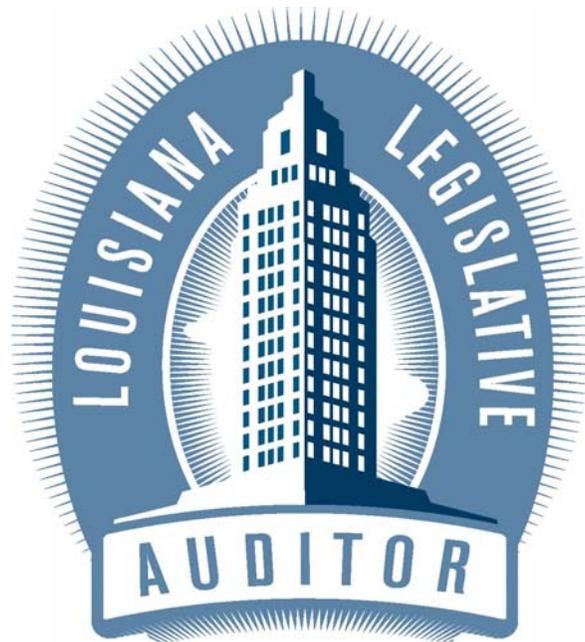


LOUISIANA ECONOMIC DEVELOPMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 26, 2019

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Economic Development

December 2019

Audit Control # 80190075

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019, we performed procedures at the Louisiana Economic Development (LED) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of LED's internal controls over financial reporting and compliance; and determine whether LED complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Inadequate Contract Monitoring

LED did not adequately monitor contractual agreements with private companies contracted to promote business establishment, expansion, and job growth in Louisiana. Failure to adequately monitor contractors and review detailed supporting documentation increases the risk that contract deliverables may not be provided, and that payments could be made to contractors without the goals and objectives of those contracts being met.

In a review of monitoring files and payment activity for 25 contracts valued at \$10.6 million with related payments of \$7.7 million during fiscal year 2019, we determined that seven (28%) contracts with related payments of \$926,747 were not adequately monitored to verify that contract reporting requirements including, but not limited to, payroll reports, cost reports, detailed invoices, and progress reports were met. Payments related to five (20%) of the contracts were made by LED without evidence that required reporting requirements had been met and that required supporting documentation was received. For example, payments of \$14,733 were made for travel that was not approved and documented in accordance with the Division of Administration's travel memorandum, PPM 49, which is specifically required by the contracts. Pre-approvals and other required supporting documentation were not submitted by the contractors or requested by LED before payment.

LED enters into contracts with private companies for the establishment, operation, and/or expansion of facilities and to develop industries and job growth in Louisiana. Contract provisions vary and must be actively monitored to safeguard public funds, to ensure that all required reports

are submitted, the deliverables are provided, and to ensure the successful completion of the contract goals and objectives. LED's training slides for contract monitors provide that monitors should ensure that contract payments are made in accordance with contract terms, that contract performance requirements are timely met, and that all required reporting is timely received from the company. However, LED did not have sufficient policies and procedures to clearly delineate the responsibilities of contract monitors and to require verification of reporting requirements and required supporting documentation prior to making contract payments.

Management should enforce consistent contract monitoring policies and procedures sufficient to ensure the contractor's compliance with the goals and objectives of the contract and to ensure compliance with payment terms of the contract. Procedures should include the collection, review, and analysis of reports and deliverables required by the contracts, as well as maintaining records in detail that allow for the review of documentation regarding contract related activities and progress.

Management did not concur with the finding, stating that, "No contract payments were made without required documents being received prior to payment." and that "... LED's management was able to ascertain that the contract monitor adhered to the contract requirements for reimbursement request." Management did note that it will assess improvements to its process for contract monitoring and will implement those improvements in the future (see Appendix A).

Additional comments: After reviewing both the monitoring and payment files for the contracts selected and having numerous discussions with management regarding the noted exceptions, no support was provided to evidence the contract reporting requirements were met.

Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2019, we considered internal control over financial reporting and examined evidence supporting the note disclosure required by Governmental Accounting Standards Board (GASB) Statement 77, *Tax Abatement Disclosures*. This GASB Statement requires disclosures of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

The note disclosure tested, as adjusted, is materially correct.

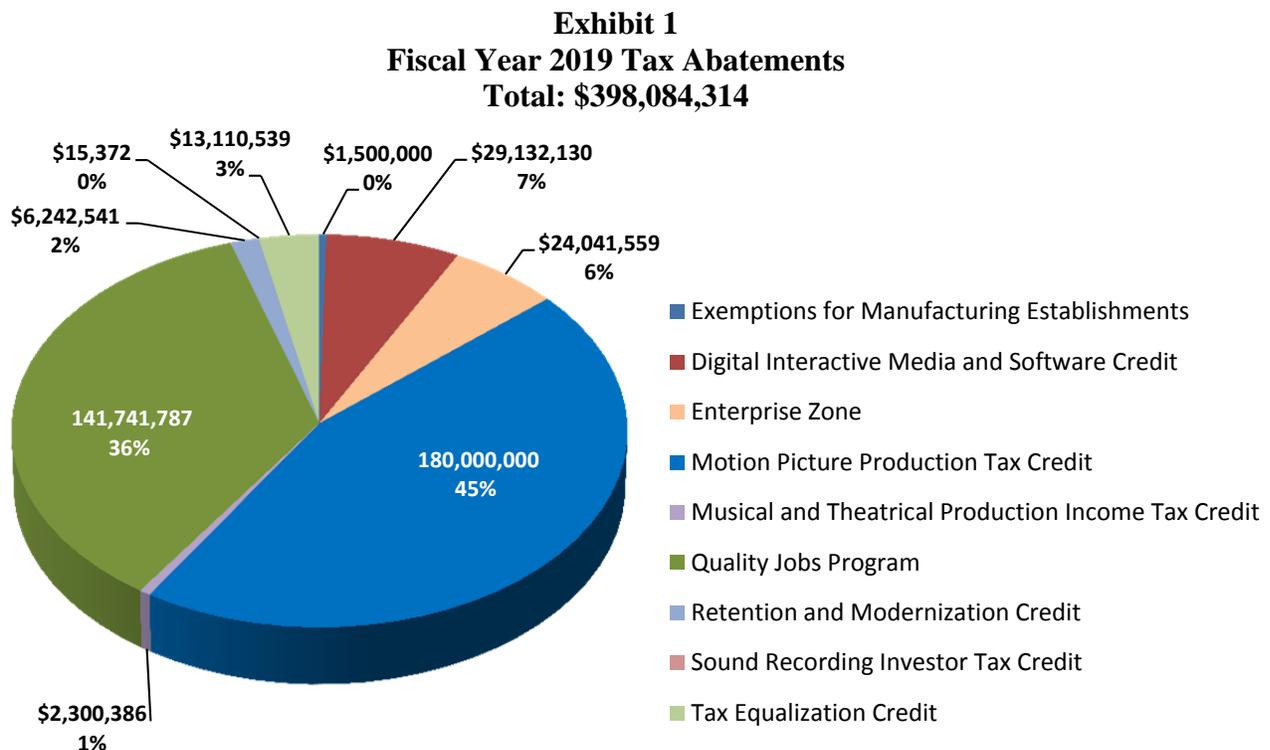
Other Procedures

In addition to the CAFR procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing LED's internal control and compliance with related laws and regulations over contractual agreements held by LED, including the related expenditures and compliance requirements as well as the required contract monitoring activities, and over LaCarte Card and CBA purchases.

Based on the results of these procedures, we reported one finding related to Inadequate Contract Monitoring, as described previously.

Trend Analysis

We compared the most current and prior-year financial activity using LED's Annual Fiscal Reports and/or system-generated reports and obtained explanations from LED's management for any significant variances. We also prepared an analysis of fiscal year 2019 Tax Abatement Disclosures. The 11 Tax Abatement Programs administered by LED were included in the disclosure; however, two of the programs, Competitive Projects Payroll Incentive and Ports Investor Tax Credits, reported no abatements for fiscal year 2019. Of the nearly \$400 million in tax credits granted, two programs, the Motion Picture Production Tax Credit and the Quality Jobs Program, represent 81% of total credits.



Source: LED FY 2019 Annual Fiscal Report

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of LED. The nature of the recommendation, its implementation costs, and its potential impact on the operations of LED should be considered in reaching decisions on courses of action.

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 blue ink that reads "Thomas H. Cole". The signature is written in a cursive style with a large, stylized initial "T".

Thomas H. Cole, CPA
First Assistant Legislative Auditor

ARC:EMS:BQD:EFS:aa

LED2019

APPENDIX A: MANAGEMENT'S RESPONSE



December 16, 2019

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Financial and Compliance Audit

Dear Mr. Purpera:

This letter is LED's official response to the finding in the Louisiana Legislative Auditor's (LLA) financial and compliance audit for the State of Louisiana's CAFR relative to alleged Inadequate Contract Monitoring during the fiscal year ending June 30, 2019.

LED Does Not Concur With This Finding:

LLA confuses contract reporting requirements with contract procedures for reimbursement. No contract payments were made without required documents being received prior to payment.

LED's contracts are very specific as to the requirements of the contract in order to process payments for reimbursement by LED's Fiscal Department upon the company achieving the performance criteria and documentation of funds for reimbursement as provided by the contract. Upon review of the specifics to each contract monitoring deficiency alleged by the LLA, LED's management was able to ascertain that the contract monitor adhered to the contract requirements for reimbursement request. Progress reports, in the contracts are keyed to specific reporting cycles while requests for reimbursement payments are triggered by performance and documentation of expenditures as required by the contract. Achievement of performance criteria and documentation of expenditures require and receive close review by contract monitors in order for LED to reimburse the company. More "formal" progress reports reflect the activities of the company and LED during a time period that is often annual or semi-annual relative to overall contract performance. The implication that LLA seeks to draw from this finding, that funds for reimbursement are disbursed without regard to contract criteria is erroneous and there should be no resulting finding based on this false assumption.

As another example, contract language specifically states approval must be obtained from LED prior to contractors traveling. The language does not require "written" approval. Contractors assisting LED are often required to act on short notice and change plans to meet the necessities of the contract and travel approvals are often given verbally when discussing the contractor's assignment. The contractor is then advancing its own money, not LED money, and must adhere to travel and other criteria in seeking reimbursement of those funds. If travel reimbursement requests are submitted that weren't pre-approved and consistent with criteria, LED would not process a payment for reimbursement.

LED recognizes the need for assessments that provide improvements on processes, so as a result of the annual audit, LED will assess process improvements in contract monitoring and implement those in the future.

We appreciate the commitment of the LLA staff in working with LED during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Pierson". The signature is fluid and cursive, with a large initial "D" and a long, sweeping tail.

Don Pierson
Secretary, LED

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at Louisiana Economic Development (LED) for the period from July 1, 2018, through June 30, 2019, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2019.

- We evaluated LED'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 LED.
- Based on the documentation of LED's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on the note disclosure required by GASB Statement 77, *Tax Abatement Disclosures*, to support our opinions on the CAFR.
- We compared the most current and prior-year financial activity using LED's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LED's management for significant variances.

In addition, we performed procedures that included obtaining, documenting, and reviewing LED's internal control and compliance with related laws and regulations over contractual agreements held by LED, including the related expenditures and compliance requirements as well as the required contract monitoring activities, and over LaCarte Card and CBA purchases. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at LED, and not to provide an opinion on the effectiveness of LED'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 purposes.

We did not audit or review LED's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. LED's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.