



FISCAL REVIEW COMMITTEE

MINUTES

Tuesday, February 21, 2017

1:00 p.m.

House Committee Room 2

State Capitol Building

I. CALL TO ORDER

Mr. Daryl Purpera, chairman of the Fiscal Review Committee (FRC), called the meeting to order at 1:08 p.m. and a quorum was present with the following members in attendance:

MEMBERS PRESENT:

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor (LLA)

Mr. Thomas Enright, Jr., Executive Counsel
Designee for The Honorable Ron J. Henson, State Treasurer

Mr. Wilbur Stiles III, Chief Deputy Attorney General
Designee for The Honorable Jeff Landry, Attorney General

II. APPROVAL OF MINUTES

Mr. Enright made a motion to approve the minutes of the April 29, 2016, meeting. Mr. Stiles seconded the motion, and with no objections, the minutes were approved.

III. TOWN OF ST. JOSEPH – FISCAL ADMINISTRATOR UPDATE

Mr. David Greer, court appointed fiscal administrator for the Town of St. Joseph (Town), provided a three-page update that included: status of the water system improvements; Declaration of Emergency; construction issues; personnel; audit status for fiscal year 2016; policies and procedures; budgetary; obligations; and exit strategy.

Mr. Greer elaborated on the progress of the water system improvements. The water tower is complete, and the emergency water main is nearing completion. Replacement of 100% of the water distribution lines is expected to be completed by September 30, 2017. The design for replacing/refurbishing the water treatment facilities has begun, but the total cost is yet to be determined. The goal is to have the water system completed by September 30, 2017. At least one water well has to be replaced and he would prefer to have two new water wells depending on funds.

Since the Governor's proclamation declaring a State of Public Health Emergency within the Town on December 16, 2016, the National Guard has assisted in providing the water needs for the Town. As the construction proceeds as rapidly as possible, the Town has faced numerous losses of water, gas, and sewer services due to breakage of existing lines.

The Town has new leadership including Mayor Elvadás Fields, Jr., as of January 1, 2017, and two new aldermen, and a new Town clerk. Mr. Greer has been working daily with Mayor Fields and the clerk to establish clear policies, procedures, and practices for Town operations.

Due to all the hectic activities in the Town, an extension on the fiscal year 2016 audit was granted until February 28, 2017. However, Mr. Greer expects the audit to have a disclaimer of opinion because the conditions that existed for 2015 were also true for the 2016 audit period prior to his arrival.

Mr. Greer provided an overview of the revenue and normal operating expenses for the Town. Expenditures have continued to exceed revenue every month because of extra repair costs and overtime pay. Due to the Town being small, rural and poor, he finds the income and expenses to be very close, but the property taxes are very low. In addition, the Town has financial obligations to the Office of Community Development, Louisiana Workforce Commission, Internal Revenue Service, and numerous other past-due payables to vendors for which payment arrangements have been. One outstanding bond debt to the (United States Department of Agriculture (USDA) is currently being paid on time.

Mr. Stiles asked what percentage of the accounts receivables is collected by the Town. Mr. Greer answered that approximately 95% of the monthly bills are collected, but it is difficult to discuss any increases in water rates until the water system is repaired and providing good, clean water. Gas rates are good, but the joint gas line that is owned by the Towns of Newellton and St. Joseph needs to be reactivated, but there are issues due to lawsuits. He plans to have an electronic meter reading system installed to ensure all customers are metered and billed correctly.

The Town does not have sufficient revenue to continue to pay a fiscal administrator, and Mr. Greer had not yet billed the Town for the months of November, December, or January. He said being a fiscal administrator is difficult when he must decide between paying himself or other bills. He plans to scale back on the amount of time spent working and allow Mayor Fields and the Town clerk to handle the daily operations and continue to implement the controls they put in place. Mr. Greer expects to continue as fiscal administrator until the water system construction is complete, and the rate structure for the water and gas systems are properly adjusted to ensure sufficient revenue to operate and maintain the new water system.

Mr. Enright asked about the status of water provided to the schools. Mr. Greer said that water buffalos and porta potties are at all three public schools. The private school ends at noon every day. Mr. Enright expressed appreciation for the extraordinary job that Mr. Greer has done for the Town.

IV. MADISON PARISH HOSPITAL SERVICE DISTRICT – FISCAL ADMINISTRATOR UPDATE

Mr. Donald Frutiger provided a three-page overview of the progress made since he was appointed as fiscal administrator for the Madison Parish Hospital Service District (Hospital). Mr. Frutiger credited the positive improvements to the Hospital operations to the administration and primarily to Mr. Ted Topolewski, Chief Executive Officer.

Mr. Frutiger elaborated on the key financial information provided, the operation and compliance improvements, and the contingent liabilities related to the violation of Federal Medicare laws caused by the fraudulent activities of the prior administrator. The Hospital has implemented strong controls for collections,

and built up a capital improvement fund from ad valorem and sales taxes. The Hospital has practically no long-term debt and \$2.3 million in the capital improvement fund. They will pay off the bonds payables by the end of the year and expect no need for more based on the positive cash flow. Mr. Topolewski explained that they are only making the necessary repairs on the current buildings and have enough property to build a new hospital.

Mr. Frutiger said they went from an operating loss in 2015 to now profitable with a better cash flow. The bad debts have not gone down, and their patients are predominately on Medicaid or Medicare. He said it was such a shame that the current facilities were not better taken care of and agrees that a new building is necessary.

Unfortunately, the auditors will not give an unqualified opinion until the federal government gives a definite answer on how much the Hospital must pay back. The process has formally begun to finalize the damages for Medicare issues, and the Hospital should finally know the amount of the damages by the end of 2017. He is dealing directly with the Office of Inspector General (OIG) to resolve the issues regarding Medicaid and Medicare. The OIG looks at the Hospital's ability to pay and will come to an agreement to not adversely affect the Hospital's future.

Mr. Frutiger expects zero deficiencies on the current audit because of strict controls. The Hospital now has a pension plan, employee morale is better, and the Hospital is running efficiently. He meets with the police jury quarterly as well as with the Hospital board every six months, and they are very receptive and work well with him. Mr. Purpera expressed his appreciation for Mr. Frutiger and Mr. Topolewski's work and successful improvements at the Hospital.

V. MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1 D/B/A MOREHOUSE GENERAL HOSPITAL

Mr. Bradley Cryer, director of Local Government Audit Services, explained that Morehouse General Hospital (Hospital) has been monitored by the Legislative Auditor's office since 2015. Since the April 29, 2016, FRC meeting, the Hospital has hired new Chief Executive Officer Derrick Frazier, new Interim Chief Financial Officer Bill Storck, and is being managed by the Community Hospital Corporation (CHC).

Mr. Cryer explained that information requested from the Hospital, such as long-term cash flow projections, has not been provided timely or in sufficient detail. The State Bond Commission has noted that the Hospital did not renew its loan on time and could not get information requested from CHC. He needs a clearer picture that the Hospital is turning around, but has not been receiving good responses. The \$1.6 million accrued pension liability is holding steady and not being paid.

Representatives for the Hospital included Mr. Storck; Mr. Frazier; Mr. Bob Green, chairman of the Board of Commissioners; and Mr. Tod Beasley, senior vice president of Hospital Financial Operations for CHC. Mr. Beasley apologized for the lack of information provided to the legislative auditor but said CHC worked diligently to provide financial statements. CHC worked a lot of time completing the financial audit for the last fiscal year. They worked hard to get stable management, finances, and processes in place. CHC started working at the Hospital in May 2016 and immediately did an operational assessment, which led to their strategic business plan. They have biweekly meetings with the leadership and have stabilized the monthly close process to only seven days now.

Mr. Beasley explained that they are only the management company and have no ownership of the Hospital. He provided a six-page document that contains their financial forecast through the end of this fiscal year and hopes to extend out another 12 months as they become more sure of the income. The list of Hospital improvements includes financial stability, improved operations, reduced expenses, increased revenue, and better recruitment. The Hospital has strong managers and leadership and set future improvement goals to benefit the community and Hospital. Mr. Stiles asked the length of the contract with CHC. Mr. Beasley responded three years.

Mr. Purpera questioned the growth as shown on the Operating Performance Summary. Mr. Beasley explained the revenue included taxes and a grant, but the net revenue does not exceed net expenses and they will continue managing expenses tightly. They are using a productivity tool to measure staffing levels and adjust accordingly.

Mr. Purpera commented that the last financial audit was a disclaimer. Mr. Beasley said they expect to fix problems before the next fiscal year-end (FYE) May 2017 audit and be in a better financial position. CHC receives a monthly management fee for the entire suite of services with no contingent incentive of any kind. They will catch up on the pension plan which is now 21 months behind and hope to accelerate the pay back and eliminate that payable. Mr. Beasley said as they see stability going forward, they will address the capital needs because the facilities are old.

Mr. Purpera thanked them for coming and appreciates that the Hospital is turning around and improving. He requested a 12-month projected cash flow and monthly financial statements be sent to his office. Mr. Beasley said the Hospital did not have a budget prepared for the current fiscal year, so CHC felt they had to complete the audit from the previous fiscal year to ensure correct financial statements. He made a commitment to regularly provide current financials to the legislative auditor.

VI. CITY OF JEANERETTE

Mr. Cryer provided a background on the City of Jeanerette (City) and explained that advisors have worked since 2013 helping the City after receiving a request from a legislator. In March 2014, the LLA provided a recommendations letter to the City and a year later found that the recommendations were not followed. Further assistance and recommendations were given but still have not seen improvements in 2016. The City has enough staff to perform the duties and follow the recommendations, but has not. The auditor could not audit FYE 2015 and 2016 because of missing documentation and shortly after that the town (City) clerk quit.

The City is now two years without an audit opinion and after three years without an opinion, the City could be placed under a fiscal administrator. Mayor Apryl Foulcard hired a consultant who was a retired clerk, in January 2016, and it sounded like some improvements were happening to get their records in order. But there are only four months left in this fiscal year, and there are still unauditible records, so the mayor needs to understand the seriousness of the situation.

Mr. Enright asked about the revenue and expenses. Mr. Cryer said there is not an issue of cash flow because they have revenue. The issue is that the accounting staff keeps poor records and is not posting the checks – basically, there is no audited information since 2014.

Mr. Mike Battle, Advisory Services manager, further explained the poor financial records to show the revenue and obligations despite the \$6.2 million annual revenue. Mr. Cryer said his auditors have visited the City and looked at their bank statements since 2014 but do not complete the bank reconciliations for them. His staff walked the City's staff through bank reconciliations over a year ago, and since March 2014 has told City staff to get help with their bookkeeping because of not reconciling bank statements.

Mr. Cryer continued to explain that as of the end of the current fiscal year, City staff are not reconciling bank statements – either they are not capable or not willing. The mayor hired an accounting firm to help them do bank reconciliations with their current town (City) clerk and provided training for that clerk on how to update the general ledger. The clerk has been terminated since then. The general ledger is not accurate, the records room was a complete mess, and auditors could not identify which source documentation went with which general ledger records. Until the City updates their records, the auditor cannot perform the audit. At this point, Mr. Cryer recommended that the mayor start with July 1, 2016, to rebuild their records going forward so that the auditors can finally perform an audit.

Mr. Purpera asked if the City has funds to pay for help. He said that a disclaimer means that a CPA cannot audit, so the public has no assurance of financial stability. Mr. Cryer said it is very unlikely that the City will have prior year balances, and the best-case scenario is if they get their records in order to have a disclaimer on beginning balances.

Mayor Foulcard testified that she understands the situation and has tried to accommodate every recommendation by the legislative auditor. She hired the accounting firm Kolder, Champagne, Slaven & Company (Kolder) to help do the bank reconciliations, but there was some miscommunication because she assumed all was completed but the auditor said that the books were not ready to be audited for FYE 2015 and 2016. Mayor Foulcard said the representative from Kolder told her that they were only assisting the clerk with reconciliation but expected \$10,000 if she expected them to do more.

Mr. Purpera stressed to Mayor Foulcard that it is her responsibility to ensure that City funds are properly accounted for and records maintained. He asked if she was not managing the contract with Kolder because they certainly know how to do bank reconciliations. Mayor Foulcard said she took Kolder's word that the reconciliations were complete but learned from the auditor that it was not complete. Kolder did adjusted entries and told her staff to research the purpose, but there was not follow-up to be sure the work was completed.

Mayor Foulcard explained that the City's computers had not been updated for years and in the past everything was done manually, which allowed for error. The software personnel are going to her office the next day to provide on-site training for her staff. Then they will review all the reports because they found just the previous week that some items had been double posted, and invoices were not paid. She said she may need to hire more help.

Mr. Purpera asked the last month that the bank records were reconciled. Mayor Foulcard said she was not sure when the last time it was done but definitely not within the last year.

Mr. Purpera asked why Kolder was unable to get the City's books current. Mr. Cryer said the contract with Kolder was for bank reconciliations. The accountant doing the work said that they looked through all the reconciling items and provided that information and adjusting entries necessary to post those items to the town (City) clerk. But any questions that Kolder could not resolve, they asked the town (City) clerk to research. Kolder had assumed, based on what they gave the town (City) clerk, that the information was

being updated in the system and the clerk was reconciling those differences that Kolder could not determine based strictly on the bank statements.

Mayor Foulcard said that Kolder finished their work in August or September 2016. Mr. Cryer said that the bank statements were being tied back to the general ledger but not sure if the clerk added the necessary postings.

Mr. Purpera asked if the mayor has a Chief Financial Officer (CFO) capable of managing the finances. Mayor Foulcard said that she relied on her City clerk's 15 years of experience but in just reviewing some information, she found that the City has been overcharged for garbage and it came to a point that she had to let the clerk go. Mayor Foulcard said she is taking applications for the CFO position. Mr. Stiles asked who has check signing authority. Ms. Foulcard said that the Mayor ProTem Tia Simmons and the interim City clerk have check signing authority.

Mr. Purpera asked for her plan and assurance to fix the problems. Mayor Foulcard said they have to fix the computer system, and has asked a board member with accounting experience for his assistance. She reached out to Mr. Brent Silva, CPA, with Garrety and Associates, for his recommendations to move forward. The City is strapped for cash, but if they have to hire a financial advisor they will do it.

Mr. Purpera told Mayor Foulcard that the expenses need to be trimmed, and she needs to hire someone with accounting expertise. If the City receives a third disclaimer, then the fiscal administrator law goes into effect. If she has been the mayor during all three years, because of the legal obligation to be accountable to the public, then it is malfeasance in office. Mayor Foulcard said that she has been mayor since 2013 and is very aware of the situation and agreed that she will do whatever she has to do to fix it.

Mr. Enright reiterated that the mayor needs to turn things around quickly. Mr. Purpera pointed out that the FYE is June 30, 2017, and the law allows six months for the audit to be completed. Mayor Foulcard stated that Mr. Silva is the auditor who identified that the City's records are not auditable.

Mr. Silva testified that he was subcontracted with the auditor of record who sent a letter of withdrawal from the engagement. Mr. Silva is not currently engaged but if hired then he would perform the 2015 and 2016 audits with the disclaimer as identified and have to look at any adjustments coming through for 2017. He would still have to rely on somewhat clean beginning numbers to roll it forward, so it could be another issue with the disclaimer on the statement of activities for FYE 2017 because of adjustments for 2015 and 2016 rolling into 2017. But he would have a statement of net assets or net position that would be clean moving forward for FYE 2018.

Mr. Purpera asked if Mr. Silva agrees based on what he has seen that the City needs help. Mr. Silva agreed that the City needs help with accounting and that some of the staff does not understand posting, bank reconciliations, or even debits and credits. All he was seeing was differences between the bank statement balance and the general ledger balance that they had and it was plugged in. The staff definitely needs more training.

Mr. Purpera asked if the mayor had any idea who she would hire, and she responded that she would take any recommendations. Mr. Enright reminded the mayor that if they miss any bond payments that they need to notify the Bond Commission. Mayor Foulcard said all payments are current. Mr. Purpera stressed that the City needs to do much better but if they have another audit disclaimer, then the FRC will have to consider putting the City under fiscal administration.

VII. TOWN OF MELVILLE

Mr. Cryer said an investigative audit on the Town of Melville (Melville) was issued in 2014 and the records by the previous mayor were a complete mess. The last financial audit completed was 2013, and they have not completed their 2014 or 2015 audits, so approval was granted to do a biennial audit because of difficulty paying for an audit. Melville has had three clerks in the last two years and recently lost the utility clerk. Melville already meets two of the criteria for a fiscal administrator to be appointed. The only way to increase revenue is to increase utility rates, which is the primary income. But in a town of 1,100 people, only 523 are current on their utility bills, and \$85,000 is owed in uncollected bills. As of December 31, 2016, Melville had \$36,000 in cash. The best estimates of outstanding obligations total more than \$250,000.

Mr. Stuart Dickey, Advisory Services auditor, explained that Melville has a flat utility rate and does not have the ability to cut off utilities because other homes are added on the same lines. Other than a few special taxes and utilities, the only other source of income would be through grants, which they cannot receive because they are on the noncompliance list. Mr. Dickey added that the water system is in dire condition and could go out at any time.

Mayor Erana Mays said that she was newly elected in 2015 and found out that the prior mayor did not pay for the 2014 audit, and the legislative auditor is allowing both 2014 and 2015 audits to be completed together. She went through storage to find documents but could not find employee files, or basically any documents to work with. She called for copies of invoices and found out that over \$52,000 is owed. Mayor Mays said they receive about \$129,000 in water rates but have \$180,000 in expenses. The flat rates are \$26 for water and \$28 for sewer. When the Rural Water Association did an audit of their (the Town's) system, they found 33 leaks and that the 55-year-old system needs to be replaced. But the financial audit has to be completed before they can get any grants or funds to make repairs.

Mr. Stiles asked about their police chief and the viability of Melville's future. Mayor Mays said they need the leaks fixed because they are spending a lot of money on chlorine. Mr. Stiles asked if the water district were to be incorporated, would Melville do better not as a separate town. Mayor Mays said that the townspeople would pull too much water from another system and then every home would have to get a separate meter.

Mr. Purpera asked if she could reduce expenditures enough to pay for the audits. Mayor Mays responded that they cut back on the police department to only the elected police chief and three dispatchers, but the police chief only wants to sit home and not do his job. Mr. Purpera asked if they expect the police chief to take on more responsibilities. Mayor Mays said according to the Lawrason Act, she is unable to lay off any dispatchers because the police chief has that authority.

Mr. Purpera asked Mr. Stiles and Mr. Enright if a fiscal administrator would have the authority to lay off people and restructure the Town. His only concern is that Melville could not afford to pay a fiscal administrator. Mr. Stiles and Mr. Enright said they would review the legal authority of a fiscal administrator.

Mr. John Harris, a pastor and citizen of Melville, testified that the water leaks are bad, crime is increasing, and safety is a concern, but he is working three jobs so he can continue living in Melville. Mr. Harris said neighboring towns are growing but Melville has very poor infrastructure and needs help.

Mayor Mays said she has only lived in Melville for four years but believes it is a viable and good place to live. She is willing to work with St. Landry Parish and write more grant requests to get funding. Because of the mess she walked into, she and the aldermen agree that they need management help and would agree to a fiscal administrator.

Ms. Caretta Robertson, Melville council member, asked if a fiscal administrator would stop the activities for the children. Mr. Purpera answered that a fiscal administrator can change contracts and the government structure to improve Melville's operations. Mr. Enright explained that it is similar to a bankruptcy where the judge reorganizes the financial situation and services to be in line with revenue.

Mayor Mays said that she is willing to work with anyone and already confirmed that the USDA is willing to help with their water problems. She also is working with the Department of Transportation and Development (DOTD) for improving the highways but they need to receive funding to move forward.

Mr. Purpera asked if the fiscal administrator would have authority over the police chief and recommended further study of their finances to determine if a fiscal administrator could be paid. Mr. Stiles moved to defer this matter until the end of March to make a clear determination on the legal issues. Mr. Enright seconded the motion, and Mr. Purpera also approved the motion.

VIII. OTHER BUSINESS

No other business was discussed.

IX. ADJOURNMENT

Mr. Stiles made a motion to adjourn and with no objection the meeting of the Fiscal Review Committee adjourned at 3:25 p.m.

Approved by the Fiscal Review Committee at their meeting on: January 25, 2017

The video archive of this meeting can be found in the House of Representatives Video Archives:
http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2017/feb/0221_17_FiscalReview