets added between 2003 and 2016. Also, the Board has no procedures to identify and remove any capitalized furniture, equipment, and software assets that are no longer in service from the general ledger.

Good internal controls over financial reporting should include procedures to ensure transactions and balances recorded in the general ledger are accurate and complete. The Board has not established adequate procedures as mentioned above to timely detect and correct errors in its general ledger and the Board has not provided adequate training to its accounting staff.

The Board should continue working with its contracted accountant to design controls and improve existing controls over financial reporting and the Board should provide training to its accounting staff on implementing those controls. The Board should immediately implement procedures for periodic reconciliations of the cash and payables accounts mentioned above and perform a detailed analysis of its capitalized furniture, equipment, and software assets, removing any assets that are no longer in service from the general ledger. Management concurred in part with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Noncompliance with State Travel Regulations for Hotel Rooms

The Board's hotel expenses for its board and advisory committee members attendance of meetings in New Orleans exceeded the allowable rates set by the Louisiana Travel Guide (PPM 49) without the required justification supporting the Board's attempts to obtain the best available rates in the area. Based on our procedures, we identified 15 hotel stays that exceeded the allowable rates by \$979, in total, without the required justification.

PPM 49 establishes maximum rates for hotel rooms based on the time of year and the geographical area. When the allowable hotel rates must be exceeded, justification is required to be maintained evidencing that attempts were made with other hotels in the area for the best rate. The Board's preference is to use the same two hotels for consistency and convenience, and the Board was unaware of the justification requirements when allowable rates are exceeded. As a result, the Board did not comply with PPM 49 and potentially paid more than necessary for hotel rooms.

When the Board's preferred hotels' rates are not within the allowable rates set by PPM 49, we recommend the Board search other hotels for the best available rate in the area. Also, when the allowable rate must be exceeded, the Board should maintain justification supporting the Board's attempts to find the best available rate in the area. Management

concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

Late Fees Not Assessed

The Board did not assess late fees for practitioners in five allied health care fields, resulting in noncompliance with state law and a loss of revenue. Louisiana Revised Statute 37:1281(A)(3)(c) requires allied health care practitioners to pay a late fee, not to exceed an amount equal to the renewal fee, if their license, certificate, registration or permit was not paid timely.

During 2017, late fees were not assessed for practitioners in the allied health care fields of athletic trainers, respiratory therapy, physician assistants, podiatry, and acupuncture since a board-approved late fee had not been established for these fields in the Board's rules. As a result, late fees were not assessed on approximately 200 allied health practitioners who failed to timely pay their license renewal fee for these five fields. The Board could have collected up to \$19,265 in 2017 had a late fee equal to the renewal amount, the maximum allowed by statute, been assessed.

The Board should perform a review of the current fee schedules contained in the Board's rules and ensure a late fee has been established for all allied health care fields with practitioners licensed by the Board. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 5).

Board's Responses to the Findings

The Board's responses to the findings identified in our audit are attached in Appendix A. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Board's internal control and compliance. Accordingly, this communication 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,



Thomas H. Cole, CPA
First Assistant Legislative Auditor

APPENDIX A

Management's Responses



LOUISIANA STATE BOARD OF MEDICAL EXAMINERS

630 Camp Street, New Orleans, LA 70130
Mailing Address: P.O. Box 30250, New Orleans, LA 70190-0250
Web site: <http://www.lsbme.louisiana.gov>

August 23, 2018

Dary G. Purpera, CPA, CFE,
Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

Please accept this letter as the Louisiana State Board of Medical Examiner's (LSBME) official response to the audit finding: **Inadequate Controls over Financial Reporting:**

We partially concur with this finding:

- ***Revenues and Cash overstated by \$380,000: We concur with this portion of the finding.***

The State Board of Medical Examiners (LSBME) uses Paypal as a payment processor for online payments made to both the LSBME Board and the Clinical Laboratory Personnel Board, which operates through LSBME. As payments are made online for license fees, Paypal swipes daily balances from the Board's Paypal accounts into the Board's bank accounts for both LSBME and Clinical Laboratory. The Accounting Supervisor booked journal entries each month to reconcile the Paypal transfers to the bank accounts.

In November 2017, the Accounting Supervisor was on maternity leave and I personally assumed the duties of booking those entries. There had never been transfers made from the Clinical Laboratory account, which was normal since the Clinical Lab license applications were not yet set up for online payment at this time. Out of curiosity, I logged into the Clinical Laboratory PayPal account and noticed a little over \$400,000 sitting in the account. I reviewed a history of the account and concluded that funds had not been transferred from the PayPal account to the Clinical Laboratory Bank Account in at least five years. I discussed the situation with Danny Allday, the Board's CPA. After discussion, we concluded to transfer \$380,000 to the Clinical Laboratory bank account and to book the revenue associated with these multi-year funds based off of an allocation that I personally calculated from Clinical Laboratory license-type history. This is actually a five year old or more problem that we thought we were correcting in 2017.

The corrective action for this problem has already been completed. I contacted PayPal in November 2017 about sweeping funds on a daily basis from the Clinical Laboratory PayPal account to the Clinical Laboratory bank account. In early 2018, the daily sweep was finally set up so that the PayPal account will not ever build up a cash balance again. Additionally, the Board CPA reviews the general ledger accounts for both the PayPal and American Express "flow-through" cash accounts.



LOUISIANA STATE BOARD OF MEDICAL EXAMINERS

630 Camp Street, New Orleans, LA 70130
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- ***Expenses and Liabilities were understated by \$124,464: We concur with this portion of the finding.***

We failed to book accrual journal entries for \$124,464 of goods and services received during 2017, but not paid until 2018. The CPA and myself worked hard to assure that all 2017 goods and services were booked during 2017. Discussions have already been had with accounts payable staff to assure that any invoices received late for prior year goods and services are recorded on the prior year. The CPA and myself will assure that prior year invoices are booked accordingly in the future.

- ***Payables to the Louisiana State Employees' Retirement System (LASERS) for employer contributions were understated by \$66,379: We concur with this portion of the finding.***

We concur that the Board did not reconcile actual contributions remitted to LASERS with the amount in the general ledger. To assure this type of error does not occur again, the Board CPA and I will reconcile the general ledger to the LASERS distributions on a monthly basis.

- ***The Board does not maintain an adequate detailed listing of its capitalized equipment: We partially concur with this finding.***

The Board has historically used the State LPAA system to maintain tagged equipment and the former CPA's spreadsheets for both tagged and untagged items. The Board is audited every year and during my three years as Director of Operations for the Board, the auditors calculated depreciation based upon the provided information.

We partially concur with this finding because we were unable to locate the prior CPA's spreadsheets and other documentation for equipment additions and deletions that dated back to 2002, 16 years ago and because the Board was audited each year of the past 16 years with no finding related to the additions and deletions of equipment and the associated depreciation of such equipment.

We do, however, concur that the Board needs a better system of maintaining equipment and calculating depreciation costs. The CPA and I are discussing options of purchasing a new system to maintain equipment and calculate depreciation. I will personally meet with other Boards to see what systems they use to help us decide what is best for LSBME. Our plan is to have the new system fully functioning by July 1, 2019. I am in the process of developing an Accounting Manual and will add procedures to this manual on the identification and removal of capitalized furniture, equipment, and software assets that are no longer in service, from the general ledger. My tentative date to have the Accounting Manual completed is also July 1, 2019.

If you have any questions regarding this response, please contact me directly at (504) 599-1539.

Sincerely,

A handwritten signature in blue ink that reads "Denise Businelle". The signature is fluid and cursive.

Denise W. Businelle,
Director of Operations



LOUISIANA STATE BOARD OF MEDICAL EXAMINERS

630 Camp Street, New Orleans, LA 70130
Mailing Address: P.O. Box 30250, New Orleans, LA 70190-0250
Web site: <http://www.lsbme.louisiana.gov>

August 16, 2018

Dary G. Purpera, CPA, CFE,
Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

Please accept this letter as the Louisiana State Board of Medical Examiner's (LSBME) official response to the audit finding: **Noncompliance with State Travel Regulations for Hotel Rooms.**

We concur with this finding:

We agree that we did not maintain documentation supporting the Board's attempts to find room rates within PPM49 guidelines, even though those attempts were made.

PPM49 states that the "Department Head or his/her designee has the authority to approve actual costs for routine lodging provision on a case by case basis, not to exceed fifty percent over PPM49 current listed rates." Only 8 of the 15 hotel stays exceeded the 50% threshold. We agree that we failed to maintain documentation supporting the Executive Director's approval of the actual costs up to the 50% maximum overage amount.

Once the Board adopts the meeting schedule for any given year, the hotel rooms are booked for all out-of-town board members that require a room (a year in advance). The Board has worked with two particular downtown hotels for a number of years on having rooms available for all board meetings, even during the peak tourism season for the City of New Orleans. The 8 transactions that went over the 50% limit were all on the January-February 2017 and February-March 2017 bankcard statements. Mardi Gras was in February 2017. The hotels increase their room rates at least a month in advance for Mardi Gras season and the \$259 room rate that the Board was charged is a reduced rate. The Board members walk from their hotel rooms to the board meeting at LSBME on Camp Street, so downtown hotels are preferred and unfortunately do not fall within the state allowed room rates on any given day of the year. We feel that we received the best room rates possible for Mardi Gras 2017, even though we exceeded the allowed rates stated in PPM49.

After a recent discussion with the Office of State Purchasing, we were told to submit an annual request to the Commission of Administration for approval to exceed the 50% overage limit during the peak hotel season of Mardi Gras. The Board will do this going forward, even though there is no guarantee that this request would be approved.



LOUISIANA STATE BOARD OF MEDICAL EXAMINERS

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The 2019 board meeting dates have already been adopted; so the Board will make every effort to find rooms in close proximity to the office with rates that fall at or below the State limit(s) and will document all attempts.

If you have any questions regarding this response, please contact me directly at (504)599-1539.

Sincerely,

A handwritten signature in blue ink that reads "Denise Businelle". The signature is written in a cursive style.

Denise W. Businelle,
Director of Operations



LOUISIANA STATE BOARD OF MEDICAL EXAMINERS

630 Camp Street, New Orleans, LA 70130
Mailing Address: P.O. Box 30250, New Orleans, LA 70190-0250
Web site: <http://www.lsbme.louisiana.gov>

August 28, 2018

Daryl G. Purpera, CPA, CFE,
Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

Please accept this letter as the Louisiana State Board of Medical Examiner's (LSBME) official response to the audit finding: **Late Fees Not Assessed:**

We concur with this finding:

- ***Noncompliance with Louisiana Revised Statute 37:1281(A)(3)(c) and loss of revenue:***
Louisiana Revised Statute 37:1281(A)(3)(c) requires allied health practitioners to pay a late fee, not to exceed an amount equal to the renewal fee, if their license, certificate, registration or permit was not renewed timely. In addition to this State law, the Board also has rules that specifically relate to each license category. Although the Board's rules do provide for the assessment of a late renewal fee (also known as a "penalty" or "delinquent fee") in most categories of licenses, the Board did not assess late fees in 2017 in the allied health fields of athletic trainers, respiratory therapy, physician assistants, podiatry, and acupuncture.¹

In remediation of this finding, the Board will form a staff committee to review the current fee schedules contained in the Board's laws and rules, as well as review internal policies to ensure that appropriate late fees are assessed for all allied health care fields with practitioners licensed by the Board by December 31, 2018.

If you have any questions regarding this response, please contact me directly at (504) 599-1539.

Sincerely,

A handwritten signature in blue ink that reads "Denise Businelle".

Denise W. Businelle,
Director of Operations

¹ Penalty and delinquency fees for four of the identified categories of licensees are established in the following sections of the Board's rules:

La. Admin. C. 46:XLV.2545 (Respiratory Therapists);
La. Admin. C. 46:XLV.3161 (Athletic Trainers);
La. Admin. C. 46:XLV.1363 (Podiatry);
La. Admin. C. 46:XLV.187 (Acupuncturists and Acupuncture Detoxification Specialists).

The rules that apply to Physician Assistants are in the process of being updated to accommodate several changes in the law resulting from Act 475 of the 2018 Regular Session of the Legislature. The proposed changes additionally include a penalty provision for late renewal/reinstatement.