HEALTH EDUCATION AUTHORITY OF LOUISIANA
LOUISIANA DEPARTMENT OF HEALTH

A COMPONENT UNIT OF THE
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDING JUNE 30, 2016
DECEMBER 28, 2016

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

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DARYL G. PURPERA, CPA, CFE

December 16, 2016

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LOUISIANA DEPARTMENT OF HEALTH
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 Health Education Authority of Louisiana (HEAL), a component unit of the State of Louisiana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise HEAL'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 HEAL as of June 30, 2016, and the respective changes in financial position and cash flows thereof 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 1.D to the financial statements, HEAL has elected to change the method of accounting for its activities, using an enterprise fund for fiscal year ended June 30, 2016, rather than using a governmental fund as in previous years. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of HEAL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HEAL's internal control over financial reporting and compliance.

Respectfully submitted,

Daryl G. Purpera

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JMJ:CST:WDG:EFS:aa

HEAL 2016

HEALTH EDUCATION AUTHORITY OF LOUISIANA
LOUISIANA DEPARTMENT OF HEALTH
STATE OF LOUISIANA

Statement of Net Position
June 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$170,159
Investments (note 2)	1,663,290
Receivables (net)	11,515
Total current assets	1,844,964
Noncurrent assets:	
Capital assets, net (note 3)	4,019
Total noncurrent assets	4,019
Total assets	1,848,983
LIABILITIES	
Current liabilities:	
Accounts payable (note 4)	191,532
Total Liabilities	191,532
NET POSITION	
Net investment in capital assets	4,019
Unrestricted net position	1,653,432
Total net position	$1,657,451

The accompanying notes are an integral part of this statement.

HEALTH EDUCATION AUTHORITY OF LOUISIANA
LOUISIANA DEPARTMENT OF HEALTH
STATE OF LOUISIANA

Statement of Revenues, Expenses,
and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES	
Parking garage rental fee	$297,183
Total operating revenues	297,183
OPERATING EXPENSES	
Personnel services	229,137
Travel	7,662
Operating services	3,472
Supplies	8,121
Professional services	122,622
Depreciation	1,483
Other	9,385
Total operating expenses	381,882
OPERATING LOSS	(84,699)
NONOPERATING REVENUES	
Interest Income	37,464
Other nonoperating revenues	16,041
Total nonoperating revenues	53,505
CHANGE IN NET POSITION	(31,194)
NET POSITION - BEGINNING OF YEAR, AS RESTATED (note 7)	1,688,645
TOTAL NET POSITION - END OF YEAR	$1,657,451

The accompanying notes are an integral part of this statement.

HEALTH EDUCATION AUTHORITY OF LOUISIANA
LOUISIANA DEPARTMENT OF HEALTH
STATE OF LOUISIANA

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$297,202
Cash payments to suppliers for goods and services	(120,960)
Cash payments to employees for services	(212,364)
Net cash used by operating activities	(36,122)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Other receipts	16,041
Net cash provided by noncapital financing activities	16,041
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(37,617)
Proceeds from sales of investments	183,633
Interest earned on investments	38,380
Net cash provided by investing activities	184,396
NET INCREASE IN CASH AND CASH EQUIVALENTS	164,315
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,844
CASH AND CASH EQUIVALENTS, END OF YEAR	$170,159
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	($84,699)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	1,483
Changes in assets and liabilities:	
Decrease in accounts receivable, net	915
Increase in accounts payable and accrued liabilities	46,179
Net cash used by operating activities	($36,122)

The accompanying notes are an integral part of this statement.

INTRODUCTION

The Health Education Authority of Louisiana (HEAL) was created in 1968 in an effort to develop the medical corridor within a 10-mile radius of the Medical Center of Louisiana at New Orleans (MCLNO), formerly Charity Hospital. HEAL is a corporate and public body and an instrumentality of the State of Louisiana exercising public and essential governmental functions. It was created by Act 112 of the 1968 Regular Session of the Legislature and operates under said Act, as amended, which now appears as Louisiana Revised Statutes (R.S.) 17:3051-3060. HEAL is governed by a Board of Trustees consisting of the governor as ex officio trustee and 13 members selected pursuant to the requirements for membership contained in Act 112.

HEAL's primary mission is to plan, acquire, and/or construct facilities within a 10-mile radius of the MCLNO and provide for financing, usually through revenue bonds, of such projects. HEAL may incur debt and issue bonds for the LSU Health Sciences Center in Shreveport, Louisiana. HEAL is also responsible for the operation of a parking garage located in New Orleans, Louisiana.

HEAL is a party to a multi-party lease operating agreement with the state of Louisiana (ground lease), APCOA LaSalle Parking Company, LLC, and Tulane Educational Fund that resulted in the construction and operation of a parking garage located at 300 LaSalle Street, New Orleans, Louisiana. The garage construction was funded by bonds issued by HEAL and financed by net revenues derived from the operations of the parking garage. These financial statements do not include financial transactions, assets, or obligations related to the bonds issued by HEAL for the construction and operations of the parking garage. The accompanying financial statements present information only related to the operating activities of HEAL arising from the fees received from the parking garage operations and HEAL's operating expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. HEAL is considered a component unit of the State of Louisiana because the state exercises oversight responsibility in that the governor appoints a majority of the board members, and HEAL primarily serves state residents. The accompanying financial statements present only the activity of HEAL. Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements. The financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with HEAL's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of HEAL consist of revenues derived from parking garage operations. Operating expenses include administrative expenses.

D. CHANGE IN ACCOUNTING PRINCIPLE

In its financial statements for the fiscal year ended June 30, 2015, HEAL used a governmental fund (General Fund) to account for its general activities. As noted in the Basis of Accounting section above, for the fiscal year ended June 30, 2016, HEAL is using an enterprise fund to account for its activities. HEAL's principle source of revenue, payments received from parking garage operations, more closely aligns with enterprise fund reporting rather than governmental fund reporting. While the measurement focus and basis of accounting differs for these two fund types, HEAL's fiscal year 2015 financial statements presented both government-wide and fund financial statements. The government-wide financial statements were prepared using the economic resources measurement focus and accrual basis of accounting, the same as those used for the current-year enterprise fund reporting. Therefore, no adjustments were necessary to beginning net position in fiscal year 2016 as a result of the change.

The main effect of the change is to the statements required to be presented. In fiscal year 2015, HEAL presented government-wide Statement of Financial Position and Statement of Activities and governmental fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. In fiscal year 2016, HEAL presents enterprise fund Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. The accounting change did not have a significant effect on the account balances and activity reported in either the current or prior year.

E. BUDGET PRACTICES

HEAL adopts a budget for consideration by the Louisiana Department of Health (LDH) in the preparation of their operating budget of expenditures. Appropriations for HEAL are listed on LDH's budget as a separate line item.

F. HUMAN RESOURCES

HEAL personnel are employees of LDH and are accordingly members of the state retirement system and participate in the state's other postemployment benefits plan (OPEB). Information related to the retirement and OPEB plans and the associated liabilities and expenses are disclosed in the financial statements of LDH. Likewise, the policies and costs related to compensated absences are reported in the financial statements of LDH. The costs associated with HEAL's personnel services are reported as salaries and wages and employee benefits on the Statement of Revenues, Expenses, and Changes in Net Position.

G. CASH AND INVESTMENTS

Cash includes demand deposits. Under state law, HEAL may deposit funds in a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Further, HEAL may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

H. RECEIVABLES

Interest receivable consists of interest that has accrued on the various certificates of deposit held by HEAL. Management believes all interest to be collectible; therefore, no allowance for doubtful accounts is recorded.

I. CAPITAL ASSETS

Capital assets consist of office and computer equipment and are capitalized at historical cost. For movable property, HEAL's capitalization policy includes all items with a unit cost of $500 or more. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

	Years
Computer and peripheral equipment	4-5
Machinery and equipment	3-20

J. REVENUE RECOGNITION

HEAL is a party to an operating lease for a parking garage owned by the state of Louisiana and operated by APCOA LaSalle Parking Company, LLC. HEAL receives minimum lease payments in connection with the lease. This lease payment increases by 3% each year. In addition, HEAL receives percentage rent payments under the lease agreement based upon an agreed-upon formula. The organization did not receive a percentage rent payment for the year ended June 30, 2016. HEAL also received additional parking garage revenues pursuant to a parking contract agreement with Tulane Education Fund. This parking garage revenue is HEAL's primary source of revenue. Loss of this revenue would result in HEAL's inability to maintain its current level of operations. However, management considers the likelihood of loss of this income remote, as the current lease is in effect until December 31, 2030.

For reporting purposes, HEAL recognizes revenues when earned, regardless of the timing of the related cash flows.

K. NET POSITION

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

- <u>Investment in capital assets</u> consists of all capital assets, net of accumulated depreciation.

- <u>Unrestricted net position</u> consists of all other resources that are not included in the other category previously mentioned.

L. CLASSIFICATION OF REVENUES AND EXPENSES

HEAL has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

(a) <u>Operating revenue</u> includes activities that have the characteristics of exchange transactions, such as garage rental and administrative fees.

(b) <u>Nonoperating revenue</u> includes activities that have the characteristics of nonexhange transactions, such as interest income.

(c) Operating expenses generally include transactions resulting from providing goods or services, such as (1) payment to vendors for goods or services; (2) payments to employees for services; and (3) payments for employee benefits.

M. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law, HEAL may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board.

The deposits at June 30, 2016, consist of the following:

	Cash and Cash Equivalents	Nonnegotiable Certificates of Deposit	Total
Deposits per Statement of Net Position	$170,159	$1,663,290	$1,833,449
Bank deposits in bank accounts per bank	$170,159	$1,663,290	$1,833,449

HEAL's investments consist of certificates of deposit totaling $1,663,290, which are reported on the Statement of Net Position as investments.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law allows HEAL to invest monies under its control and not on deposit in the State Treasury, which they determine may be available for investment, in time certificates of deposit of 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, or in share accounts and share certificate accounts of state-chartered credit unions.

Deposits in bank accounts are stated at cost, which approximates market. Custodial credit risk is the risk that in the event of a bank failure HEAL's deposits may not be returned to it. Under state law, HEAL's deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are to be held in the name of HEAL or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. HEAL does not have policies to limit concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. R.S. 49:327(C)(4) limits the maturity of investments in certificates of deposits (CDs) to no more than 12 months after the date of their purchase. HEAL's current CDs have stated maturities of over one year. However, per bank policy for public depositors, those CDs are redeemable anytime, outside of the initial seven day investment period, with no penalty and pay accrued interest up to the redemption date.

3. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2015	Additions	Balance June 30, 2016
Furniture and equipment	$9,870	$3,497	$13,367
Less accumulated depreciation	(7,865)	(1,483)	(9,348)
Total capital assets, net	$2,005	$2,014	$4,019

4. ACCOUNTS PAYABLE

The following is a summary of payables and accrued benefits at June 30, 2016:

Account Name	
Vendors	$116,476
Salaries and related benefits	75,056
Total payables	$191,532

5. LEASE AGREEMENTS

HEAL is a party to an operating lease for a parking garage constructed on land owned by the State of Louisiana. In 1972, HEAL entered into a 30-year land lease agreement with the State of Louisiana. This agreement grants HEAL the authority to construct improvements upon the leased premises, consisting of a multi-level parking garage and an office building. The original parking garage consisted of approximately 837 parking spaces which are managed by APCOA LaSalle Parking Company, LLC (APCOA).

On December 1, 1998, HEAL extended its existing lease agreement with APCOA until December 31, 2030, for the management and operation of the parking facility. This lease extension included a multi-level expansion of the existing parking garage to add approximately 516 additional parking spaces. The lease agreement is considered to be a capital lease, and accordingly, the parking facility is reflected on the financial records of the management company. Upon termination of the current agreement, the parking facility will revert back to HEAL. HEAL receives an annual fee from APCOA which increases by 3% from the previous year. For the year ended June 30, 2016, HEAL received $240,706 in fees from APCOA.

HEAL also has a servitude agreement with the Tulane Education Fund (Tulane), which guarantees parking contracts for Tulane affiliates. Under the contract, Tulane has agreed to service the payments of the debt obligation throughout the life of the bond in exchange for use of the facility. Payments in excess of debt service obligations are returned to HEAL annually. For the year ended June 30, 2016, HEAL received $56,477 pursuant to this contract.

6. CONDUIT DEBT OBLIGATIONS

In 1998, HEAL entered into an agreement with the Board of Administrators of the Tulane Educational Fund (Tulane University of Louisiana) to issue $9,350,000 in bonds for the extension of and improvements to HEAL's existing parking garage, and the addition of a sky bridge to connect to the Tulane Medical School. In July 2015, HEAL issued $6,645,000 of Series 2015 Revenue Refunding Bonds. The purpose of the issue was for advance refunding of the prior bonds and paying the costs of issuance of the bonds. The bonds are secured by the building's improvements, and are payable solely from income and revenues derived from Tulane. As such, the bonds shall never constitute an indebtedness or pledge of the general credit of HEAL or the State of Louisiana within the meaning of any constitutional or statutory limitation of indebtedness or otherwise. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Upon repayment of the bonds, ownership of the acquired improvements transfers to HEAL.

The annual requirements to amortize the bonds outstanding at June 30, 2016, are as follows:

Fiscal Year	Principal	Interest	Total
2017	$430,000	$286,135	$716,135
2018	355,000	268,669	623,669
2019	370,000	252,538	622,538
2020	385,000	235,739	620,739
2021	405,000	218,161	623,161
2022-2026	2,175,000	808,231	2,983,231
2027-2031	2,525,000	288,694	2,813,694
Total	$6,645,000	$2,358,167	$9,003,167

7. RESTATEMENT OF BEGINNING NET POSITION

The beginning net position as reflected on Statement B has been restated to reflect the following changes:

Net Position at June 30, 2015	$1,705,444
Adjustments:	
Prior year payroll costs expensed in current year	(4,949)
Prior year professional services expenses recorded in current year	(11,850)
Net Position at June 30, 2015, as restated	$1,688,645

8. CLAIMS AND LITIGATION

There is no pending litigation or claims against HEAL at June 30, 2016, which if asserted, in the opinion of HEAL's legal advisors, would have at least a reasonable probability of an unfavorable outcome or for which resolution would materially affect the financial statements.

9. SUBSEQUENT EVENTS

During the 2016 Regular Legislative Session, HEAL's enabling legislation was amended by Act 577 (Act), which became effective August 1, 2016. Per the Act, HEAL was transferred from the Louisiana Department of Health (LDH) to the Department of Education and placed under the Board of Regents to operate under its own authority. As a result, the employees who carry out the functions of HEAL ceased being employees of LDH and are now employees of HEAL. Act 577 also expanded HEAL's primary service area from a 10-mile radius in New Orleans and Shreveport to include communities where graduate medical education is offered, changes the composition of HEAL's board of trustees, and expands HEAL's bonding authority from $400 million to $800 million dollars.

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, regulations, and other matters required by *Government Auditing Standards* issued by the Comptroller General of the United States. The 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

December 16, 2016

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

Independent Auditor's Report

HEALTH EDUCATION AUTHORITYOF LOUISIANA
LOUISIANA DEPARTMENT OF HEALTH
STATE OF LOUISIANA
New Orleans, Louisiana

We have audited, 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, the financial statements of the business-type activities of the Health Education Authority of Louisiana (HEAL), a component unit of the State of Louisiana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise HEAL's basic financial statements, and have issued our report thereon dated December 16, 2016. Our report was modified to include an emphasis of matter section regarding financial statement comparability.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HEAL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HEAL's internal control. Accordingly, we do not express an opinion on the effectiveness of HEAL'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described below, that we consider to be a material weakness.

Inadequate Controls over Professional Services Contracts

HEAL failed to establish adequate internal controls to ensure HEAL's compliance with state laws and regulations regarding professional services contracts. As a result, HEAL circumvented state purchasing oversight controls and violated state purchasing regulations for three contracts entered into during fiscal year 2016.

During this time, HEAL was statutorily under the oversight of the Louisiana Department of Health (LDH). While HEAL was authorized to determine the necessity of contracting for professional services, the undersecretary of LDH's Office of Management and Finance had the sole authority to solicit for bids and execute such contracts. For each of these three contracts, HEAL's executive director signed the contracts and obligated LDH and the state without proper signature authority. In addition, HEAL made payments to a law firm for services provided subsequent to the expiration of the related contract. We identified the following instances of noncompliance:

- In March 2016, HEAL executed an amendment to a legal services contract with Kinney, Ellinghausen, Richard & DeShazo, extending the contract to a term of four years and increasing the contract amount from $65,000 to $150,000. This contract amendment was not approved by the LDH undersecretary, the Attorney General, or the Joint Legislative Committee on the Budget (JLCB) as required. State purchasing regulations require approval from the Attorney General on contracts for legal services. State law requires that all professional, personal, consulting, or social services contracts entered into for a period of more than three but no more than five years shall be subject to prior approval by JLCB.

- In March 2016, HEAL executed a contract extension for accounting services with Luther Speight & Company for a term of four years without the approval and required signature authority of the LDH undersecretary or the JLCB.

- In March 2016, HEAL entered into a contract with Southern Strategy Group, identified as a social services contract that did not meet the definition of a social services contract and was not approved or signed by the LDH undersecretary as required. The contract's stated purpose was for governmental relations and legislative planning services. State law prohibits state agencies from expending funds for lobbying.

Once we brought these contracting issues to the attention of HEAL's Board of Trustees Executive Committee, HEAL amended the legal services contract with Kinney, Ellinghausen, Richard & DeShazo, and the accounting services contract with Luther Speight & Company, and obtained the necessary approvals. The contract with Southern Strategy was canceled.

In addition, in June 2016, HEAL made payments totaling $589 to Jones Walker, LLP for legal services that were performed during January and February 2016 when HEAL's contract with the law firm expired in November 2015.

HEAL management and the Board should establish internal controls to ensure all contracts are executed within HEAL's authority, state purchasing controls are not circumvented, and state purchasing regulations are not violated. The HEAL Board concurred with the finding and outlined a plan of corrective action (see Appendix A).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HEAL'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the above finding regarding inadequate controls over professional services contracts.

HEAL Board's Response to Finding

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 HEAL's internal control and compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JMJ:CST:WDG:EFS:aa
HEAL 2016

APPENDIX A

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

HEALTH EDUCATION AUTHORITY OF LOUISIANA

FUNDING FOR BIOMEDICAL RESEARCH, HEALTHCARE AND HEALTH EDUCATIONAL INSTITUTIONS

December 7, 2016

Ms. Carrie Thompson
Legislative Auditor's Office
1600 North Third Street
Post Office 94397
Baton Rouge, La 70804

RE: Health Education Authority of Louisiana (HEAL) Audit Finding:
Inadequate Controls over Professional Services Contracts

Dear Ms. Thompson:

On behalf of the Health Education Authority of Louisiana (HEAL), I am writing to concur with the SFY 2016 audit finding referenced above based on the evidence presented by your office.

The HEAL Board of Trustees has crafted a corrective action plan that requires the following from the Executive Director:

1) Follow State and HEAL procurement policies exactly, to the letter, as to advertising, scoring proposals, awarding contracts, executing contracts, and in every other regard. Do not initiate contract processes or execute contracts without Board approval.

2) Work with the Chairman to create a three-member proposal review team for every procurement, which shall be responsible for assessing needs, preparing and reviewing requests for proposal (RFP's) prior to issuance, scoring proposals, and recommending contract awards to the Board for approval. This proposal review team shall include two Board Trustees and the ED.

The Board anticipates reviewing these directives with the Executive Director during the week of 12 December 2016. Monitoring of compliance will be ongoing via increased reporting of the staff's activities to be submitted weekly to the Executive Committee and monthly to the full Board of Trustees as well as other written and oral communication between the Executive Director and the Chairman and other Trustees.

The Board will continue to closely monitor this and related financial and procurement issues in the interest of assuring continued strong financial health for HEAL. I will be your contact person in my capacity as Interim Chairman of HEAL.

Thank you for bringing this item to our attention.

Sincerely,

Kurt M. Weigle
Interim Chairman
Health Education Authority of Louisiana

Copy: Nicole Edmonson
Jacob Johnson
HEAL Board of Trustees

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