

SOUTH CENTRAL LOUISIANA HUMAN SERVICES AUTHORITY

**LOUISIANA DEPARTMENT OF HEALTH
STATE OF LOUISIANA**

FINANCIAL AUDIT SERVICES

**Procedural Report
Issued December 11, 2023**

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

South Central Louisiana Human Services Authority

Louisiana Department of Health



December 2023

Audit Control # 80230056

Introduction

The primary purpose of our procedures at the South Central Louisiana Human Services Authority (SCLHSA) was to evaluate certain controls SCLHSA uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds.

The service area for SCLHSA includes seven parishes: Assumption, Lafourche, St. Charles, St. James, St. John the Baptist, St. Mary, and Terrebonne.

Results of Our Procedures

We evaluated SCLHSA's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of SCLHSA's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures relating to cash, interagency transfers and patient billings revenue, payroll expenditures, and contract expenditures.

Current-report Finding

Bank Account Use Resulting in Possible State Law Violations

The SCLHSA may have violated several state laws through the improper use of one of its bank accounts and the failure to prepare a comprehensive budget as required by state law. SCLHSA maintains and uses a bank account titled the Employee Social Affairs Committee (ESAC) Account. SCLHSA did not develop any policies related to the ESAC account; but, according to SCLHSA, the ESAC account is intended to pay for employee appreciation items for SCLHSA employees.

We reviewed the ESAC account for the period July 1, 2021, through February 28, 2023, and found that the ESAC account maintained a balance of over \$400,000 for the period reviewed with the majority of the ESAC account balance resulting from

transactions prior to July 1, 2021. According to SCLHSA management, excess funds totaling approximately \$274,000, initially appropriated in 2009 for construction/purchase of an office building, were deposited into the ESAC account in 2019. These excess funds are public funds. As it relates to activity during our engagement period, we noted the following activity that may have violated state laws:

- SCLHSA paid an employee over \$1,300 in Optional Pay from the ESAC account even though the employee had a probationary status and was not eligible for Optional Pay under State Civil Service rules. Louisiana Revised Statute 28:916(D) states that all employees of human services districts/authorities shall be members of the State Civil Service system. Attorney General *Opinion 18-0114* states that employees of human services districts/authorities are subject to the laws, rules, and regulations of the State Civil Service while not being employees of the State Civil Service. Based on this guidance, Optional Pay to an employee that is a probationary employee appears to be a violation of Civil Service rules and of Louisiana Revised Statute 28:916(D).
- SCLHSA management and employees participated in football betting pools in which proceeds after winnings were deposited in the ESAC account. A total of \$1,200 was deposited into the ESAC account as a result of these activities. The use of an employee football pool to raise funds may have violated the state's gambling statute (Louisiana Revised Statute 14:90) and the Louisiana State Constitution.

While SCLHSA does not agree any gaming laws were violated, our research found that SCLHSA is considered a political subdivision of the State of Louisiana. Attorney General *Opinion 10-0125* notes that the Louisiana Constitution provides for a prohibition for a political subdivision of the state to conduct raffles. Louisiana Administrative Code 42: I.1703(A)(19) provides that a raffle is "a type of lottery in which several persons pay, in shares, the value of something put up as a stake, and then determine by chance which one of them shall become the sole possessor of it and any portion or share is retained by the person(s) conducting the raffle."

In addition, SCLHSA does not meet the requirements to apply for and receive a charitable gaming license. In order to lawfully conduct fundraising activities using a game of chance other than raffles and lotteries, the entity conducting the games of chance must satisfy the licensing requirements of the Charitable Raffles, Bingo, and Keno Licensing Law (LSA-RS 4:701). Under this law, charitable organizations can be licensed to hold and operate the following specific games of chance: raffles, bingo or keno, pull-tabs, electronic bingo, and Las Vegas Nights or Casino Nights. Under LSA-RS 4:703(1)(a) a charitable organization is defined as a nonprofit board, association, corporation, or other organization domiciled in the state and qualified with the United

States Internal Revenue Services for an exemption from federal tax income.

In addition, because spending of the funds in the ESAC account were not part of a properly adopted budget, SCLHSA may have violated Louisiana Revised Statute 39:1301-1315, also known as the Local Government Budget Act (LGBA). LGBA applies to all political subdivisions of the state and Louisiana Revised Statute 39:1302(3)(d) defines "political subdivision" to include special districts created pursuant to and under the authority of Article VI, Section 16 or 19 of the Louisiana Constitution. SCLHSA is considered to be a political subdivision of the state. The LGBA requires each political subdivision to prepare a comprehensive budget presenting a complete financial plan for each fiscal year for all general and special revenue funds. The ESAC funds were not included in a budget adopted by their governing board or the state legislature. The LGBA mandatory requirements must be followed regardless of SCLHSA's presentation of a budget to the Louisiana Department of Health.

If SCLHSA wishes to use football pools (or the like) to fund raise in the future or does not believe they are subject to the requirements of the LGBA, we recommend that SCLHSA seek an opinion from the state Attorney General in order to determine compliance with state laws. We also recommend that SCLHSA design and implement policies and procedures to ensure that all activities of the ESAC account comply with applicable state laws and regulations. Management concurred in part with the finding and provided a corrective action. See Appendix A.

Cash

The SCLHSA maintains an operating account and three other bank accounts. Three of the four bank accounts were included in SCLHSA's Annual Fiscal Report cash balances of \$5,228,617 and \$5,524,339 at June 30, 2022, and June 30, 2023, respectively. We obtained an understanding of SCLHSA's controls over the reported bank accounts, evaluated their segregation of duties, and reviewed bank statements, bank reconciliations, selected deposits, and selected disbursements. Based on the results of our procedures, SCLHSA had adequate controls in place to ensure proper segregation of duties was established; to ensure that monthly bank reconciliations were completed and reviewed in a timely manner by appropriate personnel; that cash deposits were adequately supported, properly accounted for in SCLHSA's records, and properly recorded in the general ledger; and cash disbursements were adequately supported, properly reviewed and approved by appropriate personnel, and properly recorded in the general ledger.

During our procedures, we noted that one of the bank accounts maintained by SCLHSA did not have established policies for collections and disbursements. In addition, account activity may have violated state laws and regulations (see Current-report Findings section).

Interagency Transfers and Patient Billings Revenue

Approximately 24% of SCLHSA's revenue collections for fiscal year 2022 and fiscal year 2023 consist of interagency transfers and approximately 13% and 12% of revenue collections for fiscal year 2022 and fiscal year 2023, respectively are patient billings (constitute most of SCLHSA's fees and self-generated revenues). The remaining revenues are from state general fund appropriations. We reviewed interagency transfer transactions to ensure that they were adequately supported and reviewed patient billings to ensure that they were adequately supported, billing charges were reasonable, and that the collected funds were properly deposited in SCLHSA's bank accounts.

Based on the results of our procedures, SCLHSA had adequate controls in place to ensure that revenue collections (both interagency transfers and patient billings) are adequately supported, patient billings were reasonable based on approved billing rates, and that patient billings were properly deposited in SCLHSA's bank accounts.

Payroll Expenditures

Salaries and related benefits comprised approximately 58% and 55% of SCLHSA's expenditures in fiscal year 2022 and fiscal year 2023, respectively. We obtained an understanding of SCLHSA's controls over the payroll functions for fiscal years 2022 and 2023. We compared total payroll compensation for fiscal year 2021 to fiscal year 2022 per employee and reviewed variances for reasonableness. In addition, we reviewed the time period July 1, 2021 to April 16, 2023 for the following items: the reasonableness of prior period payroll adjustments; employees' hours worked and leave taken to ensure they are supported by a certified timesheet, were reviewed and approved, and are accurately entered into the LaGov System (LaGov); separation and retirement payouts to employees to ensure they are properly calculated; and compensatory time earned and all leave used by employees to ensure they are properly recorded in the employees' leave balances.

Based on the results of our procedures, SCLHSA had adequate controls in place to ensure that compensatory time earned and all leave used by employees were properly recorded in the employees' leave balances and that employees' hours worked and leave taken are supported by a certified timesheet, were reviewed and approved, and accurately entered into LaGov. In addition, we determined that employees' payroll compensation changes from fiscal year 2021 to fiscal year 2022 are reasonable, that separation and retirement payouts to employees are properly calculated, and that prior period payroll adjustments are reasonable.

Contract Expenditures

Contracts comprised approximately 19% and 26% of SCLHSA's expenditures in fiscal year 2022 and fiscal year 2023, respectively. We obtained an understanding of

SCLHSA's controls over the contracting function for fiscal years 2022 and 2023. We reviewed selected contracts and contract expenditures to determine if SCLHSA was complying with its policy regarding competitively bidding contracts and if contract expenditures were reasonable based on provisions of the contracts. Based on the results of our procedures, SCLHSA was complying with its policy regarding competitively bidding contracts and contract expenditures were reasonable based on provisions of the contracts.

Trend Analysis

We compared the most current and prior-year financial activity using SCLHSA's Annual Fiscal Reports and system-generated reports and obtained explanations from SCLHSA's management for any significant variances.

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", with a stylized flourish extending to the right.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

RAY:AHC:JPT:BQD:aa

SCLHSA2023

APPENDIX A: MANAGEMENT'S RESPONSE



South Central Louisiana Human Services Authority

November 20, 2023

Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North 3rd Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: SCLHSA Official Response

LLA Finding: Bank Account Use Resulting in Possible State Law Violations

Dear Mr. Waguespack:

Below please find South Central Louisiana Human Services Authority's response to the LLA's draft audit finding of our agency. We recognize the fact that \$274,000 of excess funds from a capital outlay project in 2019 was deposited in the Employee Social Affairs Committee (ESAC) account. As previously noted, the monies were separately accounted for, remain untouched to date and will be moved into our Escrow Account held by LDH. We acknowledge that there is not an agency policy on the ESAC account, but one will be developed. See Corrective Action Plan attached to this letter. Specific response to items addressed in the draft audit finding are as follows:

1. Payment of \$1,300 Optional Pay to an employee. SCLHSA concurs that it gave \$1,300.00 in total payment to a former permanent employee who had recently given up her permanent position to accept a higher-level probationary position. She had permanent status for over 5 years prior to accepting the probationary position. The extra payment was to compensate her for the performance of temporary additional duties associated with Hurricane Ida. At the time, she was the only SCLHSA employee with sufficient experience in hurricane disaster preparedness to accept the additional duties for which the payment was to compensate, and there was a dire need for someone with her experience to take on these duties. Due to the exigent and unusual circumstances and the expiration of the Hurricane Ida work, SCLHSA made the payments from non-designated funds collected in 2011. SCLHSA has an Optional Pay policy in place that prohibits Optional Pay to probational employees. SCLHSA will develop a policy on the Employee Social Affairs Committee (ESAC), which will prohibit this type of payment from that account as well. See attached Corrective Action Plan.
2. Gambling allegation. SCLHSA management and employees participated in football pools in which proceeds were deposited in the Employee Social Affairs Committee (ESAC) account. SCLHSA denies LLA's finding that it may have violated the State's gambling statute and the Louisiana State Constitution currently being enforced by the state of Louisiana. While we disagree, we will prohibit any future gambling activities, which may be considered in violation of the State's gambling statute. See attached Corrective Action Plan.
3. LBGA violation. SCLHSA denies that it violated the Local Government Budget Act, La. R.S. 39:1301-1315 by not including ESAC funds in its budget. SCLHSA prepares a comprehensive budget presenting a complete financial plan in the LaGov system. SCLHSA, as a budget unit under LDH, reports end of

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the fiscal year balances for all local accounts for inclusion in the annual financial report. The \$274,000 reimbursement for the office building construction originated from funds in SCLHSA's escrow account, which are excluded from the legislatively-appropriated operating budget. The other funds in the account are either from grants or are private funds. It would be inappropriate to include any of these funds in SCLHSA's legislatively-appropriated operating budget. Further, as per La. R.S. 28:915(B)(9), SCLHSA has the authority "(t)o retain all self-generated funds and any funds collected for the provision of services in excess of funds provided through contract with the department."

The SCLHSA Board is responsible for the general oversight of SCLHSA management and operations. In accordance with La. R.S. 28:914, the SCLHSA Executive Director is responsible for briefing the board on the agency's funding, and budgeting and account balances. Pursuant to these responsibilities, the SCLHSA Board reviews and approves the Budget Request Summary each fiscal year and the monthly Financial Reports outlining Expenditures and Revenues. SCLHSA will present financial reports of its ESAC account and any other bank accounts to its board during its presentation of the Budget Request Summary and monthly financial reports.

Please feel free to contact me if you have any questions or need further information.

Sincerely,

A handwritten signature in blue ink that reads "Kristin Bonner". The signature is written in a cursive style and is positioned above a horizontal line.

Kristin Bonner, MHA, BSN, RN
Executive Director

Corrective Action Plan

Name of Contact Person responsible for Corrective Action:	Action Planned:	Anticipated Completion Date:
Janelle Folse and Kristin Bonner	An agency policy for the Employee Social Affairs Committee (ESAC) account will be developed prohibiting: <ol style="list-style-type: none"> 1. The use of its funds for Optional Pay awards (as well as describing the types of deposits and uses allowed from the account). 2. All gambling and gaming activities as a fundraising tool for the agency. 	December 1, 2023
Kristin Bonner and Janelle Folse	SCLHSA will open another bank account for the placement of grant and other self-generated funds from non-clinical sources.	December 1, 2023
Kristin Bonner and Janelle Folse	SCLHSA Executive Director or designee will present financial reports from the ESAC account and a subsidiary ledger for the newly created bank account to the Board during its presentation of the budget request summary and other monthly financial reports.	Will begin at the next SCLHSA Board Meeting scheduled on December 14, 2023.

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the South Central Louisiana Human Services Authority (SCLHSA) for the period from July 1, 2021, through June 30, 2023. Our objective was to evaluate certain controls SCLHSA uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review SCLHSA's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. SCLHSA's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated SCLHSA's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to SCLHSA.
- Based on the documentation of SCLHSA's controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures relating to cash, interagency transfers and patient billings revenue, payroll expenditures, and contract expenditures.
- We compared the most current and prior-year financial activity using SCLHSA's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from SCLHSA's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at SCLHSA and not to provide an opinion on the effectiveness of SCLHSA's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.