

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

SECOND QUARTER, FISCAL YEAR 2020



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

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 8, 2020

Chairman Cameron Henry and Members of the
Joint Legislative Committee on the Budget

Dear Chairman Henry 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 second 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,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/ch

ACT 461 REPORTING – JANUARY 2020

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STATE AGENCIES

Delgado Community College

- Delgado failed to notify LLA and Orleans Parish District Attorney, as required by law, about its knowledge of misappropriations involving federal financial aid funds totaling \$276,000. (*Amount: \$276,000*) (p.1)
- Delgado capital assets and expenses were misstated by \$6 million in the college's fiscal year 2019 Annual Fiscal Report. Delgado prematurely added a building from a pending transfer to the financial records before the transaction was complete. (*Amount: \$6,000,000*) (p.2)

Department of Environmental Quality (LDEQ)

- LDEQ did not ensure that three (1.7%) of 178 permitted solid waste facilities provided financial assurance that was sufficient to cover closure and post-closure cost estimates totaling at least \$992,081. (*Amount: \$992,081*) (p.4)
- As of June 30, 2019, LDEQ had not received financial assurance that 14 (58.3%) of 24 hazardous waste facilities and three (75%) of four solid waste facilities in corrective action could cover expenses associated with their corrective action activities. The three solid waste facilities estimated that their corrective action activities will cost approximately \$5.0 million. (*Amount: \$5.0 million*) (p.7)

Department of Revenue (LDR)

- **(Repeat)** LDR incorrectly reported accounts receivable balances in its 2019 Annual Fiscal Report (AFR), which is used by the Division of Administration to compile the state of Louisiana's CAFR. Gross receivables were understated by \$34.4 million, and the allowance for uncollectibles for Qualified receivables was understated by approximately \$166.6 million. (*Amount: \$201 million*) (p.1)
- Effective controls had not been implemented over the approval and release of refund ACH batch files to prevent duplicate refund payments. In March 2019, a failed nightly Delta system job stream led to the creation of a duplicate direct deposit file. The failure to detect the duplication caused 66,780 individual income tax refunds totaling \$26.9 million to be processed and refunded to taxpayers twice. Immediately following the error, LDR began implementing additional control procedures to prevent future errors and began efforts to recover the refunds made in error. As of November 8, 2019, 6,295 refunds totaling \$1,953,570 were still not recovered by LDR. (*Amount: \$26.9 million*) (p.3)

Louisiana Economic Development (LED)

- In a review of LED's monitoring files and payment activity for 25 contracts valued at \$10.6 million with related payments of \$7.7 million during fiscal year 2019, we determined that seven (28%) contracts with related payments of \$926,747 were not adequately monitored to verify that contract reporting requirements including, but not limited to, payroll reports, cost reports, detailed invoices and progress reports were met. (*Amount: \$926,747*) (p.1)

Louisiana Workforce Commission (LWC)

- LWC did not adequately monitor the subrecipients of the WIOA Cluster programs for compliance with federal laws and regulations. Our procedures disclosed that on-site monitoring reviews were conducted for only five of the programs' 15 subrecipients and these reviews related to 2017 program activity. In addition, LWC did not ensure that required audits were completed within nine months of the subrecipient's fiscal year-end. (*Amount: \$36 million*) (p.2)

Office of Group Benefits (OGB)

- **(Repeat)** OBG's 2019 Annual Fiscal Report was submitted three weeks late and contained numerous errors. (*Amount: \$127 million*) (p.1)

River Parishes Community College

- The college had inadequate controls over outstanding student account balances, which allowed students, who owed approximately \$46,223 at June 30, 2019, to enroll in subsequent semesters. In addition, the college did not write off student-related balances totaling approximately \$716,130 in accordance with its policies. (*Amount: \$762,353*) (p.2)
- RPCC may have violated state law when it granted its employees a one-time payment in the amount of 5% of each employee's gross salary. (*Amount: \$227,720*) (p.4)

LOCAL GOVERNMENT AGENCIES

Town of Sterlington (Town)

- The Town engaged a municipal advisor to prepare financial projections that were submitted to the Louisiana State Bond Commission (SBC) when the Town was seeking approval to incur bonded debt. These projections were also provided to financial institutions that purchased the bonds and were based on information that, in some cases, overstated actual revenue and understated actual expenditures when compared to audited financial reports and/or Town records that were available when the projections were made. If the municipal advisor knowingly submitted financial projections based on incorrect financial information to the SBC and financial institutions, the municipal advisor may have violated state and federal law. *(Amount: \$7,845,000) (p.5)*
- **(Repeat)** At Mayor Vern Breland's direction, the Town spent \$3,118,103 from bond proceeds that were inconsistent with the stated purpose of the bond from January 4, 2016 to September 10, 2018. State law provides that proceeds from the sale of bonds be used exclusively for the purpose for which the bonds are authorized to be issued. By continuing to direct the improper use the bond proceeds after receiving a finding in the Town's 2016 annual audit, Mayor Breland may have violated state law. *(Amount: \$3,118,103) (p.14)*
- The Town had two lease purchase agreements for sports complex lighting and a water management system that were not publicly bid, which may violate state law. In addition, the Town spent some of the loan proceeds from the water management lease purchase on items that were not covered in the price quote. Since the Town does not have sufficient funds to complete the water management system that was financed by the lease purchase, the Town will not generate the additional revenue to pay the amount due on the lease purchase. *(Amount: \$2,904,000) (p.16)*