

LOUISIANA ECONOMIC DEVELOPMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED NOVEMBER 29, 2017

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Economic Development

November 2017

Audit Control # 80170133

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017, we performed procedures at 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. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

LED is a state agency with the mission of cultivating jobs and economic opportunity for the people of Louisiana. This mission includes nine economic strategies designed to promote economic growth in the state and to create a profitable environment for businesses to develop in or relocate to Louisiana.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in LED's procedural report dated December 14, 2016. We determined that management has resolved the prior-year findings related to Failure to Adequately Monitor Contractual Agreements and Ineffective Internal Audit Function. The prior-year finding related to Inadequate Controls over LaCarte and Controlled Billed Account (CBA) Purchases has not been resolved and is addressed again in this report.

Current-year Finding

Weaknesses in Controls over LaCarte and CBA Purchases

For the second consecutive engagement, LED did not adequately monitor controls over LaCarte card and CBA purchases, resulting in unauthorized purchases, an increased risk of errors and/or fraud, and noncompliance with the State of Louisiana's LaCarte purchasing card policy and LED's LaCarte card policy.

A review of 24 monthly statements for three LED LaCarte cardholders and seven CBA accounts during the period of October 1, 2016, through April 30, 2017, disclosed the following:

- Statements and supporting documentation were not reconciled by cardholders or reviewed by supervisors in a timely manner. Two LaCarte card statements (17%) and one CBA statement (8%) were forwarded to LED's fiscal section for payment before a complete review of required documentation was performed.
- LED's Fiscal Services failed to complete the required review on six of 24 statements (25%) by the 22nd of the month, as required by LED policy.

As required by the State of Louisiana's LaCarte Purchasing Card Policy, LED has established policies documenting all internal procedures for cardholders, supervisors, and the program administrator. LED's policies are written to ensure that the department complies with the state program guidelines. However, these policies are not being consistently followed and enforced.

LED management should enforce and monitor established policies and controls to reduce the risk of error and/or fraud in the LaCarte card and CBA programs. Management should continue to utilize WORKS Workflow functionality to ensure that all purchases are authorized and reconciled to supporting documentation in a timely manner and in accordance with LED policies and procedures. Management should consider decreased credit lines and/or card suspension for cardholders and supervisors who fail to follow program policies.

Management concurs in part, stating that while the shortcomings did exist, no purchases were unauthorized and no error or fraud existed in the transactions (See Appendix A).

Comprehensive Annual Financial Report (CAFR) - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2017, 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.

Based on the results of these procedures, we did not report any internal control deficiencies or noncompliance with laws or regulations. In addition, the note disclosure was 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 internal audit, contract expenditures, and LaCarte Card and CBA purchases as part of our follow-up to prior-year findings.

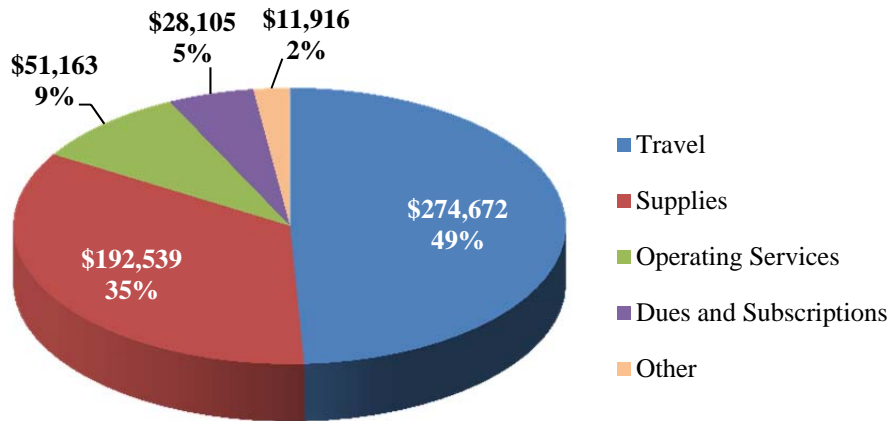
Based on the results of these procedures, we reported a finding related to Weaknesses in Controls over LaCarte and CBA Purchases, as described previously.

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 management for any significant variances. We also prepared an analysis of fiscal year 2017 LaCarte Card and CBA transactions. The majority of expenditures on the CBA and LaCarte Cards – 84% – is composed of travel and supplies expenditures.

Exhibit 1: Fiscal Year 2017 LaCarte and CBA Transactions

Total: \$558,395



Source: Statewide information system expenditure 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. The finding related to LED's compliance with applicable laws and regulations should be addressed immediately by management.

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

Respectfully submitted,

Thomas H. Cole, CPA
First Assistant Legislative Auditor

APPENDIX A: MANAGEMENT'S RESPONSE

September 8, 2017

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

Re: Single Audit of Louisiana – LED

Dear Mr. Purpera:

Louisiana Economic Development (LED) is in receipt of your findings and appreciates the opportunity to respond to the review: Single Audit of Louisiana, fiscal year ending June 30, 2017.

This letter is to serve as LED's official response to the finding relative to the weaknesses in controls over LaCarte and CBA purchases.

LED Does Not Concur (In Part) With This Finding:

No purchases were unauthorized, and there was no resulting error and/or fraud in the transactions reviewed and mentioned in the Finding. The results show that LED management enforced and monitored established policies and controls to negate the risk of error and/or fraud in LaCarte and CBA purchases. These policies and controls include LED's Fiscal Department acting promptly to verify approval of purchases prior to the payment of LaCarte and CBA statements.

Nevertheless, LED recognizes the shortcomings noted in the two exceptions set forth in the Finding and is acting to remedy those situations in the future.

LED implemented the use of WORKS Workflow on March 5, 2017, which has enabled LED's approvers to more quickly approve expenditures, leading to a decrease in processing time as Fiscal no longer must wait to receive physical copies of statements and originals for transaction review.

LED recognizes prior to implementation of the WORKS Workflow, delays of a few days may have occurred in the approval of the billing statement, but in no instance was there any occurrence of a transaction made prior to pre-approval. In addition, no delays were beyond the month of the billing cycle.

Annually, LED requires cardholders and approvers to attend in-person training and complete the LaCarte online training through LEO. LED will continue to place emphasis on timely approvals of transactions and billing statements through the WORKS system.

Thank you for your team's commitment to high standards and professionalism 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 the Louisiana Economic Development (LED) for the period from July 1, 2016, through June 30, 2017, 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. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2017.

- 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 a note disclosure 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 management for significant variances.

In addition, we performed procedures related to internal audit, contract expenditures, and LaCarte Card and CBA purchases as part of our follow-up to prior-year findings. 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 Reports, and accordingly, we do not express an opinion on those reports. LED's accounts are an integral part of the State of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.