

LEGISLATIVE AUDITOR

STATE OF LOUISIANA



DEPARTMENT OF
ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA

AUDIT REPORT
ISSUED JUNE 9, 2004

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

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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
www.lla.state.la.us

May 6, 2004

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. Our procedures included (1) a review of the department's internal control; (2) tests of financial transactions for the period from July 1, 2002, through May 6, 2004; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the period from July 1, 2002, through May 6, 2004; and (4) a review of compliance with prior year 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 these 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 finding related to federal compliance testing is included in this procedural report and will be included in the Single Audit Report for the State of Louisiana.

In our prior report on the Department of Economic Development, dated June 20, 2002, we reported a finding relating to noncompliance with Economic Development Award Program requirements. This finding has been resolved by management.

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

Temporary Assistance for Needy Families (TANF) Program:
Noncompliance With Certain Federal and State Requirements

The Department of Economic Development (DED) did not comply with certain federal and state requirements for administering TANF (CFDA 93.558). The department uses TANF funds to support its small business training and microlending programs.

Audit procedures performed on the TANF programs at DED disclosed the following conditions:

- For activities associated with one small business training contractor, the Economic Development Assistance Center, 61 (49%) of the 123 client files reviewed contained insufficient documentation to support compliance with eligibility requirements resulting in questioned costs of \$48,404. Upon further review of the documentation of services provided, documentation was insufficient to determine if clients received \$10,794 in training services billed to DED. Questioned costs total \$59,198.
- A total of \$179,850 was paid by DED to microlending contractors on August 11, 2003, in anticipation of making loans and/or loan guarantees. Of this amount, only two loans totaling \$12,500 were made in the following three months. Since the contractors did not have plans for immediate disbursement, DED may have violated 45 CFR 92.21(c), which states that subgrantees “shall be paid in advance, provided they maintain or demonstrate a willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement.” Questioned costs total \$167,350.
- The Memorandum of Understanding (MOU) between the Department of Social Services (DSS) and DED states that “dollars recouped through loan repayment will be available to a statewide microlending pool not subject to TANF eligibility requirements.” However, this language does not comply with 45 CFR 92.25 (a), which states that program income includes, but is not limited to, income from payments of principal and interest on loans made with grant funds and may be deducted from outlays, added to the project budget, or meet matching requirements. The microlender has collected \$3,033 in loan repayments and interest.

DED monitoring procedures were not sufficient to ensure TANF funds were administered in compliance with laws, regulations, and provisions of the contracts and/or grant agreements. In addition, DED relied on its MOU with DSS for compliance with the TANF program, which does not comply with the federal requirements regarding advances and program income. Failure to establish and follow adequate monitoring procedures to ensure compliance with federal and state regulations can result in payments made to ineligible clients, payments made in the wrong amounts, and noncompliance with federal and state regulations. As a result of the exceptions noted previously, questioned costs total \$226,548.

Management should ensure that its TANF programs are in compliance with federal and state regulations and should work with the grantor to determine the extent that federal funds need to be reimbursed. Management concurred with the finding and outlined plans of corrective action (see Appendix A, pages 1-2).

Insufficient Monitoring of Contract Payments

DED did not perform monitoring procedures over contracts in accordance with contract requirements. Good internal control includes an adequate review function to ensure reimbursement requests are legitimate and necessary under the terms of the contract. Monitoring requirements within the department’s contracts provide that the contract monitor should identify ineligible items requested in cost reports, maintain telephone and/or e-mail contact no less often than quarterly with the contractor, and/or make site visits to review progress and verify information as outlined in written quarterly progress reports.



During fiscal year 2004, payments totaling \$849,524 were made on four contracts without the contract monitor performing a review of supporting documentation or maintaining proper contact with the contractors to verify that the payment information submitted was valid and necessary. Additional procedures performed on eight invoices totaling \$146,683, which related to two of the four contracts, disclosed that there was no support or insufficient support for charges totaling \$15,744.

Failure to maintain an adequate monitoring function increases the risk that state funds may be lost because of errors and/or fraud and not be detected in a timely manner.

Management should ensure departmental contract monitors comply with the monitoring procedures described in each contract. In addition, management should determine if amounts paid on these four contracts were valid and necessary. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

**Leave Use Not Required and
Work Hours Uncertified**

DED does not require unclassified employees to take leave when out of the office during the normal 8-hour workday or certify hours worked on time and attendance sheets. Unclassified employees earn sick and annual leave each pay period; however, they are not required to take leave when away from the office and are not required to prepare time and attendance sheets.

A review of leave taken during calendar year 2003 disclosed that 14 of 23 unclassified employees took no leave during 2003 while continuing to earn sick and annual leave. Management does not require unclassified employees to take leave if they are available to the office during the normal workday since they are considered on call at any time during a 24-hour period and are not permitted to earn compensatory time for work beyond a normal 8-hour workday. The policy is based on Executive Orders MJF 98-23 and MJF 01-58.

DED's failure to require employees to take annual or sick leave when not conducting state business during normal working hours may constitute a donation of public funds, which would be prohibited by Article VII, Section 14(A) of the Louisiana Constitution of 1974. Furthermore, without a certified time and attendance record, there is no support for the accumulation of sick and annual leave credited to the unclassified employees.

Management should establish policies that require unclassified employees to take leave when not conducting state business during their normal working hours and to certify their hours worked on time and attendance sheets. Management did not concur with the finding or recommendation and asserts that DED is in compliance with Executive Orders MJF 98-23 and MJF 01-58 (see Appendix A, page 5).

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. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.



DEPARTMENT OF ECONOMIC DEVELOPMENT

This report is intended for the information and use of the Department of Economic Development 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,



Grover C. Austin, CPA
First Assistant Legislative Auditor

NWM:EFS:PEP:ss

[DED04]



MANAGEMENT'S CORRECTIVE ACTION PLANS AND RESPONSES



State of Louisiana



DEPARTMENT OF ECONOMIC DEVELOPMENT

Kathleen Babineaux Blanco
Governor

Don J. Hutchinson
Secretary

April 28, 2004

Mr. Grover Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Temporary Assistance for Needy Families Program (TANF) – Noncompliance with Certain Federal and State Requirements

The Department of Economic Development (DED) concurs with the above referenced audit finding. I have assigned John Matthews to ensure completion of the corrective action as outlined in our response below regarding the three reported conditions.

Economic Development Assistance Center – Files are incomplete to verify eligibility

DED is fully aware of Economic Development Assistance Center's (EDAC) noncompliance with the Scope of Services under DED's contract with this entity. Upon verification of non-compliance, DED terminated the contract with EDAC effective January 2, 2004. DED obtained all EDAC client files and financial information on January 27, 2004. Our review of the files also determined that 62 of the 123 EDAC client files do contain sufficient documentation to support program eligibility. We concur that the questioned cost is \$48,404 for 61 client files. Regarding the questioned cost of \$10,794.50 for training of 28 clients, DED has contacted 27 participants via phone and verified their completion of the classes which accounts for \$10,444.50. There is only one client remaining to verify their completion of the class. A financial report will be completed by June 30, 2004, which will be used by DED to determine the appropriate action to take with this contractor.

Payment of \$179,859 to Micro-lending Contractors for loans and/or loan guarantees

LED contracts provided a specific amount of TANF funds to be dedicated for a revolving micro-loan pool. As such, these funds were not considered an advancement of funds on a reimbursement basis, but rather a grant for a specific component of an approved utilization of TANF dollars. Access to capital is a key to starting a microenterprise and therefore it was anticipated that the demand for these funds would

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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be much greater than what has actually transpired. The availability and utilization of IDA funds by clients have curtailed the immediate need for the micro-loans. We do feel that as these businesses stabilize, access to micro-loans will become critical. We will also contact the micro-lender to make them aware of the purpose of these funds is to help these clients start businesses or improve the business that they currently have in place.

Memorandum of Understanding - dollars recouped through loan repayment will be available to a statewide microlending pool not subject to TANF eligibility requirements

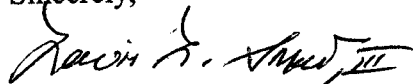
DED's long range objective is to establish a microenterprise infrastructure that is able to sustain itself without TANF funding. As such, we requested and received approval from the Division of Administration, TANF office to use any cycled funds generated from loan payments for continued micro-lending. As a result of this approval, the Memorandum of Understanding between the Department of Social Services (DSS) and DED was executed to contain this provision. We have been recently informed by the Division of Administration that future micro-loans, from which the funds were derived from loan payments, will still be subject to TANF requirements.

Therefore, an amendment to the MOU between DSS and DED to provide for full compliance with federal guidelines has been prepared and is currently being routed through the state's contract approval process. DED is also in the process of entering into a letter agreement with the micro-lender that will require TANF compliance for all micro-loans. We will also contact the micro-lender to make them aware of the purpose of these funds is to help these clients start businesses or improve the business that they currently have in place. The Letter of Agreement will also require that any monies that have not been loaned to qualified applicants, as of September 15, 2004, that were from the original loan pool be returned to the state. An accounting of outstanding loans and fund balance will be maintained by the micro-lender and reported annually to DED.

Our monitoring procedures are continuously reviewed for improvements to ensure that TANF funds are administered in compliance with laws, regulations, and provisions of contract agreements. Implementation of the VistaShare database, coupled with several unscheduled on site visits to test files for client eligibility, will further assist in full compliance of requirements of the TANF program.

In closing, we appreciate the efforts of the Legislative Auditor's office in making these recommendations to assist us in improving accountability and efficiency of DED programs.

Sincerely,



Lewis L. Smart, III
Assistant Secretary

State of Louisiana



DEPARTMENT OF ECONOMIC DEVELOPMENT

Kathleen Babineaux Blanco
Governor

Don J. Hutchinson
Secretary

April 13, 2004

Mr. Grover Austin, CPA
First Assistant Legislative Auditor
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Insufficient Monitoring of Contract Payments

The Department of Economic Development (DED) concurs with the above referenced audit finding. I have assigned Mike Williams responsibility for corrective action as outlined in our response below.

Legislative Audit Finding – Insufficient Monitoring of Contract Payments

Recommendation:

Management should ensure departmental contract monitors comply with the monitoring procedures described in each contract. In addition, management should determine if amounts paid on these contracts were valid and necessary.

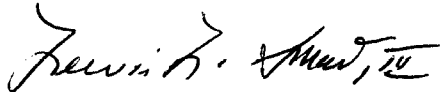
Management agrees

Management has taken actions to ensure that each step in the monitoring checklist for compliance with the contract is complete and adhered to and signed by the monitor, reviewed by the supervisor and the assistant secretary prior to the request for payment being processed. The Department's internal auditor is reviewing the contracts cited to determine if the amounts were valid and necessary. Completion dates will be 2-3 months for audit work and the monitoring will be on a continual basis.

Our monitoring procedures are continuously reviewed for improvements to ensure that state funds are administered in compliance with laws, regulations, and provisions of contract agreements.

In closing, we appreciate the efforts of the Legislative Audit team in making these recommendations to assist us in improving accountability and efficiency.

Sincerely,

A handwritten signature in black ink that reads "Lewis L. Smart, III". The signature is written in a cursive style with a horizontal line at the end.

Lewis L. Smart, III
Assistant Secretary
Office of Business Development

State of Louisiana



DEPARTMENT OF ECONOMIC DEVELOPMENT

Kathleen Babineaux Blanco
Governor

Don J. Hutchinson
Secretary

March 15, 2004

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

RE: Leave Use Not Required and Work Hours Uncertified

Dear Mr. Austin:

We do not concur with the reportable audit finding that leave use not required and work hours uncertified may constitute a prohibited donation of public funds.

Executive Orders MJF 98-23 and MJF 01-58 provide that an unclassified appointee shall be on leave and/or use annual and/or sick leave or leave without pay only at those times when the appointee is unavailable to serve their appointing authority as a result of voluntary or involuntary conditions or performing political activities or performing for compensation non-appointment related activities during the regular tour of duty hours. MJF 01-58 was specifically amended to include the Office of Business Development cluster directors and service coordinators. Pursuant to the requirements of these Executive Orders, Louisiana Economic Department (LED) unclassified appointees are required to be on duty and available to serve and in contact with their appointing authority, twenty-four hours a day, seven days a week without regard to vacations, holidays or weekends.

The nature of LED unclassified appointees' work requires their presence in and out of the office during the normal business hours and they regularly work "after hours" for which they do not earn compensatory time even though extraordinary hours are worked. Furthermore, LED unclassified appointees take leave only when they are unavailable as a result of voluntary or involuntary conditions, performing political or non-appointed related activities and therefore are in compliance with the requirements of the Executive Order.

If you have any questions, please contact me at 342-5388.

Sincerely,

A handwritten signature in black ink, appearing to read "Don J. Hutchinson".

Don J. Hutchinson
Secretary

Post Office Box 94185, Baton Rouge, Louisiana 70804-9185
1051 N. 3rd St. - 70802
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