

Report Highlights

Economic Development Award Program (EDAP) May 2004

Louisiana Legislative Auditor



The Economic Development Award Program (EDAP) is administered by the Department of Economic Development (DED) and overseen by the Louisiana Economic Development Corporation (LEDC). The program provides grants for publicly owned infrastructure to assist industrial or business development projects that promote economic development and that require state assistance. For fiscal year 2002, DED awarded eight EDAP projects totaling \$3,892,045. For fiscal year 2003, DED awarded 25 projects totaling \$19,473,183.

Audit Results

Management Controls for EDAP

- ◆ DED lacks sufficient management controls to ensure that:
 - It consistently collects and verifies all required information from program participants.
 - Inactive contracts are closely monitored and canceled if no activity has occurred within one year.
 - Excess funds from completed contracts are added back to the EDAP budget for future use by the program.
- ◆ DED staff stated that the above deficiencies could be attributed to manual work processes that are not as efficient as possible.
- ◆ Some equipment purchases may be of minimal benefit to the public if the participating company fails.
- ◆ One EDAP award that we found included purchases of unallowable items such as office furniture and fixtures.

Reliability of Data Reported

- ◆ EDAP data reported in DED's 2001-2002 Annual Report are based on estimated future values and therefore are not reliable.
- ◆ EDAP data reported by DED to the Louisiana Performance Accountability System (LaPAS) for 2003 and the first quarter of 2004 are based on estimated future values and therefore are not reliable.

Types of EDAP Projects and Amounts Awarded				
Fiscal Year	Type of Project	Number of Projects	Amount Awarded	Percent of Total
2002	Equipment	1	\$500,000	13%
	Building & Land	3	\$2,271,545	58%
	Other Infrastructure	4	\$1,120,500	29%
	Totals	8	\$3,892,045	100%
2003	Equipment	7	\$8,523,600	44%
	Building & Land	2	\$1,776,000	9%
	Other Infrastructure	16	\$9,173,583	47%
	Totals	25	\$19,473,183	100%

Note: The amounts awarded for each category are estimates because some awards are for more than one type of project.
Source: Prepared by the legislative auditor’s staff from information provided by DED.

Are the management controls for EDAP adequate to ensure that DED awards and administers contracts in accordance with state law and program rules?

WHAT WE FOUND

Verification of Required Information

- ◆ DED does not always verify all information collected from sponsoring entities and companies or that all required information has been submitted.
- ◆ While in most cases DED collected the necessary information, we found control weaknesses in verifying the details. As a result, DED did not ensure that all participants and projects were eligible for program awards.
- ◆ DED attributed these deficiencies to manual processes that are not as efficient as they could be.

RECOMMENDATIONS

- ✓ DED should ensure that it receives all required documentation before a project is approved and/or funds are disbursed. Before approving an EDAP application, the LEDC board should require a statement from the program administrator or his supervisor that all projects meet all program requirements.

- ✓ DED should add to its program rules a requirement that sponsoring entities submit supporting documentation when requesting reimbursement. DED should enforce this requirement to ensure that EDAP funds are spent only for authorized purposes.

Improve Monitoring of Contract Spending

- ◆ DED staff does not always closely monitor inactive EDAP contracts.
- ◆ DED currently has eight contracts from fiscal years 2002 and 2003 that have been inactive for a period greater than 365 days. EDAP rules say if a company has not begun construction of a project or made substantial progress toward completion of the project within 365 days after approval of the application, then the LEDC Board of Directors may cancel project funding or require reapplication. Eight inactive contracts have approximately \$3.9 million in dedicated funding that could be used to fund other economic development projects and/or programs.
- ◆ DED currently has four contracts that were completed at a total cost that was \$162,670 less than the EDAP award amount. However, the funds are still dedicated to the completed projects. These funds could be used to fund other economic development projects and/or programs.

RECOMMENDATIONS

- ✓ DED should monitor contracts more closely and seek LEDC board approval to cancel contracts that have had no activity for one year. The EDAP award

amounts should then be added back into the EDAP budget for the fiscal year in which the contract is canceled.

- ✓ DED should add any unspent funds back into the EDAP budget for the fiscal year in which the project is completed. DED should then report unspent funds to the LEDC board so that these funds can be made available to other projects.

Equipment Purchases

- ◆ Although allowed under program rules, some EDAP funds were used to purchase specialized equipment. This equipment may be of minimal benefit to the public if the participating company is unsuccessful.
- ◆ In fiscal year 2003, approximately 64% of EDAP awards were for projects involving equipment purchases; furthermore, equipment accounted for approximately 44% of the total EDAP funds awarded during the same year.
- ◆ One company purchased \$45,000 in unallowable equipment with EDAP funds.

MATTER FOR LEGISLATIVE CONSIDERATION

- ✓ The legislature should consider amending R.S. 51:2341 to more clearly define or limit the types of equipment that can be funded by EDAP.

Are the data reported for EDAP for fiscal years 2002, 2003, and the first quarter of 2004 by DED reliable?

WHAT WE FOUND

Identifying Data Reported and Reporting Procedures

- ◆ DED's 2001-2002 Annual Report contained performance data largely based on company estimates in EDAP contracts. As a result, reported program data reflected anticipated outcomes rather than a complete and accurate assessment of EDAP's true performance.
- ◆ Four of the five DED performance indicators reported for 2003 to LaPAS contained performance data largely based on company estimates in EDAP contracts. As a result, reported program data reflected anticipated outcomes rather than a complete and accurate assessment of EDAP's true performance.

- ◆ One of the two DED performance indicators reported for the first quarter of 2004 to LaPAS contained performance data largely based on company estimates in EDAP contracts. As a result, reported program data reflected anticipated outcomes rather than a complete and accurate assessment of EDAP's true performance.
- ◆ Data are not consistently reported. For fiscal year 2002, DED reported different values in LaPAS and its Annual Report for the same performance indicators.

RECOMMENDATIONS

- ✓ Because values included in LaPAS and the Annual Report are based on companies' contracts, not actual performance, DED should include the word "Estimated" or "Anticipated" (i.e., Anticipated New Jobs) for most of the indicators. Also, DED could include a note that indicates that values listed in the report are based on contractual obligations to be filled at later dates. As an alternative, DED could implement a system to require periodic reporting by EDAP recipients of certain data and use this reporting to compile more reliable data.
- ✓ DED should always use the same source for reporting similar data to ensure consistency in reporting.



Railroad spur in Tangipahoa Parish partially funded with EDAP funds.

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STATE OF LOUISIANA

Economic Development Award Program Baton Rouge, Louisiana

May 2004



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May 12, 2004

The Honorable Don Hines,
President of the Senate
The Honorable Joe R. Salter,
Speaker of the House of Representatives

Dear Senator Hines and Representative Salter:

This report provides the results of our performance audit of the Economic Development Award Program administered by the Department of Economic Development. This audit was conducted under the provisions of Louisiana Revised Statute 51:935.1.

This performance audit report contains our findings, conclusions, and recommendations. It also includes a matter for legislative consideration. I hope this report will benefit you in your legislative decision-making process.

Sincerely,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive.

Grover C. Austin, CPA
First Assistant Legislative Auditor

GCA/dl

[EDAP04]



Legislative Auditor

Economic Development Award Program

Executive Summary

Louisiana Revised Statute 51:2341 creates the Economic Development Award Program (EDAP) and places it within the Louisiana Economic Development Corporation (LEDC). LEDC's Board of Directors oversees EDAP and the Department of Economic Development's (DED) Business Incentives Division administers the program. EDAP's purpose is to finance publicly owned infrastructure for industrial or business development projects that promote cluster economic development and that require state assistance for basic infrastructure development. The results of this performance audit of EDAP are as follows:

Management Controls for EDAP *(See pages 5 through 11 of the report.)*

DED lacks sufficient management controls to ensure that:

- All required documentation from applicants is consistently collected before enrolling in EDAP and before disbursing funds.
- Spending on EDAP contracts is monitored closely.
- Only qualified equipment that will benefit the public is purchased with EDAP funds.

DED staff stated that the above deficiencies could be attributed to problems in its processing system.

Reliability of Reported Data *(See pages 13 through 15 of the report.)*

The values of four of the five performance indicators reported in the Louisiana Performance Accountability System (LaPAS) for fiscal year 2003 and one of the two performance indicators reported for the first quarter of fiscal year 2004 are not reliable because they are based on estimated future values reported by program applicants.

With the exception of *Awards Granted*, EDAP data reported in DED's 2001-2002 Annual Report are also based on future values and are therefore not reliable.

For fiscal year 2002, DED reported different values in LaPAS and in its Annual Report for the same three indicators. This deficiency can be attributed to using different sources to report on the same indicators.

Introduction

Audit Initiation and Objectives

Louisiana Revised Statute (R.S.) 51:935.1 requires the legislative auditor annually to conduct performance audits designed to evaluate the management controls, accuracy, and reliability of the reported information on at least three economic development programs. At its July 30, 2003, meeting, the Legislative Audit Advisory Council approved economic development program audits as part of our plan for fiscal year 2004.

This performance audit is of the Economic Development Award Program (EDAP), which is administered by the Louisiana Department of Economic Development (DED) and the Louisiana Economic Development Corporation (LEDC). Our audit objectives were as follows:

1. Are the management controls for EDAP adequate to ensure that DED's administration of the program is in accordance with state law and program rules?
2. Are the performance data reported externally for EDAP by DED for fiscal years 2002 and 2003 and the first quarter of fiscal year 2004 reliable?

Appendix A contains a summary of our audit scope and methodology.
Appendix B includes a glossary.

Overview of EDAP

Purpose. R.S. 51:2341 creates EDAP and places it within LEDC. EDAP's primary purpose, according to its program rules, is to finance publicly owned infrastructure for industrial or business development projects that promote cluster economic development and that require state assistance for basic infrastructure development. A sponsoring entity (which is a public, or quasi-public, usually local governmental entity of the state) applies together with a private company for an EDAP award. EDAP staff evaluate applications and make recommendations to the LEDC Board of Directors concerning the infrastructure project. The EDAP infrastructure is usually a component of an overall project that the applying company finances. The sponsoring entity may also provide funding for the project. Once the LEDC board approves an infrastructure award, the sponsoring entity becomes the owner of the improvement. Types of qualifying expenditures are engineering/architectural expenses, site acquisition and preparation, construction costs, and capital equipment having a depreciable life of at least seven years. Certain types of capital equipment are not eligible for EDAP awards, such as furniture, fixtures, and computer or transportation equipment.

DED uses the term “basic infrastructure projects” for traditional EDAP awards to distinguish these projects from Louisiana Opportunity Fund projects. The Opportunity Fund is also a part of EDAP. It is designed to be used when, in the opinion of the Governor, there exists a highly competitive project bidding situation for a company in the final stages of site selection. According to DED department officials, no awards have been made under the Louisiana Opportunity Fund rules.

LEDC. LEDC is governed by a 12-member board of directors. The board consists of the Secretary of DED and 11 members appointed by the Governor. This corporation serves as the review board for all financial assistance, loans, incentives and other forms of economic development assistance that DED administers, except for those financial incentive programs administered by the Board of Commerce and Industry. Although LEDC’s board has final approval authority on applications for EDAP awards, this authority may be delegated by the board to LEDC/DED staff in certain situations.

Funding. A separate breakdown of operational expenditures for EDAP is not included in the executive budget or appropriations bill. As previously mentioned, LEDC oversees administration of EDAP. All funding for LEDC comes from the Louisiana Economic Development Fund (“Fund”). This fund includes money for LEDC program operations as well as economic development grants, loans and other assistance. The Fund receives funding from several sources, including the state general fund, capital outlay, and investment interest on balances held in the Fund. EDAP funds can be carried forward into subsequent years. Exhibit 1 shows EDAP funding, amounts awarded, and the number of award recipients for the past four fiscal years.

Exhibit 1			
EDAP Funding and Amounts			
Awarded by Fiscal Year			
Fiscal Year	EDAP Funding	EDAP Amounts Awarded	Number of Awards
2000	\$4,510,569	\$3,600,103	12
2001	\$2,031,714	\$1,252,300	6
2002	\$4,516,414	\$3,892,045	8
2003	\$20,431,061	\$19,473,183	25
Total	\$31,489,758	\$28,217,631	51
Source: Prepared by the legislative auditor’s staff using information provided by DED.			

Exhibit 2 shows the three broad types of EDAP projects and the approximate amounts awarded for each type for fiscal years 2002 and 2003, respectively. Some awards were for more than one project type. However, we categorized each EDAP award according to the type of project receiving the largest share of the award.

Exhibit 2				
Types of EDAP Projects and Amounts Awarded				
Fiscal Years 2002 and 2003				
Fiscal Year 2002	Type of Project	Number of Projects	Estimated EDAP Amounts Awarded	Percent of Total
	Equipment	1	\$500,000	13%
	Building & Land Acquisition	3	\$2,271,545	58%
	Other Infrastructure	4	\$1,120,500	29%
	Totals	8	\$3,892,045	100%
Fiscal Year 2003	Equipment	7	\$8,523,600	44%
	Building & Land Acquisition	2	\$1,776,000	9%
	Other Infrastructure	16	\$9,173,583	47%
	Totals	25	\$19,473,183	100%
Note: The amounts awarded for each category are estimates because some awards are for more than one type of project.				
Source: Prepared by the legislative auditor's staff from information provided by DED.				

Appendix C shows the sources of funding for EDAP as well as EDAP expenditures for fiscal years 2002 and 2003. This appendix also shows the EDAP award amounts by sponsoring entity and how much of each award has been expended for fiscal years 2002 and 2003. Appendix D contains a breakdown of EDAP awards by parish for fiscal years 2002 and 2003.

Exhibits 3 and 4 on the following page show two projects partially funded by EDAP awards. Exhibit 3 shows the exterior of a factory in St. Charles Parish constructed on land purchased with an EDAP award. An EDAP award helped improve the railroad spur in Tangipahoa Parish shown in Exhibit 4.

Exhibit 3
Exterior of a Factory in St. Charles Parish



Source: Photo taken by legislative auditor's staff.

Exhibit 4
Railroad Spur in Tangipahoa Parish



Source: Photo taken by legislative auditor's staff.

Management Controls

Are the management controls for EDAP adequate to ensure that DED awards and administers contracts in accordance with state law and program rules?

DED's management controls for EDAP do not always ensure that project funds are awarded and contracts administered in accordance with program rules. Program rules provide specific requirements that sponsoring entities and companies must meet in order to be eligible to participate in the EDAP program, such as evidence of the number, types and compensation levels of jobs to be created or retained by the project. In addition, during the contract period, but before funds are disbursed, program rules and EDAP contractual provisions require submission of semi-annual progress reports, and Louisiana Department of Labor (LDOL) ES-4 reports detailing employee headcounts and gross payroll. In some instances, the sponsoring entity and/or the company did not submit all necessary documentation for initial enrollment in the program. In other instances, DED failed to collect the appropriate documentation from the sponsoring entity and/or company before disbursing funds. In one instance, an EDAP award recipient used over \$45,000 to purchase equipment that is not allowed by EDAP rules. DED officials say that an insufficient processing system is the reason they may not have collected all documentation required to be submitted by sponsoring entities and companies.

Some EDAP awards, although issued in fiscal year 2002, were still unspent as of January 1, 2004. For fiscal year 2002, four of eight contracts still had funds that had not been disbursed to sponsoring entities (over \$700,000). For fiscal year 2003, four of 25 contracts had funds (over \$3.1 million) that remain unspent as of January 1, 2004.

Consistent Collection of Required Information Would Help Ensure Project Eligibility

DED staff does not always collect all information required from the sponsoring entity and/or company before approving EDAP contracts. Some required information was not collected for 18 (55%) of the 33 contracts awarded in fiscal years 2002 and 2003. DED officials say that this deficiency can be attributed to an insufficient processing system. Currently, one employee is assigned to work with EDAP. Collection and thorough review of all data required to be submitted by sponsoring entities and/or companies will help ensure that projects are eligible for EDAP awards and that funds are disbursed appropriately.

Enrollment. DED's program rules require projects to meet certain qualifications to enroll and remain in the program. For initial enrollment, sponsoring entities and companies must submit an application and all supporting documentation

necessary to meet program qualifications. We checked the following management controls that are required by EDAP rules related to initial program enrollment:

- A contract signed by all parties
- Economic impact analysis
- Evidence that DED verified EDAP awards were for appropriate projects
- Stated number of jobs to be retained and/or created as a result of the project
- A statement that the company is solvent, has not filed for bankruptcy, does not owe the state or federal government any back taxes, and is not in a proceeding to revoke or deny necessary licenses or permits (hereafter referred to as “solvency statement”)

Except for the solvency statements, all 33 files that we examined for fiscal years 2002 and 2003 contained the above required documentation. For contracts approved during fiscal year 2002, two of the eight contracts (25%) and for those approved during fiscal year 2003, three of 25 contracts (12%) were missing evidence that the company applying for an EDAP award has not filed for bankruptcy protection. In addition, there was no statement providing evidence that the company does not owe the state money such as past due taxes or that the company is able to pay its obligations in a timely manner. As a result, DED cannot ensure that all companies that received EDAP awards are solvent, owe no taxes, and are in good standing on all licenses and permits.

Project Monitoring. A sponsoring entity and/or company must submit certain documentation before a sponsoring entity can be reimbursed for project costs. DED requires many different reports to monitor EDAP projects. All of the deficiencies related to monitoring were found in the 25 EDAP contracts for fiscal year 2003. Listed below are the monitoring controls that we examined and any deficiencies that we found.

- **Semiannual progress reports.** DED is required to collect and verify progress reports for each project twice annually. Collecting and verifying progress reports helps ensure that DED is monitoring the progress, cost, and problems associated with each EDAP project. We looked for these reports or other evidence that DED or the sponsoring entity was monitoring the project. For four of the 25 contract files, no semiannual reports or other evidence of project monitoring was found in the files. Nine other contract files did not contain semiannual progress reports, but did contain other evidence of monitoring such as copies of e-mails.
- **LDOL ES-4 reports.** DED is required to collect LDOL ES-4 reports from each company so that DED can determine if the company is in compliance with its contracted employment and payroll requirements. These reports detail employee head counts and gross payroll. Seven of the 25 contract files lacked LDOL ES-4 reports. As a result, EDAP funds may have been disbursed for projects where the company did not meet its contracted employment and payroll levels.

- **Final inspection of the completed project by a DED official before the final 15% of the EDAP award is disbursed.** Program rules require a DED official or representative to perform a final inspection before the final 15% of an award is disbursed. Funds for two of the 25 projects were paid before the final inspection. As a result, DED fully funded these projects without verifying that the work required, by the contracts, had been completed and was functioning as intended.
- **Proof of depreciable life and usefulness of equipment purchased with EDAP funds.** EDAP rules require that capital equipment purchased with EDAP funds have a minimum depreciable life of seven years. Six of the 25 contract files (24%) lacked evidence of the equipment's depreciable life. Because the sponsoring entity and/or company did not submit evidence in these six cases, equipment having a useful life of less than seven years may have been purchased with EDAP funds.

EDAP rules state the intent of the program is to finance publicly owned infrastructure projects, which include equipment purchases. However, the program rules do not specify what types of equipment are allowed. We noted that some EDAP funds were used to purchase specialized equipment that may be of minimal benefit to the public if the company participating in the EDAP project is unsuccessful. EDAP rules require that if the equipment is located on private property, then the sponsoring entity's representative may enter the private property and remove the equipment if it is in the sponsoring entity's interest to do so. Three of four sponsoring entities that we interviewed stated that if a project or company fails and the sponsoring entity takes possession of the equipment, it would own specialized manufacturing equipment with limited usefulness. They also said that a small number of purchasers would be interested in buying this equipment and the resale value would only be a fraction of the original purchase price. One of the four sponsoring entities said it could use the equipment if the company does not succeed.

- **Documentation of what was purchased with EDAP award.** DED is not required to collect supporting documentation such as invoices for project expenses before disbursing EDAP funds. However, collecting such documentation is a prudent business practice. Eight of the 25 contract files contained no documentation to support what the EDAP award amounts (more than \$4.1 million) were spent on. We obtained some documentation for one EDAP project in the amount of \$997,100 from the sponsoring entity. Of that award amount, \$162,289 (16%) has been drawn as of January 1, 2004. From the \$162,289, the company purchased computers and other related equipment, which are unallowable expenditures of EDAP funds. This equipment cost \$45,723 (28% of the funds drawn to date) as shown in Exhibit 5. Program rules prohibit using EDAP funds to purchase furniture, fixtures, computers, and equipment having an Internal Revenue Service depreciable life of less than seven years.

Exhibit 5 Unallowable EDAP Equipment Purchases (Equipment for One Contract)	
Equipment Purchased	Purchase Price
Digital Copier	\$6,400
Server and Computers	7,155
Monitors	6,445
Laser Printer	1,765
Software	11,392
DVD Player	200
Computer Equipment	5,640
Digital Camera	565
Video Equipment	6,161
Total	\$45,723
Source: Prepared by the legislative auditor's staff using information provided by sponsoring entity.	

Recommendation 1: DED should ensure that it receives all required documentation before a project is approved and/or funds are disbursed. Before approving an EDAP application, the LEDC board should require a statement from the program administrator or his supervisor that all projects meet all program requirements.

Management's Response: The Department's management agrees with this recommendation. The Department is planning to revise its current check sheet that is presented to the LEDC Board with an EDAP application. In addition, a written acknowledgement from the program administrator and the Director of Resource Services, or his designee, will be submitted to the LEDC Board. (See Appendix E for the Department's full response.)

Recommendation 2: DED should add to its program rules a requirement that sponsoring entities submit supporting documentation when requesting reimbursement. DED should enforce this requirement to ensure that EDAP funds are spent only for authorized purposes.

Management's Response: The Department's management agrees with this recommendation. The Department will modify its contract language to require the public entity to provide the Department with a copy of the invoices and a data sheet listing the dates of invoices, name of company invoicing,

amount of the invoice, and a brief description of the item or service purchased. (See Appendix E for the Department's full response.)

Recommendation 3: DED and the LEDC Board of Directors should closely scrutinize all EDAP applications requesting purchase of equipment. DED and the LEDC Board should ensure that equipment meets program rules and can be used by the sponsoring entity in the event an EDAP project is not successful.

Management's Response: The Department's management agrees with this recommendation. The Department will require a more detailed list of proposed equipment to be purchased and evaluate the list to ensure the equipment meets program rules. This list will be a required condition of the contract. (See Appendix E for the Department's full response.)

Recommendation 4: DED and the LEDC Board of Directors should amend program rules to limit equipment purchases allowed under EDAP to types of equipment that will be of a public benefit.

Management's Response: The Department's management disagrees with this recommendation. The Department feels that even when equipment is specialized and being used by a private company it is serving a public purpose by creating or preserving Louisiana jobs. The ability to offer capital equipment is used as an incentive to the company to expand or locate in Louisiana and to create jobs. (See Appendix E for the Department's full response.)

Matter for Legislative Consideration: The legislature should consider amending R.S. 51:2341 to more clearly define or limit the types of equipment that can be funded by EDAP.

Monitoring Spending on Contracts More Closely Could Improve Program Effectiveness

Monitoring Inactive Contract Balances. DED staff does not always closely monitor unspent EDAP contract balances. EDAP contracts say that DED may terminate the contracts for certain causes. EDAP rules provide that if a company has not begun construction of a project or made substantial progress toward completion of the project within 365 days after approval of the application, then the LEDC Board of Directors may cancel funding of the project or require reapplication.

As of January 1, 2004, three of the eight contracts that LEDC approved during fiscal year 2002 had not spent the funds awarded to them. Exhibit 6 shows the three contracts that total \$735,042, or 19% of all 2002 EDAP amounts awarded. DED distributed \$178,458 to Iberia Parish in September 2002; however, the parish has not drawn down any funds in the 15 months since then. DED had not disbursed any funds to the other EDAP award recipients as of January 1, 2004. No financial activity has occurred on these projects for more than 15 months. If DED monitored the EDAP contract balances more closely, the department would be able to follow up on inactive contracts and cancel them if warranted. If inactive contracts were canceled, DED would also have the ability to fund additional projects with the funds from these canceled contracts, which could improve the program's effectiveness.

Exhibit 6			
Unspent EDAP Awards for Fiscal Year 2002			
(as of January 1, 2004)			
Sponsoring Entity	Contract Date	Number of Months Inactive	EDAP Award Amount
Iberia Parish*	11/09/01	15	\$185,042
Town of Scott	03/19/02	22	\$250,000
City of Hammond	06/07/02	19	\$300,000
Total			\$735,042
* Iberia Parish drew funds in September 2002. The amount shown is what remains unspent as of January 1, 2004.			
Source: Prepared by the legislative auditor's staff using information provided by DED.			

Exhibit 7 shows five of the 25 EDAP awards that were approved in fiscal year 2003 and their unspent balances. The five sponsoring entities have not drawn any of their EDAP funds as of January 1, 2004. These contracts total \$3,132,500, or over 16% of the 2003 EDAP amounts awarded. DED has not disbursed any funds for these projects in over 12 months.

Exhibit 7			
Unspent EDAP Awards for Fiscal Year 2003			
(as of January 1, 2004)			
Sponsoring Entity	Contract Date	Number of Months Inactive	EDAP Award Amount
Washington Parish	09/12/02	16	\$250,000
Lafayette Educational Authority	09/20/02	16	\$1,000,000
Chennault International Airport Authority	09/20/02	16	\$1,500,000
Tensas Parish	11/20/02	14	\$262,500
City of Bastrop	12/12/02	13	\$120,000
Total			\$3,132,500
Source: Prepared by the legislative auditor's staff using information provided by DED.			

Recommendation 5: DED should monitor contracts more closely and seek LEDC board approval to cancel contracts that have had no activity for one year's time. Furthermore, the EDAP award amounts should be added back into the EDAP budget for the fiscal year in which the contract is canceled.

Management's Response: The Department's management agrees with this recommendation. The Department says it has already taken steps to mitigate the lag times that occur in the EDAP projects. The LEDC Board adopted language in October 2003 that is incorporated in the approval of an application which states if approval is granted, the public entity will have 90 days after the contract is signed to start the project or will have to appear before the LEDC Board to explain why the project is not underway. (See Appendix E for the Department's full response.)

Monitoring Completed Contracts. DED does not always effectively monitor balances on completed EDAP contracts. During fiscal year 2002, one project was completed for less than the awarded EDAP amount. The total cost of the project was \$17,912 less than the amount awarded. During fiscal year 2003, three projects were completed for less than the awarded EDAP amounts. Exhibit 8 shows the total cost for these projects was \$144,758 less than the amounts awarded. However, the excess funds have not been added back into the EDAP budget for fiscal year 2004. The additional funds could be used for EDAP awards during the current fiscal year.

Exhibit 8		
Completed Projects with Unspent Balances		
Fiscal Year 2003		
EDAP Award	Funds Disbursed	Unspent Balance
\$611,000	\$576,741	\$34,259
\$547,085	\$529,597	\$17,488
\$1,500,000	\$1,406,989	\$93,011
\$2,658,085	\$2,513,327	\$144,758
Source: Prepared by the legislative auditor's staff using information provided by DED.		

Recommendation 6: DED should monitor spending on contracts more closely. When a project is completed without the full award amount being expended, DED should add these unspent amounts back into the EDAP budget for the fiscal year in which the project is completed. DED should report unspent funds to the LEDC Board so that they can be made available to other projects.

Management's Response: The Department's management agrees with this recommendation. The Department says it presently monitors, manages, and uses unspent EDAP funds on other EDAP projects. (See Appendix E for the Department's full response.)

Reliability of Reported Data

Are the EDAP data reported by DED for fiscal years 2002, 2003, and the first quarter of 2004 reliable?

Most of the EDAP data reported externally by DED are not reliable and may be misleading. EDAP performance data are reported in two places:

1. Louisiana Performance Accountability System (LaPAS)
2. DED 2001-2002 Annual Report

DED reported program performance data largely based on company estimates in EDAP contracts. As a result, reported program data reflected anticipated outcomes rather than a complete and accurate assessment of EDAP's true performance.

Clearly Identifying Data Reported Is Needed to Improve Reliability

Louisiana Performance Accountability System (LaPAS). We found that the values of four of the five performance indicators reported in LaPAS for fiscal year 2003 and one of two performance indicators for the first quarter of fiscal year 2004 were not reliable.

With one exception, the values for performance indicators in LaPAS are based on information contained in EDAP contracts, not actual performance, of companies that received an EDAP award in either fiscal year 2003 or the first quarter of fiscal year 2004. Because these contracts are with companies new to EDAP, much of the performance data represented by the indicators' values has not yet occurred or may never occur. In addition, performance data for companies that entered the program before fiscal year 2003 are not included in compiling the values. Thus, the values of four indicators are not reliable. The value of the first indicator, *Number of contracts approved*, was reliable.

For the first quarter of fiscal year 2004, we could only test the reliability of two key performance indicators:

1. Number of contracts approved
2. Number of jobs created

The remaining three indicators are supporting indicators and therefore are only reported for the second and fourth quarters of each fiscal year. The value reported for *Number of contracts approved* was reliable. However, for the same reasons mentioned above, the value reported for *Number of jobs created* was not reliable.

DED 2001-2002 Annual Report. The fiscal year 2002 data presented in the Annual Report are not reliable, with the exception of *Awards Granted*. Most of the Annual Report data are unreliable for the same reasons that values for indicators in LaPAS are unreliable. Because the values are based on contracts with companies that entered the program in fiscal year 2002, much of the performance that the data represents has not yet occurred. In other words, what is stated in the contracts, and later in the Annual Report, does not represent “what happened,” but rather is based on employers’ estimates for future years.

Recommendation 7: Because values included in LaPAS and the Annual Report are based on companies’ contracts, not actual performance, DED should include the word “Estimated” or “Anticipated” (i.e., “Anticipated New Jobs”) for most of these indicators. Also, DED could include a note that indicates that values listed in the report are based on contractual obligations to be fulfilled at later dates. As an alternative, DED could implement a system to require periodic reporting by EDAP recipients of certain data, such as *New Jobs* and/or *New Payroll*, and use this reporting to compile more reliable data.

Management’s Response: The Department’s management partially agrees with this recommendation. The Department says it will indicate that information reported on LaPAS and the Annual Report is estimated and based on projected information supplied by the business. (See Appendix E for the Department’s full response.)

Reporting Data From the Same Source Is Needed to Ensure Consistency

For fiscal year 2002, DED reported different values in LaPAS and in its Annual Report for the same three indicators:

1. New jobs
2. Private investment
3. New payroll

As Exhibit 9 on the following page illustrates, the values of these three indicators listed in the Annual Report differed from values reported in LaPAS for the same time period. We found that only one value, *New payroll*, reported in LaPAS is supported by source documentation.

Exhibit 9
Comparison of EDAP Performance Data Reported
in the Annual Report and LaPAS
Fiscal Year 2002

Performance Indicator	Annual Report	LaPAS	Difference
New Jobs	725	660	65
Private Investment	\$123,784,000	\$116,334,000	\$7,450,000
New Payroll	\$15,360,723	\$14,621,503	\$739,220
Source: Prepared by legislative auditor's staff using information from LaPAS and DED's 2001-2002 Annual Report.			

For the Annual Report, DED included data for a company that was eliminated from the program during fiscal year 2002 and thereby overstated the values. Annual Report totals should not have included forty *New Jobs*, \$250,000 of *Private Investment*, and \$739,220 of *New Payroll*.

In LaPAS, DED did exclude the ineligible company data from the totals. However, we found two data entry errors in the spreadsheet DED used to report in LaPAS that resulted in understating both *New Jobs* by 25 and *Private Investment* by \$7.2 million. Because DED used different sources for reporting on the same indicators, and each source had some degree of error, performance data values did not match.

Recommendation 8: DED should always use the same source for reporting similar data to ensure consistency in reporting.

Management's Response: The Department's management agrees with this recommendation. The Department says it will ensure that the data reported for LaPAS and the Annual Report come from the same source. Presently, the Department is upgrading its electronic processing which will present the data in a uniform report. (See Appendix E for the Department's full response.)

Appendix A

Audit Scope and Methodology

Appendix A: Audit Scope and Methodology

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted governmental auditing standards as promulgated by the Comptroller General of the United States.

Scope

R.S. 51:935.1 directs the legislative auditor to conduct performance audits annually to evaluate the management controls, accuracy, and reliability of at least three economic development programs. This audit focused on the Economic Development Award Program's (EDAP) management controls beginning in fiscal year 2002 and continuing through fiscal year 2003. We also assessed the accuracy and reliability of performance data reported by DED for the program for fiscal years 2002, 2003, and the first quarter of fiscal year 2004.

Methodology

Determining the effectiveness of DED's management controls for EDAP. To gain an understanding of how this program operates, we reviewed applicable state laws, program rules, and DED files and had discussions with DED program officials. We developed data collection instruments (DCIs) that we used to evaluate whether DED collected and verified all required information of applicants and participants in the program. We reviewed the files of 32 participants that applied for program benefits for fiscal years 2002 and 2003. DED awarded two EDAP grants to the same participant, so we actually reviewed 33 files. We also interviewed four sponsoring entities. We used the data collected to determine whether applicants met the requirements to enter the program. In making this assessment, we considered whether the department collected all necessary information from employers and sponsoring entities as required by state law and program rules. We also used data collected to evaluate whether the department monitored the progress and employment levels of an approved project in accordance with program rules.

We discussed our findings with department officials.

Determining the reliability of performance data reported for EDAP. We reviewed the program performance data reported in DED's 2001-2002 Annual Report and in LaPAS for fiscal year 2003 and the first quarter of fiscal year 2004. We consulted with department staff and asked for supporting documentation to determine if DED reported reliable data. We used the documentation furnished us, and data found in DED's EDAP database and in its files, to determine whether the performance indicator values were reliable.

Appendix B

Glossary

Appendix B: Glossary

Applicants: The company and the sponsoring (public) entity, collectively, requesting assistance from the Louisiana Department of Economic Development (DED) under the Economic Development Award Program (EDAP).

Award: Financial assistance, such as grants or loans approved under the EDAP program for eligible applicants.

ES-4 Form: An employer must file an application with the Louisiana Department of Labor (LDOL) to obtain an Unemployment Insurance (UI) number. Using its UI number, for unemployment insurance purposes, the employer files quarterly reports (ES-4s) with LDOL that list its employees. EDAP rules require the quarterly ES-4s to also be sent to DED along with required semiannual progress reports. DED uses ES-4s to track the number of jobs retained and created by companies in the EDAP and the payroll associated with these jobs.

Infrastructure Project: The undertaking for which an award is granted for the new construction, improvement, or expansion of roadways, parking facilities, equipment, bridges, railroad spurs, water works, sewerage, buildings, ports, and waterways.

Project: An expansion, improvement and/or provision of infrastructure for a public entity that promotes economic development, for which DED and LEDC assistance is requested under EDAP as an incentive to influence a company's decision to locate in Louisiana, maintain or expand its Louisiana operations, or increase its capital investment in Louisiana.

Sponsoring Entity: A public, quasi-public state entity, or a political subdivision of the state that applies for an EDAP award and then contracts with DED and the company. The sponsoring entity has responsibility for the oversight of the project and for supervising with DED the company's compliance with the terms, conditions, and performance objectives of the contract.

Appendix C

EDAP Financial Activity Fiscal Years 2002 and 2003

Appendix C: EDAP Financial Activity for Fiscal Years 2002 and 2003

Louisiana funds EDAP projects through capital outlay and state general fund appropriations. DED tracks projects separately for each of these funding sources. Exhibit C.1 summarizes the funding sources and uses for fiscal years 2002 and 2003.

Any remaining capital outlay balance at the end of a fiscal year is carried forward to the next fiscal year. In addition, projects funded through capital outlay that were canceled or completed for less than their EDAP award amount are added back into the total capital outlay budget for the new fiscal year.

Any remaining General Fund balance at the end of a fiscal year is added back to LEDC's Louisiana Economic Development Fund and can be appropriated to any of the incentive programs overseen by LEDC for the next fiscal year.

Exhibit C.1 Summary of EDAP Financial Activity Fiscal Years 2002 and 2003		
	FY 2002	FY 2003
Capital Outlay Appropriation	\$0	\$12,653,471
Less Prior Year Projects in Progress	\$0	(\$3,953,471)
Capital Outlay Balance	\$16,414	\$16,414
Capital Outlay (Closed Projects)	\$0	\$701
Total Capital Outlay Funds	\$16,414	\$8,717,115
Less: New Approved Projects	\$0	(\$8,323,702)
Capital Outlay Balance	\$16,414	\$393,413
BA-7 Appropriation from LEDC	\$0	\$11,713,946 ^ψ
General Fund Appropriation	\$5,599,635	\$0
Less Prior Year Projects in Progress	(\$1,099,635)	\$0
Total Appropriations Available	\$4,500,000	\$11,713,946
Less: New Approved Projects	(\$3,892,045)	(\$11,149,481)
General Fund Appropriation Balance	\$607,955	\$564,465
Total Funds Not Expended	\$624,369	\$957,878
Source: Prepared by the legislative auditor's staff using information provided by DED.		

^ψ EDAP allocations for fiscal year 2003 included \$3,400,000 earmarked as a business incentive for the National Finance Center (NFC). However, the NFC was not an EDAP participant, and thus, this amount is not included in these figures.

EDAP Projects for Fiscal Year 2002

Exhibit C.2 lists contract dates, award amounts, payments, and remaining balances as of January 2004 for the eight projects that were approved in fiscal year 2002.

Exhibit C.2 EDAP Awards and Disbursements Fiscal Year 2002				
Sponsoring Entity	Contract Date	EDAP Award Amount	Paid to Date	Balance Remaining (as of 01/2004)
Webster Parish	08/28/01	\$207,000	\$207,000	\$0
City of Natchitoches	10/26/01	500,000	482,088	17,912
Iberia Parish	11/09/01	363,500	178,458	185,042
City of Winnsboro	11/20/01	750,000	750,000	0
Town of Scott	03/19/02	250,000	0	250,000
St. Charles Parish	06/07/02	1,053,545	810,987	242,558
Greater Krotz Springs Port Commission*	06/07/02	468,000	0	0
City of Hammond	06/07/02	300,000	0	300,000
Totals		\$3,892,045	\$2,428,533	\$995,512
*DED cancelled this award in August 2003 because the company was not moving the project forward. Source: Prepared by the legislative auditor's staff using information provided by DED.				

EDAP Projects for Fiscal Year 2003

Exhibit C.3 lists contract dates, award amounts, payments, and remaining balances as of January 2004 for the 25 projects that were approved in fiscal year 2003.

Exhibit C.3 EDAP Awards and Disbursements Fiscal Year 2003				
Sponsoring Entity	Contract Date	Award Amount	Paid to Date	Balance Remaining (as of 01/2004)
Division of Administration	08/29/02	\$547,085	\$529,597	\$17,488
Washington Parish Police Jury	09/12/02	250,000	0	250,000
Caddo Parish	09/17/02	135,680	135,680	0
Lafayette Educational Authority	09/20/02	1,000,000	0	1,000,000
Chennault International Airport Authority	09/20/02	1,500,000	0	1,500,000
Caddo Parish	10/14/02	882,677	882,677	0
Shreveport Airport	11/01/02	1,500,000	1,275,000	225,000
Caddo Parish	11/01/02	997,100	162,289	834,811
City of Ponchatoula	11/15/02	51,326	51,326	0
City of Donaldsonville	11/20/02	246,400	17,123	229,277
Tensas Parish	11/20/02	262,500	0	262,500
Caddo Parish	12/12/02	242,511	242,511	0
City of Bastrop	12/12/02	120,000	0	120,000
City of Shreveport	01/03/03	500,000	500,000	0
City of Bunkie	03/07/03	250,000	0	250,000
Port of Greater Baton Rouge	03/07/03	1,500,000	0	1,500,000
City of Pineville	03/07/03	644,000	57,711	586,289
UNO Foundation	03/11/03	611,000	576,741	34,259
St. Mary Parish Police Jury	04/11/03	1,500,000	1,406,989	93,011
LSU AgCenter	04/11/03	2,500,000	0	2,500,000
City of Winnsboro	05/13/03	576,000	0	576,000
Iberia Parish Airport	06/06/03	430,404	0	430,404
Caddo/Bossier Port Commission	06/06/03	1,200,000	150,000	1,050,000
Louisiana Educational Television Authority	06/06/03	426,500	354,469	72,031
City of Winnsboro	06/06/03	1,600,000	0	1,600,000
Totals		\$19,473,183	\$6,342,113	\$13,131,070
Source: Prepared by the legislative auditor's staff using information provided by DED.				

Appendix D

EDAP Project Locations Fiscal Years 2002 and 2003

Appendix D: EDAP Project Locations for Fiscal Years 2002 and 2003

Exhibit D.1 lists the 20 parishes that received EDAP awards during fiscal years 2002 and 2003 and the number of projects approved in each.

Exhibit D.1 EDAP Project Locations Fiscal Years 2002 and 2003			
Parish	Number of Awards		Parish Totals
	FY 2002	FY 2003	
Ascension	0	1	1
Avoyelles	0	1	1
Caddo	0	7	7
Calcasieu	0	1	1
East Baton Rouge	0	2	2
Franklin	1	2	3
Iberia	1	1	2
Lafayette	1	1	2
Morehouse	0	1	1
Natchitoches	1	0	1
Orleans	0	2	2
Rapides	0	1	1
St. Charles	1	0	1
St. Landry	1	0	1
St. Mary	0	1	1
Tangipahoa	1	1	2
Tensas	0	1	1
Washington	0	1	1
Webster	1	0	1
West Baton Rouge	0	1	1
Totals	8	25	33
Source: Prepared by the legislative auditor's staff using information provided by DED.			

Appendix E

Louisiana Department of Economic Development's Response

State of Louisiana



DEPARTMENT OF ECONOMIC DEVELOPMENT

Kathleen Babineaux Blanco
Governor

Don J. Hutchinson
Secretary

April 19, 2004

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

RE: Economic Development Awards Program

Dear Mr. Austin:

We have reviewed the performance audit report on Economic Development Awards Program (EDAP) dated April 2004 and would like to submit the following responses and information:

Recommendation 1: Management Agrees

DED should ensure that it receives all required documentation before a project is approved and/or funds are disbursed. Before approving an EDAP application, the LEDC board should require a statement from the program administrator or his supervisor that all projects meet all program requirements.

Presently there is a check sheet that LEDC staff presents with every application to assure the board that every aspect of the rules are covered including those areas of the rules that are essential to eligibility, qualification and other information gathered in the application process. LEDC will revise this check sheet to present the required criteria for a complete application and those areas that are non essential but useful. Additionally, along with the check sheet, a written acknowledgement from the program administrator and the Director of Resource Services, or his designee, will be completed prior to submitting to the LEDC Board.

Recommendation 2: Management Agrees

DED should add to its program rules a requirement that sponsoring entities submit supporting documentation when requesting reimbursement. DED should enforce this requirement to ensure that EDAP funds are spent only for authorized purposes.

LEDC/LED will modify the contract language to require the public entity to provide the department with a copy of the invoices and a data sheet listing the dates of invoices, name of company invoicing, amount of invoice, and a brief description of the item or service purchased.

The audit states that information required by the rules for eligibility was missing from some files. This statement refers to the 'solvency statement'. This document or evidence of this document is not required by the rules. The rules under Section 107 Eligibility states:

B. A company shall be considered ineligible for this program if it has pending or outstanding claims or liabilities relative to failure or inability to pay its obligations; including state or federal taxes, or bankruptcy proceeding, or if it has pending, at the federal, state, or local level, any proceeding concerning denial or revocation of a necessary license or permit, or if company has another contract with LED or LEDC in which the company is in default and/or is not in compliance.

We ask that a company send a statement to that effect on the application but, it is not required by the rules. In addition, we receive financial information including a balance sheet that provides the same information. All the files referred to in this report contain financial statements.

The audit states that among the missing documentation in files for 2003 approvals was 'Proof of depreciable life for 6 contracts'. Again there is no requirement in the rules for this document. The rules state under Section 121 General Awards Provisions:

B. Funding

1. Eligible project costs may include, but not be limited to, the following:

f. capital equipment having an Internal Revenue Service (IRS) depreciable life of at least seven (7) years. (If any such eligible equipment is not to be located on public property, the owner, lessor and lessee of such private property shall each execute a written lien waiver or release allowing representatives of the public entity to enter upon such private property and remove there from any or all of such equipment at any time the public entity shall determine such to be in its ownership interest to do so.)

While proof of depreciable life of equipment is not required by our rules, we will use the IRS depreciation guidelines for approval of equipment purchases. The report is worded to leave the reader with the impression that rules and procedures are not followed.

The report states that in two projects approved in 2003 that the final 15% retainage was paid prior to final inspections. Upon our review of the files, we show that only part of the 15%

retainage was paid on the two projects and the final inspection verified that the work was completed. The two projects in question are University of New Orleans/Unchain My Heart Louisiana LLC which was paid 94% of the total award prior to the written final inspection and the other is Division of Administration which was paid 97% of the total award prior to the written final inspection was put in the file. Both of these projects are movie productions and the Director of the Film Commission had visited both locations prior to payments but had not submitted a written report.

The report again states that 'solvency statements' were missing for three contracts. Neither our rules nor our contracts require that there be a statement to that effect. We ask the company to provide us with a statement but it is not a rule or a condition of the contract.

The report states that even though LED is not required to collect invoices from the sponsoring entities it may have reimbursed \$4.1 million without proper documentation. The audit offers no evidence of improper documentation nor does it explain that all costs are reimbursed based on evidence of certified cost reports and final inspection by our staff. Furthermore, financial compliance audits are required of public entities by state law and LED is provided with copies of these reports in which nothing has come to our attention that these expenditures were not properly supported. Finally, as stated earlier, LED will require invoices and summary tables be submitted prior to reimbursement requests being approved.

The report states and our review verifies that on four contracts the semi-annual reports were missing and ES-4 were missing from seven contracts. In order to remedy missing documents in the future LED is upgrading our electronic processing which will aid staff in identifying missing data as well as sharing data with the Department of Revenue and/or the Department of Labor to ensure complete data is collected.

The contract, which is executed by LEDC/LED, the public sponsor, and the private company, dictates the requirements for reimbursement to the public sponsor. The check list for disbursement has been modified and includes the requirement for 15% retainage until final inspection is performed.

Recommendation 3: Management Agrees

DED should monitor contracts more closely and seek LEDC board approval to cancel contracts that have had no activity for one year's time. Furthermore, the EDAP award amounts should be added back into the EDAP budget for the fiscal year in which the contract is canceled.

LEDC has already taken steps to mitigate the lag times that occur in the EDAP projects. The board adopted language in October 2003 that is incorporated in the approval of an application which states 'If approval is granted, the public entity will have 90 days after the contract is signed to start the project or will have to appear before the LEDC board to explain why the project is not underway.' The board also receives an activity report on active EDAP contracts on a monthly

basis to determine which projects are to report directly to the board regarding delays and projections on remaining funds.

The audit report uses exhibits to illustrate the recommendation and we have found some errors in those exhibits. Exhibit 5 is misleading because it shows the total amount contracted for the three companies but does not show the draws that have been taken.

The Iberia Parish project is almost complete and a draw of \$178,458 was issued in September 2002, leaving a balance of \$185,041. The Parish is gathering information for subsequent draws, which are expected, to occur during the current fiscal year. See attachment A.

The Town of Scott has submitted required periodic reports on the progress of the project. Funding was delayed because of required permits needed to perform the drilling under the interstate highway for the sewer improvements. It is fully expected that all of the funds will be used. See attachment B.

The City of Hammond has submitted required periodic reports on progress of the project and the jobs created by the company. They requested a draw on the contract of \$184,885 in February 2004, leaving a balance of \$115,114. The balance is expected to be drawn within this fiscal year. See attachment C.

The report states that unspent balances are not returned to the program. That is not the case. The source of some funds for EDAP is Capital Outlay cash. The unspent balances from Capital Outlay EDAP projects is routinely returned to the usable balance of the Secretary/Treasurer's report and is used for other projects. The other EDAP funds are from the statutorily dedicated fund allowing the unspent funds to be utilized by other projects in the same fiscal year or returned to the fund for future project in the next fiscal year. This practice has been in place over the years audited.

Recommendation 4: Management Agrees

DED should monitor spending on contracts more closely. When a project is completed without the full award amount being expended, DED should add these unspent amounts back into the EDAP budget for the fiscal year in which the project is completed. DED should report unspent funds to the LEDC board so that they can be made available to other projects.

LEDC presently monitors, manages and utilizes unspent EDAP funds on other EDAP projects. One source of funding for EDAP is from Capital Outlay and those funds can be used in the same year as well as subsequent years without a rollover BA-7. The other source is from a Statutorily Dedicated Fund and the funds, when unspent, return to the fund to be used in subsequent years or requested in a BA-7 for the present year. The Secretary/Treasurer's report is presented to the board monthly with the unspent budget authority.

Recommendation 5: Management Agrees

DED and the LEDC Board of Directors should closely scrutinize all EDAP applications requesting purchase of equipment. DED and the LEDC board should ensure that equipment meets program rules and could be used by the sponsoring entity in the event an EDAP project is not successful.

LEDC will require a more detailed list of proposed equipment to be purchased and evaluates the list to ensure the equipment meets program rules. This also will be a required condition of the contract.

Recommendation 6: Management Disagrees

DED and the LEDC Board of Directors should amend their rules to limit equipment purchases allowed under EDAP to types of equipment that will be of public benefit.

DED and LEDC have had lengthy discussions and have approved the rules to allow for capital equipment that is owned or controlled by a public entity. Even when equipment is specialized and being used by a private company it is serving a public purpose by creating or preserving Louisiana jobs. The ability to offer capital equipment is used as an incentive to the company to expand or locate in Louisiana and to create jobs.

Exhibit 8 shows funding claimed by a public entity that is prohibited by the rules. However, there is other equipment purchased by the same public entity that can be claimed even if this list is disallowed. LED will contact the entity to obtain this information.

Recommendation 7: Management Partially Agrees

Because values included in LaPAS and the Annual Report are based on companies' contracts, not actual performance, DED should include the word 'Estimated' or 'Anticipated' for these indicators. Also, DED could include a note that indicates that values listed in the report are based on contractual obligations to be fulfilled at later dates. As an alternative, DED could implement a system to require periodic reporting by EDAP recipients of certain data, such as New jobs and/or New Payroll, and use this reporting to compile more reliable data.

LED will indicate that information reported on LaPAS and the Annual Report is estimated and based on projected information supplied by the businesses. Additionally, the Annual report will include a notation that the estimated information is based upon contractual obligations of program participants and all reconciliations of LaPAS and the LED annual report will be maintained for review by the Legislative Auditor. LaPAS is a measurement of anticipated activities by companies and production by the Agency. LED does collect data on the companies in their semi-annual reports on jobs created and this process continues throughout the contract

Letter to Grover Austin

April 14, 2004

Page 6

period. Furthermore, LED is implementing new software that will capture data on an ongoing basis which will improve real data collection and reporting.

Recommendation 8: Management Agrees

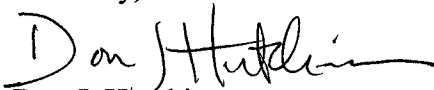
DED should always use the same source for reporting similar data to ensure consistency in reporting.

LED will insure that the data reported for LaPAS and the Annual Report come from the same sources. Presently, LED is upgrading our electronic processing which will present the data in a uniform report. Past data for the annual report reflected all projects approved and did not account for projects that did not come to fruition during that fiscal year. The LaPAS report accounts for projects approved and deletes those projects that are not viable from reported data during a fiscal year.

On Appendix C Exhibit C.3 as prepared by the auditors, the first contract should show a zero balance as this project has been closed and the balance released to the EDAP fund. The Tensas Parish project amount of \$265,000 is in the wrong column because these funds have not been paid and the balance is still outstanding. The St. Mary Parish project remaining balance of \$93,011 was released back to the EDAP fund in January 2004.

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

Sincerely,



Don J. Hutchinson

Secretary of Economic Development

Exhibit "E"

COST REPORT

ECONOMIC DEVELOPMENT AWARD PROGRAM

Sponsoring Entity's Name & Address: IBERIA PARISH GOVERNMENT
300 IBERIA STREET - SUITE 400

Cost Categories	Approved Grant Amount	Requested Reimbursable Costs	Category Balance After Reimbursable Costs
Land Acquisition			
Building Acquisition			
Building Construction			
Building Rehabilitation/ Renovation			
Capital Equipment			
Other Infrastructure Improvement	\$363,500	\$178,458.50	\$185,041.50
Other Infrastructure Improvement	<i>pd 11/9/01</i>		
Other Infrastructure Improvement			
Total			

pd. MB

If required by the Agreement (First Cost Report; Cost Report Due on or before January 31, 2004; or Cost Report being submitted after employment goals have been met), please attach and submit with this Cost Report a copy of the most recent current Louisiana Department of Labor (LDOL) ES-4 Form, "Quarterly Report of Wages Paid", for each company (whose letters are attached to Exhibit "A", and any new companies) served by the roadways improved by this project.

I hereby certify that the expense items contained in this cost report are correct and have been incurred in accordance with the terms of the Economic Development Award Contract/Agreement, applicable Federal and Louisiana State Laws, and the Rules of the Louisiana Economic Development Award Program.

Will Langlais
Company Authorized Representative (Signature & Title)

SEPT 11TH 2002
Date

PARISH PRESIDENT WILL LANGLAIS
Print/Type Name & Title

Sponsor Authorized Representative (Signature & Title)

Date

Print/Type Name & Title

INVOICE #1

Exhibit "D"

1/14/04 Rec'd 1/20/04 #184,885.38

COST REPORT

ECONOMIC DEVELOPMENT AWARD PROGRAM

Sponsor Name & Address: CITY OF HAMMOND
P. O. Box 2788, Hammond, Louisiana 70404

Company Name & Address: LIQUID CONTAINER L. P.
Address: 311 Pride Blvd, Hammond, LA 70404

Cost Categories	Approved Grant Amount	Requested Reimbursable Costs	Category Balance After Reimbursable Costs
Land Acquisition			
Building Acquisition			
Building Construction			
Building Rehabilitation/ Renovation			
Capital Equipment			
Other Infrastructure Improvement	300,000.00	184,885.38	115,114.62
Other Infrastructure Improvement			
Other Infrastructure Improvement			
Total	300,000.00	184,885.38	115,114.62

Approved Clark Foster 1/20/04

Attach to and submit with this Cost Report copies of all of the Company's most recent Louisiana Department of Labor (LDOL) ES-4 Forms, "Quarterly Report of Wages Paid", filed by the Company either since the beginning of this Agreement or since the last previously submitted report (whichever is appropriate).

I hereby certify that the expense items contained in this cost report are correct and have been incurred in accordance with the terms of the Economic Development Award Contract/Agreement, applicable Federal and Louisiana State Laws, and the Rules of the Louisiana Economic Development Award Program.

Company Authorized Representative (Signature & Title)

Date

Print/Type Name & Title

Mayson H. Foster, Mayor

Sponsor Authorized Representative (Signature & Title)

1-14-04

Date

MAYSON H. FOSTER, MAYOR

Print/Type Name & Title