ACT 461 REPORT ON FISCAL DEFICIENCIES, INEFFICIENCIES, FRAUD, OR OTHER SIGNIFICANT ISSUES DISCLOSED IN GOVERNMENTAL AUDITS

THIRD QUARTER, FISCAL YEAR 2020

REPORT TO THE JOINT LEGISLATIVE
COMMITTEE ON THE BUDGET
ISSUED APRIL 2020

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

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 9, 2020

Chairman Bodi White and Members of the
Joint Legislative Committee on the Budget

Dear Chairman White and Members of the Joint Legislative Committee on the Budget:

Act 461 of the 2014 Regular Session requires the Legislative Auditor to make quarterly and annual reportings to the Joint Legislative Committee on the Budget of certain audits which have findings with a dollar impact of $150,000 or more relative to waste or inefficiencies, missed revenue collections, erroneous or improper payments or overpayments by the state, theft of money, failure to meet funding obligations such as pension or health benefits, failure to comply with federal fund or grant requirements, failure to comply with state funding requirements, including failure to report as required, misappropriation of funds, errors in or insufficient support for disaster expenditures, accountability of public money associated with various disasters such as the Deepwater Horizon event, and repeat findings.

Attached is our report to meet the requirements of Act 461 for the third quarter of Fiscal Year 2020. That report is linked and referenced to the full reports which contain the applicable findings of interest, as well as management's responses.

We are available to present the information that is of interest to your committee. We hope that this report assists you in your legislative decision-making process.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/ch

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Executive Department

- **(Repeat)** The Division of Administration, Office of Community Development (OCD), Disaster Recovery Unit identified $155,000 in noncompliant Homeowner Assistance Program awards for two homeowners through post-award monitoring. Failure to recover benefits from noncompliant homeowners could result in disallowed costs that the state could be liable to repay to the federal government. *(Amount: $155,000) (p.1)*

- **(Repeat)** OCD identified $7,585,337 in SRPP loans for 85 property owners who failed to comply with one or more of their loan agreement requirements and were assigned to loan recovery status. Failure to recover loans from property owners could result in disallowed costs that the state could be liable to repay to the federal government. *(Amount: $7,585,337) (p.2)*

Louisiana Department of Health

- **(Repeat)** LDH failed to design and maintain adequate internal control over MAGI-based eligibility determinations in the Medical Assistance Program (Medicaid) and Children's Health Insurance Program (LaCHIP). Because LDH has not implemented the use of tax information for MAGI-based determinations, LDH continues to be unable to verify all critical eligibility factors. LDH paid approximately $7.9 billion in Healthy Louisiana managed care premiums, with $5.5 billion dollars in premiums paid on behalf MAGI-based recipients. *(p.1)*

- LDH made premium payments totaling approximately $4.8 billion to the Healthy Louisiana MCOs without first receiving required contract amendment approvals. Also, LDH made payments totaling approximately $868 million for service dates outside of the certification period provided by the actuary's Rate Certification Letter. *(Amount: $4.8 billion) (p.4)*

- **(Repeat)** LDH did not enroll and screen Healthy Louisiana managed care providers and dental managed care providers as required by federal regulations. Currently, the managed care plans continue to enroll and screen all providers, in violation of federal regulations. As a result, LDH cannot ensure the accuracy of provider information obtained from the Louisiana Medicaid managed care plans and cannot ensure compliance with enrollment requirements defined by law and the Medicaid and LaCHIP state plan. *(Amount: $7.9 billion) (p.6)*

- **(Repeat)** LDH failed to accurately complete the required quarterly reports of federal expenditures resulting in $17,279,582 ($14,683,758 federal) in expenditures for Substance Use Disorder (SUD) waiver services not identified and reported separately as required by CMS. *(Amount: $17,279,582) (p.8)*

Louisiana's Management of Water Resources

- Since 1956, Louisiana has spent at least $5.3 million to conduct 12 studies on water resources and management strategies, and many of these recommended that the state develop a comprehensive management plan. However, Louisiana still does not have a comprehensive water management plan. *(Amount: $5.3 million) (p.15)*

Louisiana Quality Jobs Program

- The state could improve the performance of the QJ program by capping the SUTR and PFER rebates similar to the caps already in place for the Louisiana Enterprise Zone.Capping SUTR and PFER to 21% of gross payrolls would have resulted in an estimated $49.9 million increase in the net gain of the program and $84.8 million in net savings to the State Treasury (under the average scenario) for the 59 QJ projects that started in calendar years 2011 and 2012. *(Amount: $84.8 million) (p.12)*

- The state could improve the performance of the QJ program by incentivizing QJ recipient companies to direct more of their investment spending on equipment, materials, and construction labor towards Louisiana-based businesses. *(Amount: For every percentage point increase in purchases from Louisiana businesses, the overall net gain of the QJ program would increase by approximately $538,000.) (p.16)*

- LED did not always notify LDR when a company did not meet job creation requirements of the program as required by state law. We found that, from calendar years 2010 through 2018, LDR paid $669,912 in QJ rebates to six companies for creating 155 jobs. However, these companies either did not maintain the required number of new jobs through the third year of their QJ contract or did not submit documentation showing they had done so. *(Amount: $669,912) (p.12)*

- Amending the definition of "new direct job" in state law would clarify that companies are allowed to receive QJ rebates for re-hiring previous employees who have been away from the company for a defined length of time, consistent with LED's interpretation. One of the eligibility requirements in state law mandates that only employees "not previously on an employer's payroll in Louisiana" are eligible for rebates. *(Amount: $2.1 million was paid in QJ rebates for employees that had previously worked for the company or a related entity) (p.14)*

Louisiana State University and Related Campuses

- LSU and Related Campuses did not have formal written policies in place over administrative allowances totaling approximately $4.9 million as of January 1, 2019. In a review of 30 employees out of 439 receiving administrative allowances as of January 1, 2019, three employees (10%) lacked appropriate documented approvals in the Workday system, and one employee (3.3%) lacked supporting documentation over the administrative allowance that included the reason for the allowance and support regarding the calculated amount of the administrative allowance. *(Amount: $4.9 million) (p.3)*

Louisiana State University Health Sciences Center in Shreveport

- **(Repeat)** The Center failed to implement its policy to notify debtors, past the initial billing, of past due balances or to refer delinquent accounts to the Louisiana Attorney General's Office (AG) or the Office of Debt Recovery (ODR) to pursue collection per its contracts with the AG and ODR. The Center reported $1.8 million of state and private grants and contracts gross accounts receivable as of June 30, 2019, which were outstanding from fiscal years 2005 to 2018. While the Center did establish an allowance for doubtful accounts for $1.7 million of this balance, the Center did not actively pursue collection on those accounts. *(Amount: $1.8 million) (p.1)*

South Louisiana Community College

- The College may have violated state law when it granted its employees one-time payments of 2% to 7% of each employee's gross salary. The one-time payments, totaling $1,248,072 during state fiscal year 2019, were made under the College's Rewards and Recognition Program policies. However, the College's rewards and recognition policies do not provide for written objective criteria or performance indicators that provide how the unclassified or classified employees will be reviewed and determined to merit reward and recognition. *(Amount: $1,248,072) (p.1)*

Southeastern Louisiana University

- Southeastern did not have a process in place to determine if students were eligible to receive student financial assistance, resulting in noncompliance with federal regulations. Our review disclosed that 94 students with subsidized and unsubsidized loans were allowed to borrow $552,647 in excess of the aggregate loans limits for Federal Direct Student Loans (CFDA 84.268). In addition, some of these students incorrectly received payment totaling $34,123 in Federal Pell grants (CFDA 84.063) and $3,000 in Federal Perkins Loans (CFDA 84.038). *(Amount: $589,770) (p.1)*

Caddo Parish School Board

- In July 2018, an electronic bank transfer of approximately $988,000 was made with the intent that it would be deposited in an account for Magnolia Charter School. The information provided via email for the transfer was fraudulent, and the charter school did not receive the funds. The Caddo Parish Sheriff, along with the FBI, investigated the theft. The authorities were able to locate a large portion of the money. A total of $832,864 was recovered, which includes $100,000 received from the insurance claim. The School Board experienced a weakness in internal control, which resulted in a misappropriation of assets. The School Board did not have adequate internal controls in place to prevent or deter the fraud. *(Amount: $988,000) (p.12)*

Lafourche Parish Sheriff

- Currently unknown individual(s) and/or organizations external to the Sheriff's Office created a false company and a false bank account. They then sent an email from a fictitious email account, closely resembling an email account from a trusted source, with a falsified document appearing to be on the vendor's letterhead with instructions to change the banking information for the transfer. This information went through the proper controls of the Sheriff's Office, and the funds were sent to the account. *Effect:* $347,707 was embezzled by an individual or organization outside of the Sheriff's Office. The matter was timely reported to the Louisiana Legislative Auditor and the Lafourche Parish District Attorney, in writing, in accordance with LRS 24:523. The Louisiana Attorney General's Office and the Federal Bureau of Investigation were also alerted. A criminal investigation was opened and search warrants obtained. The bank informed the Sheriff's Office that the funds were transferred out of the criminals' bank account shortly after they were received. The Sheriff's Office did not have the proper insurance to cover this kind of loss. Unrecovered funds are $344,241 at this time. *(Amount: $347,707) (p.61)*

New Orleans Sewerage and Water Board

- S&WB paid consultants approximately $1.7 million to help determine the causes of its billing issues but has not yet implemented many of the consultants' recommendations as of January 2020. *(Amount: $1.7 million) (p.11)*

- According to S&WB data, it provided approximately $19.7 million in water and sewer services free of charge to the City of New Orleans during fiscal year 2018 through fiscal year 2019. *(Amount: $19.7 million) (p.14)*

Analysis of Residential and Commercial Property Appraisals in Orleans Parish for Tax Year 2020

- The Orleans Assessor may be undervaluing vacant land. As a result, owners of properties with structures (i.e., non-vacant land) may pay disproportionately more in taxes than vacant land owners. From tax years 2016 through 2020, vacant land was appraised at approximately 37.6% of its fair market value, based on sales ratios for vacant land parcels, indicating that vacant land may have been undervalued by 62.4%. *(Amount: We estimate that vacant land properties were undervalued by $1.2 billion.) (p.14)*

- The Orleans Assessor engaged in "sales-chasing," which means that it appraised individual residential and commercial properties that recently sold based on their sales price, which violates LTC rules and international best practices. We estimated that sold properties were assessed 14.9% higher than unsold properties as a result of this practice. *(Amount: Sales chasing caused appraised values to rise by $385.8 million in tax year 2020.) (p.16)*