

DEPARTMENT OF THE TREASURY

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED MAY 4, 2022

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

Department of the Treasury



May 2022

Audit Control # 80210061

Introduction

As a part of our audit of the State of Louisiana’s Annual Comprehensive Financial Report (ACFR) and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2021, we performed procedures at the Department of the Treasury (Treasury) to provide assurances on financial information that was significant to the state’s ACFR; evaluate the effectiveness of Treasury’s internal controls over financial reporting and compliance; and determine whether Treasury complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Control Weaknesses over Compliance with Coronavirus Relief Fund Requirements and State Laws

The Treasury did not consistently follow its policies and procedures for all grants awarded through the Main Street Recovery Program (Program), which provided reimbursement from the federal Coronavirus Relief Fund (CRF) to eligible Louisiana businesses for their COVID-19-related expenses, including business interruption.

During the fiscal year ended June 30, 2021, the Treasury awarded 20,705 grants totaling \$262 million. In a sample of 71 grants totaling \$915,417 that were disbursed to recipients during the fiscal year ended June 30, 2021, we identified the following exceptions:

- Nine (13%) recipients had other federal awards according to various federal databases, which were not reported by the recipients in their applications and had not been identified by the Treasury’s Program staff in calculating the eligible grant awards. To limit the risk of recipients receiving multiple federal awards for the same expenses (duplication of benefits), which is prohibited by federal CRF regulations, the Program’s procedures require Program staff to independently check certain federal databases to verify whether the applicant had other approved federal awards. Those other federal awards should have reduced the applicant’s COVID-19-related expenses in determining the final award amount unless the applicant provided documentation that those other federal awards were declined. Because

each applicant grant was capped at \$15,000 of their eligible COVID-19-related expenses, only two of these nine exceptions have the potential of duplicating benefits of \$8,100 (0.9% of sample), which is included in questioned costs for awards in recovery status as described below.

- One (1%) recipient's grant was based on expenses reported on a tax return without Program staff verifying the return was actually filed with Louisiana Department of Revenue, as required by Program policies. The record provided by the Louisiana Department of Revenue indicated the recipient had not filed the tax return used for the award determination. As a result, the recipient is ineligible for the \$15,000 (1.6% of sample) grant, which is included in questioned costs for awards in recovery status as described below.

The Treasury ceased awarding grants in January 2021 upon exhausting the Program's appropriation by the Louisiana Legislature of the CRF monies received by the state of Louisiana. The Treasury's post-disbursement grant review process included agreed-upon procedures performed by the Louisiana Legislative Auditor's Recovery Assistance Services (RAS) and reviews performed by the Treasury's staff. These post-disbursement grant reviews identified ineligible recipients and unsupported award amounts due to various issues such as insufficient documentation, failed validation of tax return with the Louisiana Department of Revenue, errors in award calculations, potential duplication of benefits, or potential recipient fraud. A RAS report dated April 15, 2021, identified unresolved exceptions totaling \$1,158,596 (1.32%) relating to applicant ineligibility and unsupported expenses from samples totaling \$87,792,565. In addition to the awards identified with unresolved exceptions in the RAS report, the Treasury's records indicate awards totaling \$783,999 were identified by the Treasury's staff that were disbursed to ineligible recipients or had unsupported award amounts.

For these awards totaling \$1,942,595 identified during the Treasury's post-disbursement award review process, the Treasury performed and continues to perform outreach efforts to resolve the issues with the recipients by requesting missing documentation or sending demand letters requesting the return of funds. The Treasury's records indicate that as of March 11, 2022, awards totaling \$880,710 have been resolved, and awards totaling \$1,061,885, or 0.4% of the total grants awarded, remain in recovery status without resolution and are considered questioned costs.

The Treasury developed its Program policies and internal controls to ensure compliance with the federal CRF regulations and the additional regulations established for the Program in the Louisiana Revised Statute 39:100.44. Good internal controls require the established controls be followed consistently prior to disbursing the grant to the recipient.

Based on the results of our sample and the Treasury's own post-disbursement grant review process, both described above, the Treasury's management did not ensure controls were consistently followed prior to disbursing payment to grant recipients. Failure to ensure internal controls are consistently followed increases the risk of noncompliance with state and federal regulations. Noncompliance with federal CRF regulations may result in the federal awarding agency disallowing those costs and the state of Louisiana having to repay the federal government.

The Treasury should continue its post-disbursement grant review processes for identifying awards that fail to comply with Program policies and continue efforts to resolve the compliance issue and/or recover the funds from the recipients. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

Annual Comprehensive Financial Report – State of Louisiana

As a part of our audit of the ACFR for the year ended June 30, 2021, we considered internal control over financial reporting and examined evidence supporting cash, investments, bonds, and unclaimed property.

The account balances and classes of transactions tested were materially correct.

Federal Compliance – Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2021, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on the Treasury's major federal program, the Coronavirus Relief Fund (Assistance Listing 21.019)

Those tests included evaluating the effectiveness of the Treasury's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether the Treasury complied with applicable program requirements.

Based on the results of these Single Audit procedures, we reported a finding related to Control Weaknesses over Compliance with Coronavirus Relief Fund Requirements and State Laws. This finding will also be included in the Single Audit for the year ended June 30, 2021.

Trend Analysis

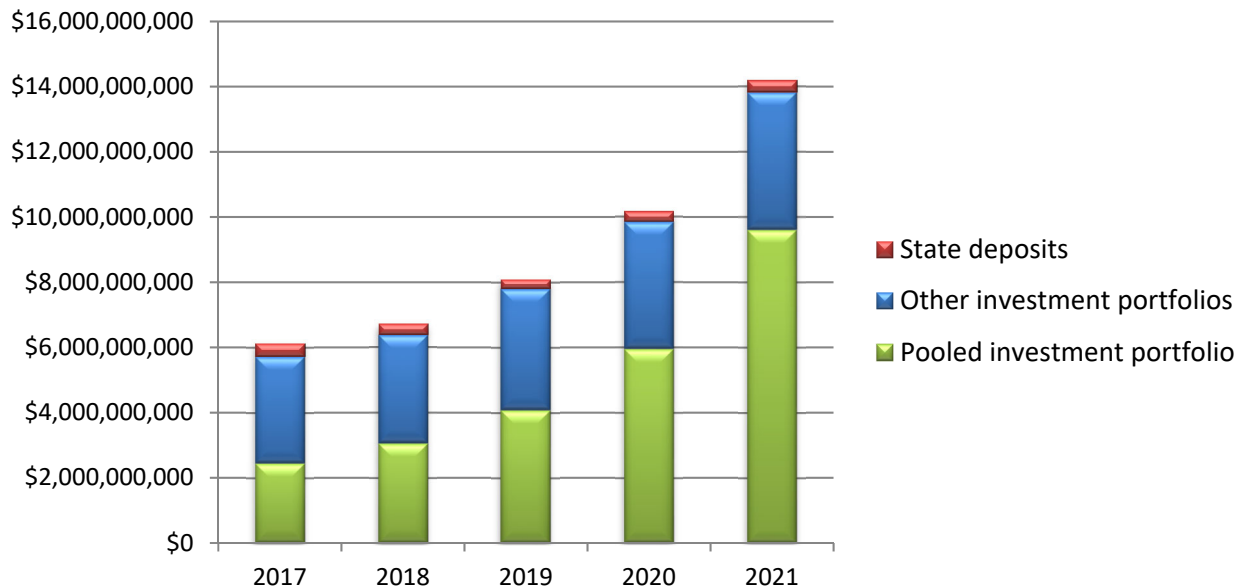
We compared the most current and prior-year financial activity using Treasury's Annual Fiscal Reports and/or system-generated reports and obtained explanations from Treasury's management for any significant variances.

We also prepared an analysis of state assets (Exhibit 1) and debt (Exhibit 2) that was managed by the Treasury during the five-year period ended on June 30, 2021.

The state's assets managed by the Treasury, totaling \$14.2 billion for fiscal year 2021, have been increasing since fiscal year 2017. Cash in the General Fund, Capital Outlay Escrow Fund, and various dedicated funds that are not needed in the short-term are invested in the pooled investment

portfolio. The state’s pooled investment portfolio has consistently increased since fiscal year 2017 primarily due to operating surpluses and federal dollars received in fiscal year 2020 and fiscal year 2021 to respond to the COVID-19 pandemic. The Treasury manages approximately 22 other investment portfolios totaling \$4.2 billion for fiscal year 2021. The funds managed in these other investment portfolios are either nonspendable (e.g., corpus of permanent funds) or the use is restricted to purposes specified by state law.

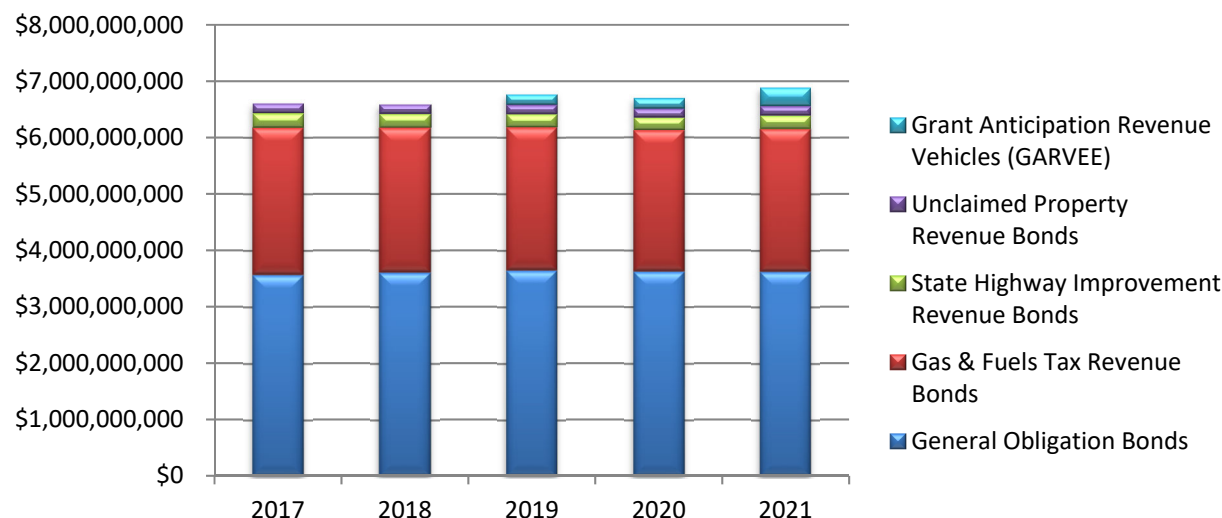
**Exhibit 1
Treasury-Managed State Assets at Year End
Fiscal Years 2017-2021**



Source: Treasury’s Annual GASB 40 Cash and Investment Letter

The state’s debt managed by the Treasury has slightly fluctuated between \$6.6 billion to \$6.9 billion during fiscal years 2017 through 2021. Although debt service payments were made annually on the principal, new debt has been issued every year from fiscal year 2017 to fiscal year 2021.

**Exhibit 2
Treasury-Managed State Debt at Year End
Fiscal Years 2017-2021**



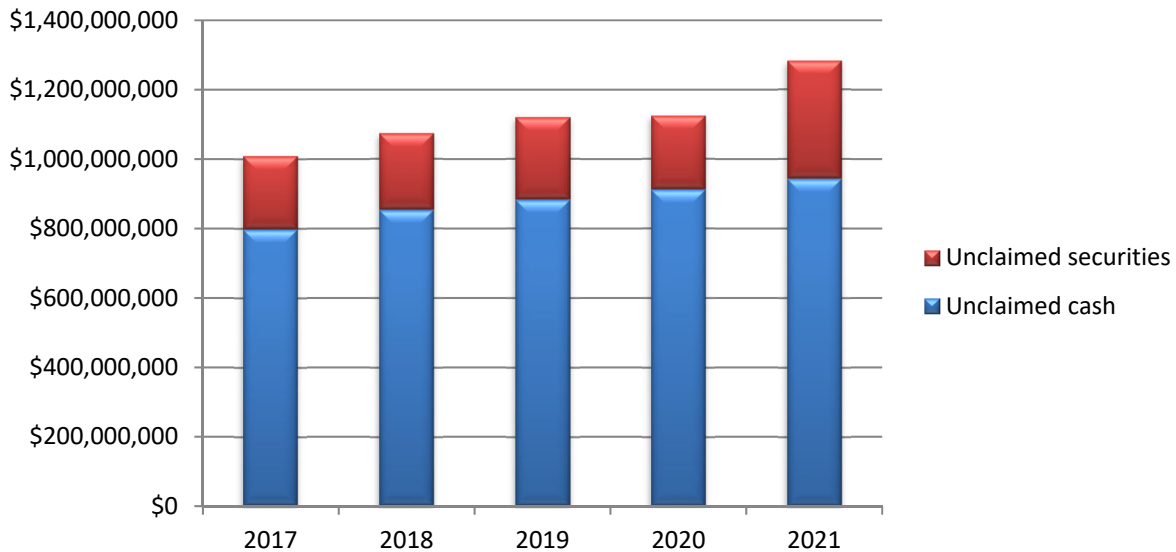
Source: ACFR and Treasury’s amortization schedules

We also prepared an analysis of the unclaimed properties on record at year-end over the last five fiscal years (see Exhibit 3). Cash and securities held by business associations, banking and financial organizations, and other legal entities that remain undelivered to its rightful owners after a prescribed time period are presumed abandoned and are required by state law to be remitted to the Treasury. The Treasury has record of \$942 million in unclaimed cash and \$340 million in securities that have been received from 1973 through fiscal year 2021 and remains unclaimed by the legal owners. During fiscal years 2017 through 2021, the abandoned cash remitted to the Treasury exceeded the amounts claimed by legal owners resulting in the annual increases, as shown in Exhibit 3.

Based on the Treasury’s analysis of historical claims and unclaimed cash receipts, the Treasury estimates \$269 million of the \$942 million in cash on record as of June 30, 2021, will be claimed by its legal owners. Since inception of the program through the end of fiscal year 2021, approximately \$938 million has been used by the state for various purposes as provided in Louisiana Revised Statute 9:165. On November 3, 2020, a constitutional amendment passed restricting the state’s future allowable uses of unclaimed money and creates the Louisiana Unclaimed Property Permanent Trust Fund, effective July 1, 2021.

The entire \$340 million in securities as of June 30, 2021, remain intact and are held by external investment companies.

**Exhibit 3
Unclaimed Property at Year-End,
Fiscal Years 2017-2021**



Source: Treasury’s unclaimed property reports

Other Report(s)

On May 5, 2021, a report was issued by Louisiana Legislative Auditor’s Recovery Assistance Services. Recovery Assistance Services performed agreed-upon procedures in accordance with *Governmental Auditing Standards* solely to assist the Treasury in evaluating the completeness and accuracy of grant applications and supporting documentation submitted by Louisiana businesses under the Main Street Recovery Program during the period July 1, 2020, through January 31, 2021. This report is available on the Louisiana Legislative Auditor’s website.

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of the Treasury. The nature of the recommendation, its implementation costs, and its potential impact on the operations of the Treasury 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,

Michael J. “Mike” Waguespack, CPA
Legislative Auditor

APPENDIX A: MANAGEMENT'S RESPONSE



JOHN M. SCHRODER

LOUISIANA STATE TREASURER

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April 14, 2022

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

Re: Control Weaknesses over Compliance with Coronavirus Relief Fund Requirements and State Laws

Dear Mr. Waguespack:

As per your staff's request on April 8, 2022, please accept this letter as our official response to the Louisiana Legislative Auditor's (LLA's) finding titled "Control Weaknesses over Compliance with Coronavirus Relief Fund Requirements and State Laws." The Department of Treasury concurs with the finding that (0.9%) of awards reviewed received a duplication of benefits and (1%) of awards reviewed did not include the documentation to support the award.

The Department of Treasury will continue post-disbursement grant review processes for identifying awards that fail to comply with Program policies and continue efforts to resolve the compliance issue and/or recover the funds from the recipients. Additionally, in April 2021, we implemented corrective actions to address these issues after they were identified in a LLA Recovery Assistance Services' report.

Established by Act 311 of the 2020 Regular Session of the Louisiana Legislature and administered by the Louisiana Department of Treasury (Department), the Main Street Recovery Program (MSRP) provided economic relief grants to small businesses impacted by the COVID-19 pandemic. The \$275M program began taking applications on July 1, 2020 and issued the last award in January 2021.

Unlike other state administered grant programs, the Department sought a partnership with the LLA's office at the program's inception to assist us in minimizing fraud and increasing compliance. When the last grant was awarded in January 2021, the LLA's Recovery Assistance

Services (RAS) had already reviewed 35% of all grant awards, or 7,323 grants totaling \$87,792,565. Our partnership resulted in a 1.32% rate of unresolved exceptions, well below the 2021 national government wide improper payment rate of 7.2%.¹

As a result of RAS's audit dated April 15, 2021, the Department issued demand letters to recover payments totaling \$1,158,596. In addition to demand letters issued as a result of the report, the Department identified another \$783,999 in grant awards found to be non-complaint or fraudulent. The Department also referred 107 applications to the Office of Inspector General (OIG) for further action. Combined, demand letters issued as a result of the RAS audit, demand letters self-imposed by the program, and fraudulent payments referred to OIG totaled \$1,942,495.

The Department's MSRP Policy Number 104, published July 24, 2020, states when calculating an applicant's pending MSRP award, the program will conduct a duplication of benefits analysis. A copy of that policy is attached.

In accordance with MSRP Policy Number 104, the program reviewed data obtained through Freedom of Information Act requests and available public databases before issuing a grant to prevent duplication of benefits. As an additional step in mitigating fraud, each applicant attested by their signature the following:

- I acknowledge that funds provided as a direct payment from the State of Louisiana pursuant to this Certification must adhere to the requirements of the Act as further explained in the official federal guidance issued or to be issued on what constitutes an eligible expenditure. Any funds received from the Recovery Fund by the Business Unit not in strict compliance with the Act and as further explained in the associated federal guidance shall be returned to the State of Louisiana within 14 days of such finding by any executive, administrative, legislative, or judicial body.
- I acknowledge that if the Business Unit or its subrecipient(s) fail(s) to timely return the funds in accordance with sections 4 or 5 above, then the State of Louisiana shall have the right to seek judicial enforcement in the Nineteenth Judicial District Court, Parish of East Baton Rouge, for the return of such funds.

Despite these precautions, the Department concurs two awards totaling \$8,100 are a duplication of benefits. Additionally, the Department concurs one award totaling \$15,000 did not include the documentation required to support the award. Demand letters were issued to these applicants on 3/25/22. Rachel Kincaid, Deputy Treasurer, is responsible for collection efforts for these applicants.

In summary, as of 4/13/22, the Department has issued demand letters totaling \$2,001,339. Of that amount:

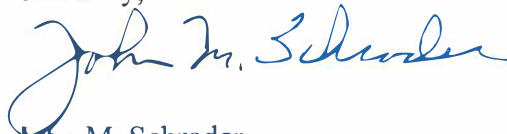
¹ "Improper Payment Rates Up; OMB Cites Pandemic-Related Reasons," FEDweek (2022), <https://www.fedweek.com/federal-managers-daily-report/improper-payments-rate-up-omb-cites-pandemic-related-reasons/> [April 11, 2022].

Cash collected and returned to fund	\$452,565.30
Resolved by additional information supplied by the applicant or manual verification that taxes have been filed with the Louisiana Department of Revenue	\$426,390.84
Outstanding with collection efforts ongoing	\$1,122,382.84

Additionally, \$280,462 has been turned over to the OIG for further action.

The Louisiana Department of Treasury will continue its collection efforts on all outstanding balances. Thank you again for your cooperation and partnership. If we can be of further assistance, please do not hesitate to contact our office.

Sincerely,



John M. Schroder
State Treasurer

JMS/rk

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of the Treasury (Treasury) for the period from July 1, 2020, through June 30, 2021, to provide assurances on financial information significant to the State of Louisiana’s Annual Comprehensive Financial Report (ACFR), 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, were a part of the audit of the ACFR and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2021.

- We evaluated Treasury’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 Treasury.
- Based on the documentation of Treasury’s controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the ACFR.
- We performed procedures on the Coronavirus Relief Fund (Assistance Listing 21.019) for the year ended June 30, 2021, as part of the 2021 Single Audit.
- We compared the most current and prior-year financial activity using Treasury’s Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from Treasury’s management for significant variances.

The purpose of this report is solely to describe the scope of our work at Treasury, and not to provide an opinion on the effectiveness of Treasury’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 Treasury’s Annual Fiscal Report, and accordingly, we do not express an opinion on that report. Treasury’s accounts are an integral part of the state of Louisiana’s ACFR, upon which the Louisiana Legislative Auditor expresses opinions.