DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA

PROCEDURAL REPORT
ISSUED NOVEMBER 5, 2008

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

October 15, 2008

DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Department of Economic Development for the period from July 1, 2006, through June 30, 2008. Our procedures included (1) a review of the department's internal controls; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities and (4) a review of compliance with prior report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected departmental personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

The Annual Fiscal Reports of the Department of Economic Development 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 opinions.

While we did not perform an audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we did perform certain procedures related to compliance with federal laws and regulations in accordance with those standards. Our procedures on the Business Recovery Grant and Loan Program, a subprogram of the Community Development Block Grant Program (CFDA 14.228), were performed for the period July 1, 2006, through June 30, 2007. Our procedures on the Temporary Assistance for Needy Families (CFDA 93.558) MicroEnterprise Development program were performed for the period July 1, 2007, through June 30, 2008. Our findings related to federal compliance testing are included in this procedural report and will be included in the Single Audit Reports for the State of Louisiana for the years ended June 30, 2007, and June 30, 2008, respectively.

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In our prior report on the Department of Economic Development, dated June 23, 2006, we reported findings relating to no independent review of expenses reported for movie tax credits, noncompliance with Enterprise Zone Program regulations, lack of a current disaster recovery/business continuity plan, lack of controls over certificates of deposit, and no comprehensive risk-based internal audit plan. The findings related to the movie tax credits, disaster recovery plan, and the internal audit plan were resolved by management. The finding related to lack of controls over certificates of deposit was substantially resolved by management. The finding relating to the Enterprise Zone Program is addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Inadequate Subrecipient Monitoring

The Department of Economic Development (DED) did not perform adequate monitoring reviews of its subrecipients of the Business Recovery Grant and Loan Program, a sub-program of the Community Development Block Grant Program (CFDA 14.228). In accordance with Office of Management and Budget Circular A-133 and the Memorandum of Understanding (MOU) between DED and the Office of Community Development (OCD), the department is required to conduct on-site monitoring visits of subrecipients, ensure that the grant and loan documentation is complete, and provide written documentation of the agency’s monitoring activities.

The Performance Audit Division of the Office of the Legislative Auditor issued a report on the Business Recovery Grant and Loan Program in October 2007. The audit found that the department did not monitor its intermediaries (subrecipients) as required by the agreement with OCD. The department did not conduct any reviews of the grant application files. As a result, the performance audit found that 53 of 68 files (78%) did not have proper documentation of eligibility; seven of the 68 files (10%) showed that the applicants were ineligible; and 11 of the 68 applicants (16%) were awarded incorrect grant amounts. Adequate monitoring procedures should have detected these errors before the disbursement of funds.

Management did not ensure that controls were in place to determine compliance with federal and state monitoring requirements. Failure to adequately monitor program subrecipients results in noncompliance with federal regulations and the state MOU. Inadequate monitoring of subrecipients also increases the risk that funds may not be expended in accordance with program requirements resulting in disallowed costs by the federal grantor.

Management should develop and implement adequate subrecipient monitoring procedures for the Business Recovery Grant and Loan Program to ensure that subrecipients are complying with applicable federal and state requirements. Management concurred with the finding and recommendation and outlined corrective action (see Appendix A, pages 1-6). Attachments referred to in management’s response can be obtained from the Department of Economic Development.

Noncompliance With Temporary Assistance for Needy Families - MicroEnterprise Development Program Requirements

DED did not comply with the regulations for administering the Temporary Assistance for Needy Families program (TANF - CFDA 93.558). DED uses TANF funds to support its MicroEnterprise Development (MED) program. TANF regulations require that a participant parent's eligibility be verified by his/her child's birth certificate, adoption papers, baptism certificate, or some other form of documentation. The MOU between DED and the Department of Social Services (DSS) also requires that DED reimburse MED contractors for each hour of participant class attendance and that DED site visits to contractors be performed at least quarterly.

Procedures performed on the TANF program disclosed the following conditions:

- Two of seven participants (29%) tested were not eligible for the TANF MED program. Questioned costs totaled $1,025.
- Three of 18 participants (17%) tested did not attend all the required class hours and the contractors were overpaid $304 for class hours that the participants did not attend. While performing this test, additional overpayments totaling $1,351 were noted for class hours that 15 participants did not attend. Questioned costs totaled $1,655.
- DED did not perform quarterly site visits on three of five contractors (60%) tested.
- For two of 18 participants (11%) tested, payments were made to contractors prior to the supporting documentation being received and reviewed by DED.

DED has not placed sufficient emphasis to ensure that contractors submit adequate supporting documentation; the supporting documentation is reviewed prior to invoice payment; payments are made for actual class attendance; and quarterly site visits are conducted. These deficiencies increase the risk of ineligible client participation and unallowable costs. Adequate monitoring is needed to ensure that errors and/or fraud are prevented or detected timely.

DED management should comply with TANF/DSS regulations and strengthen controls to increase program efficiency. Management concurred in part with the finding and described corrective action (see Appendix A, pages 7-8).

Noncompliance With Enterprise Zone Program Regulations

For the second consecutive engagement, DED did not comply with the Enterprise Zone Program regulation regarding Inspection/Audit Affidavits. Louisiana Administrative Code Title 13 Part 1 Chapter 7 Section 725(D) states that the applicant shall file an original and a copy of the Inspection/Audit Affidavit Form showing a complete list of buildings and equipment and the cost of each item on the project with the appropriate fee for the inspection, which will be completed by the Business Incentives Division of the Office of Business Development. This affidavit must be filed within six months of the project/construction ending date or when the signed original contracts are returned to the Business Incentives Division, whichever is later.

In a review of 12 contracts, 10 (83%) contracts did not have the Inspection/Audit Affidavit filed within the required time frame. As of March 3, 2008, seven Inspection/Audit Affidavit forms have yet to be submitted and are between 7 to 16 months overdue while three forms were submitted between 2 to 16 months late. In addition, since a $100 fee must be submitted with an Inspection/Audit Affidavit Form, DED is not collecting this fee in a timely manner.

DED has not placed sufficient emphasis on ensuring that an Inspection/Audit Affidavit is performed and filed timely as required. Failure to obtain an Inspection/Audit Affidavit for each business receiving Enterprise Zone tax credits increases the risk that tax credits may have been granted based on inaccurate or incomplete data and places the department in noncompliance with program regulations.

DED management should ensure that Audit/Inspection Affidavits are submitted in compliance with Enterprise Zone Program regulations and that fees are collected timely. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 9-10).

The recommendations in this report 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. The findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

Other Reports

Additional audits and procedures have been performed on the Business Recovery Grant and Loan Program by the Louisiana Legislative Auditor that cite control weaknesses and/or deficiencies in the program and include management's responses, as appropriate. These reports can be accessed on the Internet at www.lla.la.gov:

- *Business Recovery Grant and Loan Program - First Round Grant Awards*, Performance Audit Division, issued October 24, 2007

- *Business Recovery Grant and Loan Program - Agreed-Upon Procedures Report,* Recovery Audit Division, issued July 16, 2008

This report is intended solely 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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

Bobby Jindal
GOVERNOR

Stephen Moret
SECRETARY

State of Louisiana
LOUISIANA ECONOMIC DEVELOPMENT

March 26, 2008

Mr. Steve. J. Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This is in response to your request to provide your office with an official response relating to the audit finding of "Inadequate Subrecipient Monitoring" within Phase I of the Louisiana Business Recovery Grant and Loan Program.

As with the same finding from the Performance Audit Division of the Office of the Legislative Auditor, in their October 2007 report, the Department of Economic Development (LED) concurs with the finding and recommendation, and has already implemented broad corrective actions, as detailed below and in the attached Monitoring Plan. At the same time, LED would like to reiterate the particular circumstances of the initial phase of the program – particularly timing and lack of resources – which were out of LED's control and led to this finding.

* * *

Overview

16 months after Katrina and Rita, Louisiana's small businesses, the backbone of the economy, were in deep crisis. Over 80,000 had been impacted by Katrina and Rita, and thousands were on the verge of shutting down to the slow return of markets and the lack of other support (e.g., SBA loans). Because this was seen as an emergency, LED was asked by Governor Blanco to quick-launch a pilot program in a period of weeks.[1] LED was not afforded the months typically allowed to plan and organize a program of this magnitude. Furthermore, LED was not given any additional resources to manage a program that had grown by over 15x. Nevertheless, LED is proud of the critical and substantive assistance that the BRGL has delivered to thousands of worthy businesses across Louisiana. It should be noted that none of the audits on the BRGL have indicated issues of fraud.

[1] The need for the program was heard at a November 27, 2006 public meeting; the new program was then announced on December 7, 2006; the program was formally launched January 23, 2007.

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LED appreciates the work of the Office of Legislative Auditor, and feels that through our joint efforts, we are building an even better program for the future. LED agrees with the recommendations of the LLA, and has implemented them. LED looks forward to continuing to work with the LLA as well as the Office of Community Development (OCD) on the next round of the BRGL, so we can continue to serve the needs of the small business community of our State as it recovers from the devastating effects of the storms.

With the next Phase of the grant and loan program imminent, LED has now:

- **Hired a full monitoring staff with the funds approved by OCD**
- **Implemented a full monitoring plan for Phase I (attached)**
- **Been planning a full monitoring procedure and schedule for Phase II**

The above will ensure that all subrecipients comply with applicable federal and state requirements.

Detail

The Business Recovery Services division of Louisiana Economic Development was established in the fall of 2006 to manage a $38M loan program "Small Firm Loan and Grant" (SFLG) and a $9.5M technical assistance program. The loan program would have served perhaps 400 businesses. With a staff of five (2-3 dedicated to the SFLG) Business Recovery Services would have had adequate resources to develop, implement and monitor these two programs.

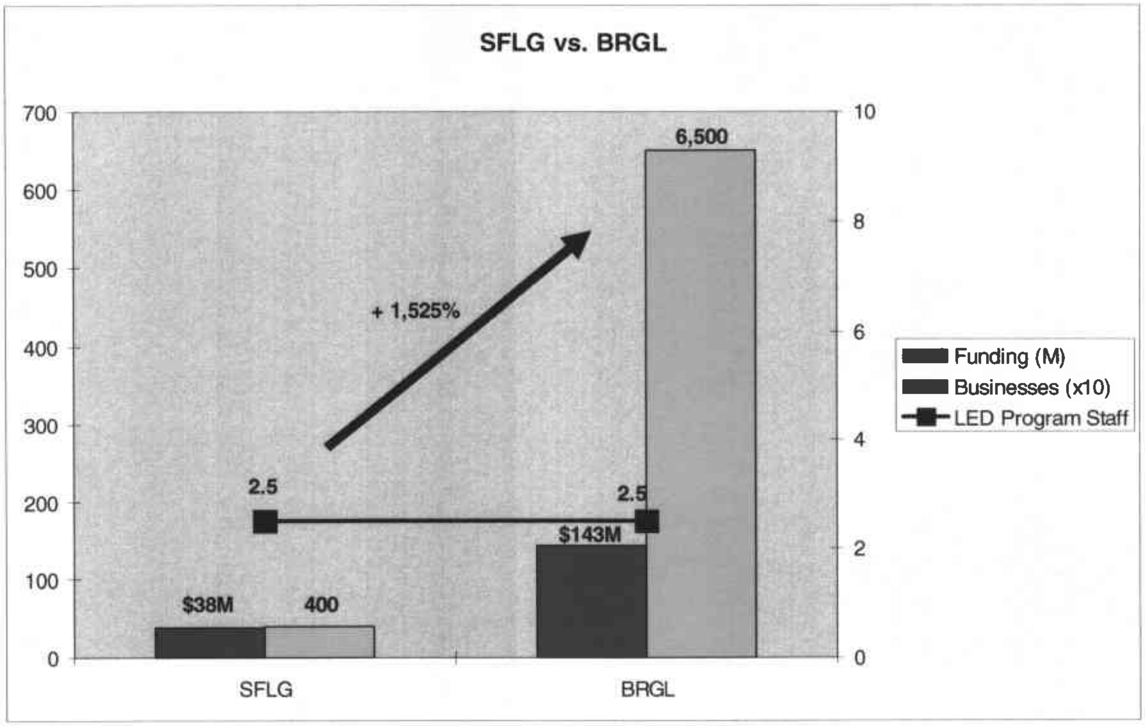
In December 2006, after hearing first-hand of the need, Governor Blanco determined to transform the SFLG into a majority grant program, the "Louisiana Business Recovery Grant and Loan Program." Business Recovery Services was suddenly asked to manage a program that would now be $143M in size, and would directly involve approximately 6,500 businesses – **over a 15 times explosion in size.**

Original Program (SFLG)		New Program (BRGL)	Change
$38M		$143M	**3.5x growth**
~400 awards	→	~6,500 awards	**16x growth**

[It should be noted that the intermediaries responded to the original RFP for the SFLG (predominantly) loan program, not the BRGL (predominantly) grant program. Given the massively increased demands of the BRGL, 4 four of the 11 chosen intermediaries actually dropped out of the program; the remaining seven made significant efforts to staff-up and redeploy resources in order to successfully deliver for their constituents and the state of Louisiana.]

Until September, 2007 the total number of individuals in Business Recovery Services remained at five, with <u>2.5 FTEs working on the BRGL on a daily basis</u> (0.5 Director + 1 Program Manager + 3x0.5 support staff). None of the additional $105M allocated to LED was approved for additional program management resources.

<u>**Original SFLG versus Expanded BRGL Program Size**</u>



Concerned about insufficient resources, LED made formal (see below) and informal (in weekly LED/OCD/LRA meetings) requests for additional staffing since the beginning of the program in the first quarter of 2007.

For example:

<u>*4/4/07 from Sec. Michael Olivier (LED) Email to Comm. Jerry Luke LeBlanc (DOA)*</u>

"Jerry,
We need more staff for this program. When we brought Michael Hecht on board, it was to manage a $47.5 million CDBG loan ($38 million) and technical assistance ($9.5 million) programs. Now, he will be managing $220 million in loans, technical assistance and GRANTS. Rather than initially planning to deal with about 500 businesses, we are anticipating dealing with 16,000 businesses. The Legislative Auditor is now conducting a continuous audit of this program and has made it clear that our current staffing is unacceptable. Please see attached justification and facts regarding this critical issue."

LED performed as much monitoring as possible with a single program manager. Contrary to the report, LED did, in fact, review grant application files – as many as possible with a single staffer and 6,500 applications.

Also, because of limited resources, LED relied on a "train-the-trainer" methodology, whereby program leads from each intermediary were trained, and then asked to train their staff.

Round 1 program materials, developed by LED and reviewed and accepted by OCD, were intended to ensure compliance with federal and state regulations. These included:

- BRGL Application Process Overview
- BRGL Funding Process Overview
- BRGL Application Checklist
- BRGL Eligibility Checklist
- BRGL Grant Application
- BRGL Loan Underwriting Checklist
- BRGL Program FAQs
- BRGL Workshop and Intake Center Schedule

Additional funds to hire monitoring resources were finally approved by OCD the week of September 17, 2007 and LED has now hired 4 compliance staff (with one additional to be hired after the hiring freeze).

The difference in original versus September 2007 approved staffing is four-fold:

Original Staffing

#	Title	Allocation to BRGL	Allocation to TASF*
1	Director	.5	.5
2	BRGL Manager	1	--
3	TA Manager	--	1
4	Accountant	.5	.5
5	Admin Assist	.5	.5
		2.5 FTE	

September 2007 Approved Staffing

#	Title	Allocation to BRGL	Allocation to TASF*
1	Director	.5	.5
2	BRGL Manager	1	1
3	TA Manager	--	--
4	Accountant	.5	.5
5	Admin Assist	.5	.5
6	Compliance Manager	1	--
7	Compliance Assistant	1	--
8	Compliance Assistant	1	--
9	Compliance Assistant	1	--
10	Compliance Assistant	1	--
11	Database Manager	.5	.5
12	Constituent Services	1	--
13	Accountant	1	--
		10 FTE	

* TASF = Technical Assistance for Small Firms program

Corrective Action and Conclusion

In conclusion, while the Louisiana Business Recovery Grant and Loan Program was initially quick-launched, in emergency circumstances, without sufficient resources for full monitoring, the program now has been given those resources, and has implemented a comprehensive monitoring program for both Phase I and Phase II of the program:

Action	Status
• Hiring of full Monitoring and Compliance Staff	Complete
• Implementation of full Monitoring Plan for Phase I	Complete, see attached
• Monitoring Plan for Phase II	In development, will be complete for April 2008 program launch

LED is confident that with the above plan, adequate subrecipient monitoring will be ensured. This plan has been reviewed with both the Office of Community Development, the Louisiana Recovery Authority, and the U.S. Department of Housing and Urban Development, and all are in agreement.

If you have any further questions, please contact me at (225) 342-5437 or Michael Hecht, Director of Business Recovery Services, at (504) 556-9795.

Sincerely,

Fran Gladden

Fran Gladden
Undersecretary

LOUISIANA ECONOMIC DEVELOPMENT

Bobby Jindal
Governor

Stephen Moret
Secretary

28 August 2008

Diane Genre
Office of the Legislative Auditor

RE: Audit Findings, TANF – CFDA 93.558

Dear Miss Genre,

This is a response to the above mentioned audit findings. Below are Louisiana Economic Development's responses to the findings.

1. Finding: Two of the seven participants tested were not eligible for the TANF MED Program. Questioned costs totaled $1,025.

   RESPONSE: DISAGREE: The decision on eligibility was made upon advice from the Department of Social Services. In the future, all eligibility issues will be formally submitted to DSS for advice prior to program enrollment pursuant to the 2008-2009 MOU with DSS and with LED's contractors. Furthermore, all verification of eligibility will be required before payment, pursuant to the 2008-2009 MOU with DSS and with LED's contractors.

2. Finding: Three of the 18 participants tested did not attend all the required class hours. Additional payments totaling $1,315 were noted for class hours that 15 participants did not attend. Questioned costs totaled $1,655.

   RESPONSE: AGREE: All questioned costs have been recouped. In the future, LED will require that contractors submit training costs specific to each training component indentifying total hours for validation before processing and payment. It will be implemented through contractual language in the 2008-2009 MOU with LED's Training Providers. In addition, LED will audit all invoices for supporting documentation prior to payment.

3. Finding: For two of the participants tested, payments were made to contractors prior to the supporting documentation being received.

   RESPONSE: AGREE: All documents have been received. In the future, LED will require that contractors submit training costs specific to each training component indentifying total hours for validation before processing and payment. It will be implemented through contractual language in the 2008-2009 MOU with LED's Training Providers. In addition, LED will audit all invoices for supporting documentation prior to payment.

4. Finding: DED has not placed sufficient emphasis to ensure that contractors submit adequate supporting documentation.

   RESPONSE: DISAGREE Standard procedures call for informing contractors of eligibility documentation and comments on desk audit findings. Furthermore, contractors come to an orientation in the first quarter of every

Post Office Box 94185, Baton Rouge, Louisiana 70804-9185
1051 N. 3rd St. - 70802
Phone (225) 342-3000 http://led.louisiana.gov
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contract year, in which they discuss new procedures and policies and any changes from the previous contract year.

5. Finding: (paraphrase) Quarterly site visits are not conducted per the MOU.
   RESPONSE: AGREE: There are several contractors that, because of other funding sources, do not find the need to send an invoice to LED more than several times a year. Although LED requests invoices every month, some contractors do not send them. These contractors also have been with the program for many years and are keenly familiar with program requirements. For these contractors, it is impractical to visit them to discuss classes and procedures that LED is aware of already. Instead of a visit, LED maintains constant telephone and email conversations with such contractors. Let it be noted that for those that consistently send invoices and those that are new to the program, consistent site visits and audits are conducted. The MOU for 2008-2009 has been changed to allow for quarterly conference calls for those contractors that do not need as much face to face monitoring. Our intent is not to reduce site visits and monitoring, but to make the monitoring mechanism more flexible.

Louisiana Economic Development appreciates the Legislative Auditors' comments as we are constantly striving to ensure the program is in compliance with all regulations.

Sincerely,

Fran Gladden

Fran Gladden
Undersecretary

RBA

CC: Stephen Moret
Don Pierson
Pat Witty
John Matthews
Doug Kopp
Kathy Blankenship
Drew Murray
Terry Williams

BOBBY JINDAL
GOVERNOR

STEPHEN MORET
SECRETARY

State of Louisiana
LOUISIANA ECONOMIC DEVELOPMENT

June 6, 2008

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This is in response to your request to provide your office an official response relating to the audit finding regarding Response to audit finding on Enterprise Zone Program Regulation.

Louisiana Economic Development concurs with the finding that the inspection/audit affidavit, signifying that construction of the project is complete, form for 10 of the 12 contracts cited in the finding were not received within the prescribed time frame. While this finding was cited in 2006 as well, the same issues surround our inability to perform inspections and follow thru in requesting the timely submission of the affidavits from the respective companies. The former LEDPRO database which was in production during the last audit cycle did not meet our needs and was abandoned. LEDPRO has now been replaced by a new database called FASTLANE which launched this Spring and has been in development over the last two years. The redevelopment of the Business Incentives Database has caused a delay in our ability to properly address the prior audit finding. In addition, the Division has been sorely understaffed and this issue has now been addressed as well.

We are taking the following steps to correct this finding:

- Three additional Business Staff are currently being hired in the Division (the hiring freeze issued by the Governor in January resulted in a delay in the ability to fill the 3 new positions this year). With the additional staff, we will have adequate resources to address this issue as well as other workload issues.
- Our new database, FASTLANE, is currently being modified with enhanced capabilities. A new feature currently under development will enable automatic notification via email to customers that the due date for the affidavit of final cost is approaching. The notice will instruct the customer how to access the database electronically and enter their

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affidavit of final cost by the due date. The database will also instruct them how to pay the $100 fee associated with the affidavit of final cost (by credit card or e-check). We expect this capability to be available no later than December 31, 2008. The database will also have the ability to query, in real time, which ones have not been completed which will give staff the proper monitoring tool which does not exist today.

The department has taken steps to ensure that the Audit/Inspection Affidavit Forms will be submitted timely in compliance with Enterprise Zone regulations.

If you require further information, please contact me at 225/342-5437.

Sincerely yours,

Fran Gladden

Fran Gladden
Undersecretary

FG:kb

cc: Diane Genre, CPA
Senior Auditor