

# STATE OF LOUISIANA

**Executive Department**  
**State of Louisiana**  
Baton Rouge, Louisiana

March 3, 2004



---

---

**LEGISLATIVE AUDITOR**

**DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Twenty-three copies of this public document were produced at an approximate cost of \$49.45. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at [www.la.state.la.us](http://www.la.state.la.us). When contacting the office, you may refer to Agency ID No. 3533 or Report ID No. 03800945 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

**EXECUTIVE DEPARTMENT**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

Management Letter  
Dated February 18, 2004

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

March 3, 2004



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (225) 339-3800  
FACSIMILE: (225) 339-3870

February 18, 2004

**HONORABLE KATHLEEN B. BLANCO, GOVERNOR**  
**EXECUTIVE DEPARTMENT**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2003, we considered the Executive Department's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Executive Department were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter on the Executive Department for the year ended June 30, 2002, we reported findings relating to the internal audit function, inadequate fund balance - Patients' Compensation Fund, leave use not required, and subrecipients not monitored. The findings relating to leave use not required and subrecipients not monitored have been resolved. The findings relating to the internal audit function and inadequate fund balance - Patients' Compensation Fund have not been resolved by management and are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2003.

**Ineffective Internal Audit Function**

For the twelfth consecutive year, the Executive Department does not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise controls. Act 13 of the 2002 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of \$30 million to use existing program resources and the table of organization to establish an internal auditor position.

LEGISLATIVE AUDITOR

HONORABLE KATHLEEN B. BLANCO, GOVERNOR  
EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA

Management Letter, Dated February 18, 2004

Page 2

Considering the size of the department's reported assets (\$452,802,492) and revenues (\$510,606,311), an effective internal audit function is important to ensure the department's assets are safeguarded and the department's policies and procedures are uniformly applied.

The Executive Department should establish an internal audit function to provide assurance that assets are safeguarded and to ensure that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

**Inadequate Fund Balance -  
Patients' Compensation Fund**

For the twelfth consecutive year, the Executive Department, Patients' Compensation Fund Oversight Board, did not maintain an adequate surplus in the Patients' Compensation Fund as required by Louisiana law. Louisiana Revised Statute 40:1299.44(A)(6)(a) requires that a surplus of 50% of the annual surcharge premiums, reserves established for individual claims, reserves established for incurred but not reported claims, and expenses be maintained in the fund.

For the fiscal year ended June 30, 2003, the accumulated balance of surcharges, reserves, and expenses is estimated to be \$684,211,190 which under Louisiana law would require a fund balance of \$342,105,595. As of June 30, 2003, the actual fund balance was \$172,413,989 resulting in a shortfall of \$169,691,606. This shortfall resulted from practices in effect before the Patients' Compensation Fund Oversight Board was created, whereby rates for medical malpractice premiums were not set based on experience ratings, including historical losses, interest payments, and future medical amounts.

The Patients' Compensation Fund Oversight Board should establish an adequate rate level to achieve the 50% surplus requirement over a reasonable period of time. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 2-3).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

LEGISLATIVE AUDITOR

HONORABLE KATHLEEN B. BLANCO, GOVERNOR  
EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA

Management Letter, Dated February 18, 2004  
Page 3

This letter is intended for the information and use of the department and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is written in a cursive style with a large, prominent initial "G".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

FP:BQD:THC:ss

[EXEC03]

## Appendix A

### Management's Corrective Action Plans and Responses to the Findings and Recommendations



State of Louisiana  
DIVISION OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

M. J. "MIKE" FOSTER, JR.  
GOVERNOR

MARK C. DRENNEN  
COMMISSIONER OF ADMINISTRATION

November 20, 2003

Mr. Grover Austin, CPA  
Legislative Auditor  
1600 North Third Street  
P. O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Austin:

Re: Audit Comment-Lack of Internal Audit Function in the Executive Department

We concur with the finding on this issue. This department did submit a request for funding in the prior years 2002-2003 and 2003-2004 for this purpose which were not approved. We will again request funding for this activity in our fiscal year 2004-2005 budget submission.

While funding has been an issue, another issue remains which has prevented implementation within this agency. Although Civil Service positions have been established, it remains our opinion, that the pay grade allocations provided are inadequate to attract the level of personnel having the qualification to perform this function. Filling of positions with personnel not having the experience and qualifications to perform the functions is not a practical resolution.

We agree this issue is important, not only to this department, but to all departments.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark C. Drennen".

Mark C. Drennen  
Commissioner of Administration

MCD/wjk

# State of Louisiana



**PATIENTS' COMPENSATION FUND  
OVERSIGHT BOARD  
OFFICE OF THE EXECUTIVE DIRECTOR**  
650 NORTH SIXTH STREET  
BATON ROUGE, LA 70802  
(225) 342-6052  
FAX (225) 342-6053  
pcf@lapcf.state.la.us

November 21, 2003

Mr. Grover C. Austin, CPA  
First Assistant Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804-9397

**RE: Inadequate Fund Balance**

Dear Mr. Austin:

We concur with the audit finding against the PCF for failing to achieve the fund surplus as required by the medical malpractice statute; however, this agency continues to make steady progress in reducing the unfunded liability.

The statute mandates that the Fund must be maintained so as to provide a surplus of 50% of the total of the annual surcharge premiums, current claim reserves, reserves for anticipated claims and expenses. When the Oversight Board assumed the responsibility for the Fund in late 1990, it inherited a large fund deficit. The surplus level was 9% in 1991. The Fund has made significant headway and at the close of the FY 02/03, the surplus had grown to 25.2%. Last fiscal year the surplus was 23.2%. An overall rate increase 7.4% was requested and approved by the Louisiana Insurance Rating Commission and will become effective January 1, 2004. This rate increase included a 5% deficit reduction load specifically to address the unfunded liability.

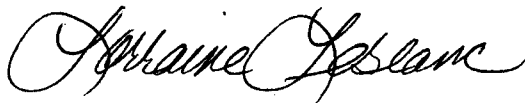
The Board continues to take measures toward meeting the statutorily imposed funding level. The implementation in 2002 of a fee schedule for medical payments, has reduced the overall payout in that area. Further, claims are regularly reviewed to ensure appropriate reserves are set. The staff continues to work to ensure claims are

appropriately and timely paid or defended if necessary. Administrative costs are closely monitored and kept as minimal as possible. There is a yearly actuarial study done to determine if a rate increase is necessary. The Board intends to introduce legislation in 2004 to make the statute more reflective of the industry standard for appropriate funding levels.

The Patient's Compensation Fund has always met its obligations to both the health care providers and injured parties, and will continue to do so in the future.

Should there be any questions or additional information needed, please contact me at 342-6051.

Sincerely,

A handwritten signature in cursive script that reads "Lorraine LeBlanc".

Lorraine LeBlanc  
Executive Director