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Audit Report Number 2010-AO-1003

TO: Scott G. Davis, Director, Disaster Recovery and Special Issues Division, DGBD

FROM: *Rose Capalungan*
Rose Capalungan, Regional Inspector General for Audit, Gulf Coast Region,
GAH

SUBJECT: The State of Louisiana's, Baton Rouge, LA, Subrecipient Generally Ensured
Costs Were Supported Under Its Tourism Marketing Program

HIGHLIGHTS

What We Audited and Why

We performed a review of the State of Louisiana, Office of Community Development's (State), Louisiana Tourism Marketing Program (Program), administered by the State's subrecipient, the Department of Culture, Recreation and Tourism (DCRT). We initiated the review as part of the Office of Inspector General (OIG) Gulf Coast Region's audit plan and examination of activities related to Gulf Coast hurricane disaster relief efforts. Our objective was to determine whether the DCRT, as the State's subrecipient, ensured that Program disbursements were adequately supported.

What We Found

The DCRT generally ensured that Program disbursements were adequately supported. However, in a few instances, it did not maintain adequate records to support the eligibility of costs. In addition, the DCRT did not always ensure that supporting documentation was readily available for review. These conditions occurred because the State did not ensure that the DCRT (1) complied with the

terms of its agreement as related to the maintenance of records, or (2) had adequate written Program policies and procedures for the review and approval of Program disbursements. As a result, the State was unable to support \$82,752 of Program costs.

What We Recommend

We recommend that the HUD's Director for the Disaster Recovery and Special Issues Division require the State (1) support or repay its Program \$82,752 in unsupported costs, (2) consider reviewing a sample of the remaining 128 disbursements, related to the five subrecipients, to provide reasonable assurance that the disbursements are adequately supported, and (3) ensure that the DCRT's invoice file records are readily available for review.

Auditee's Response

We provided a copy of the draft report to the State and HUD on March 15, 2010. We held an exit conference with the State and HUD on March 17, 2010. Based on the State's comments, we made tone changes and provided a revised draft report on March 25, 2010. We asked the State to provide written comments to the draft report by March 31, 2010. The State requested an extension until April 14, 2010 and it provided written comments on that day. The State generally agreed with our results, but disagreed with one of our recommendations. The complete text of the State's response, along with our evaluation of the response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Louisiana Tourism Marketing Program (Program), a \$28.5 million economic development program, was established by the Louisiana Recovery Authority, in conjunction with the State of Louisiana, Office of Community Development (State), and the Department of Recreation and Tourism (DCRT). The Program was created to bring out-of-state travelers back to the New Orleans region, Southeast Louisiana, and Southwest Louisiana, with its primary objective to increase the number of visitors to the disaster-impacted areas. The Program's initiatives included but were not limited to (1) convention and interactive marketing, promotions to travel agents, and related activities; (2) an awareness campaign focusing on New Orleans, Southeast Louisiana, and Southwest Louisiana; (3) niche marketing programs designed to promote family activities and festivals and cultural attractions unique to areas most affected by the storms; and (4) coordinated marketing efforts between the DCRT and the Louisiana Department of Economic Development to regain investor confidence in spending money and creating jobs in Louisiana.

The State and the DCRT entered into an interagency agreement (agreement), effective November 2006 through June 2008, to administer the Program. The DCRT functioned in two capacities—as a grant recipient, for those funds used directly by the DCRT in its Program, and as a sub-grant administrator, for those grant proceeds provided to subrecipients.

The DCRT's funding for the Program was provided solely through Community Development Block Grant (CDBG) disaster recovery funds administered by the State. The agreement allowed the DCRT to execute agreements to aid in implementing the Program. Therefore, it executed 14 subrecipient agreements for the purpose of implementing 17¹ programs. The agreement required the DCRT to (1) provide financial oversight of its subrecipients, (2) track its subrecipient agreements via budget projections, (3) review and approve budget amendments, (4) have a contract monitor to work directly with its subrecipients and monitor performance measures, (5) perform site visits to monitor or audit subrecipient expenditures, and (6) prepare and submit quarterly progress reports for all subrecipient activities.

As of June 2008, the Program had ended, and all Program funds had been expended. Our objective was to determine whether the DCRT, as the State's subrecipient, ensured that Program disbursements were adequately supported.

¹ Three subrecipients implemented two different programs.

RESULTS OF AUDIT

Finding 1: The DCRT, as the State's Subrecipient, Generally Ensured That Costs Were Adequately Supported

The DCRT generally ensured that Program disbursements were adequately supported. However, in a few instances, it did not maintain adequate records to support the eligibility of reimbursed costs. In addition, the DCRT did not always ensure that supporting documentation was readily available for review. These conditions occurred because the State did not ensure that the DCRT (1) complied with the terms of its agreement as related to the maintenance of records, or (2) had adequate written Program policies and procedures for the review and approval of Program disbursements. As a result, the State was unable to support \$82,752 of Program costs.

\$82,752 Paid for Unsupported Costs

A file review of 64 disbursements for 5 subrecipients determined that costs in 5 (8 percent) disbursements were unsupported because the files were missing supporting documentation, such as invoices or receipts. For example, one subrecipient incurred newspaper or internet advertisements, which were not supported by a receipt, invoice, or other documentaion. Another subrecipient incurred costs for staff hours, which were not supported by timesheets or a breakdown of the hours per employee. Although required by its agreement with the State, the DCRT did not maintain adequate documentation to support these costs.

As a result, the State could not support \$82,752 of program costs. The remaining 59 subrecipient disbursements were adequately supported.

The State must either support or repay \$82,752 in questioned costs. In addition, the State should consider reviewing a sample of the remaining 128 disbursements for the five subrecipients reviewed, to provide reasonable assurance that the disbursements are adequately supported.

Supporting Documentation Not Readily Available

Although the DCRT provided supporting documentation for most of the disbursements, documentation was not always readily available as required by its agreement with the State. Specifically, complete documentation was not always

maintained in the DCRT's local files. In some instances, the DCRT had to obtain requested invoices or supporting documentation either directly from the subrecipients or from its off-site archived files.

To allow the clear and quick determination of the eligibility of Program costs during audits or other reviews, adequate supporting documentation should be readily available and maintained with each disbursement. The State must ensure that the DCRT's complete files are readily available for review.

Program Policies Not Sufficient

The DCRT provided copies of slides to document its Program procurement and record-keeping policies and procedures. It also provided a one-page document, which reflected its cost reporting policies and procedures. However, those documents did not address what records should be maintained with disbursements or the process for reviewing and determining the eligibility of costs. Specifically, as related to invoice reviews, the procedures did not

- Identify the persons responsible for the review and approval of invoice reimbursement requests,
- Describe what documentation served as sufficient support for disbursements, or
- Describe how to process exceptions in the absence of required documentation or the identification of ineligible costs.

Although the Program has ended, detailed written policies and procedures may have assisted the State and the DCRT in ensuring that costs were adequately supported.

State Taking Action

During an update meeting with the State, we informed the State of the unsupported costs and the issues regarding the maintenance of adequate documentation. To address the issues, the State was coordinating with the DCRT to resolve the unsupported costs and ensure that adequate documentation is maintained and readily available. We acknowledge the State's and the DCRT's efforts toward resolving these issues.

Conclusion

In a few instances, the DCRT did not ensure that Program disbursements were adequately supported. In addition, it did not always ensure that documentation was readily available for review. These conditions occurred because the State did not ensure that the DCRT had sufficient controls in place. Specifically, the DCRT's Program policies and procedures did not detail the invoice review and records maintenance process. As a result, the State could not support \$82,752 of program costs, which it must either support or repay. The State should also consider reviewing a sample of the remaining 128 disbursements to provide reasonable assurance that adequate supporting documentation is maintained. Finally, the State must ensure that the DCRT's records are readily available for review.

Recommendations

We recommend that the HUD's Director for the Disaster Recovery and Special Issues Division require the State to

- 1A. Support or repay its Program \$82,752 in unsupported costs.
- 1B. Consider reviewing a sample of the remaining 128 disbursements, related to the five subrecipients reviewed, to provide reasonable assurance that the disbursements are adequately supported.
- 1C. Ensure that the DCRT's records are readily available for review.

SCOPE AND METHODOLOGY

We conducted our review at the State's and the DCRT's office in Baton Rouge, LA, and the HUD Office of Inspector General (OIG) office in New Orleans, LA. We performed our review between November 2009 and February 2010.

To accomplish our objective, we used the disbursement data for 5 of 17 programs as of October 30, 2009. Through file reviews, we determined that the reimbursement data were generally reliable. Between June 1, 2006 and October 30, 2009, our universe consisted of 192 disbursements for the five programs. We used a stratified statistical sampling approach to select 64 disbursements, totaling \$17,941,452, for review. We chose this method because it allowed selections to be made, without bias, from the audit universe. We reviewed the hard-copy files, as well as other documentation provided by the DCRT, to evaluate whether the disbursements met the requirements of the executed agreements and Federal regulations.

As related to the 64 disbursements selected for review, we initially reviewed 10 to determine whether the disbursements were eligible and supported. However, since we only identified issues related to unsupported costs and not the eligibility of costs, we reviewed the remaining 54 disbursements to determine whether adequate documentation was included with the files to support Program disbursements.

In addition to the disbursements file reviews, we

- Reviewed the HUD-approved action plan, HUD and State grant agreements, State and DCRT interagency agreement, DCRT and five subrecipient agreements and budgets, State and DCRT written policies and procedures, the Code of Federal Regulations, public laws, and other legal authorities relevant to the CDBG disaster recovery grant;
- Reviewed reports issued by the Louisiana Legislative Auditor's office;
- Reviewed monitoring notes and a financial review report prepared by the State, quarterly progress reports prepared by the DCRT, and quarterly reports prepared by DCRT's subrecipients; and
- Interviewed key HUD, State, and DCRT staff.

Our review period covered September 2006 through October 2009. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations - Policies and/or procedures that management implemented to reasonably ensure that Program expenditures were adequately supported.
- Validity and reliability of data - Policies and procedures that management implemented to reasonably ensure that valid and reliable data, within the management information system, were obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management implemented to reasonably ensure that CDBG disaster fund use was consistent with HUD's laws and regulations.
- Safeguarding resources - Policies and procedures that management implemented to reasonably ensure that CDBG disaster funds were safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following item is a significant weakness:

- The State did not ensure that the DCRT (1) had adequate written Program policies and procedures for the review and approval of disbursements, or (2) complied with the terms of its subrecipient agreement as related to the maintenance of records (see the finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS


Recommendation number	Unsupported 1/
1A	\$82,752

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Auditee Comments

BOBBY JINDAL GOVERNOR		ANGELE DAVIS COMMISSIONER OF ADMINISTRATION
State of Louisiana Division of Administration Office of Community Development Disaster Recovery Unit		
April 14, 2010		
Ms. Rose Capalungan Regional Inspector General for Audit, Gulf Coast Region Hale Boggs Federal Building 500 Poydras Street, 11 th Floor New Orleans, Louisiana 70130		
RE: OCD/DRU Response to HUD-OIG Audit Report on Tourism Marketing Program		
Dear Ms. Capalungan:		
The Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD/DRU) is providing this letter in response to the HUD Office of Inspector General (OIG) Audit Report concerning the Louisiana Tourism Marketing Program, administered by the OCD/DRU's subrecipient, the Department of Culture, Recreation and Tourism (DCRT). We have taken under consideration the recommendations contained in this report.		
The HUD-OIG's audit objective was to determine whether the DCRT, as the State's subrecipient, ensured that Program disbursements were adequately supported.		
We are pleased the HUD-OIG reported that based on its file reviews, it was determined that the reimbursement data were generally reliable. It should also be noted that the HUD-OIG file review disclosed no ineligible payments.		
Presented below are OCD/DRU's comments on the finding that "The DCRT, as the State's subrecipient, generally ensured that costs were adequately supported" and the accompanying recommendations contained in the HUD-OIG's Audit Report.		
<u>\$107,263 Paid for Unsupported Costs</u>		
The HUD-OIG determined that the State paid \$107,263 for unsupported costs. The unsupported costs consist of \$82,752 of payments where the files were missing supporting documentation, such as invoices or receipts and \$24,511 of disbursements that exceeded a subrecipient's budget.		

Comment 1

The HUD-OIG reviewed supporting documentation for 64 disbursements for five subrecipients, totaling \$17,941,452 and determined that \$82,752 of these payments lacked adequate supporting documentation. The unsupported costs represent less than 0.5 percent of the total dollar amount of disbursements reviewed. Conversely, 99.5 percent of the disbursements were adequately supported. OCD/DRU contends that this amount of unsupported costs is immaterial and should be considered an acceptable error rate. OCD/DRU and the DCRT will continue to obtain documentation to fully support the \$82,752.

Comment 2

In addition to the unsupported costs described above, the HUD-OIG determined that \$24,511 disbursed to one subrecipient was unsupported because it exceeded the subrecipient's \$5 million State approved budget. The DCRT has provided both the HUD-OIG and OCD/DRU a spreadsheet identifying total Community Development Block Grant (CDBG) expenditures of \$4,999,818 charged to the subrecipient's \$5 million budget. The DCRT has identified a vendor invoice totaling \$67,894.74 on a spreadsheet it provided to the HUD-OIG that was partially paid with CDBG funds. The entire \$67,894.74 was included in the HUD-OIG's calculation of total disbursements to this subrecipient. The DCRT asserts that only \$43,201.30 of CDBG funds were used to pay the \$67,894.74 invoice; the balance was paid with other DCRT funds. In addition, OCD/DRU tracks all the DCRT draw requests for this subrecipient and the draw requests total \$4,999,818.

Supporting Documentation Not Readily Available

Comment 3

The HUD-OIG found that complete documentation was not always maintained in the DCRT's local files and in certain instances, the DCRT had to obtain invoices or supporting documentation from the subrecipients or from its off-site archived files. OCD/DRU agrees that complete documentation should be available in local files. However, OCD/DRU realizes that this will not always occur since the level of supporting documentation is not always clearly defined, the documentation requirements of various audit/review entities may vary as to what is considered adequate, etc. which will necessitate the need to obtain additional documentation from the subrecipients. It should also be noted that this Program ended in June 2008, and it is understandable that the DCRT had archived files off-site since on-site storage is limited. In the future, when HUD-OIG notifies OCD/DRU of an upcoming review of the DCRT, OCD will request the DCRT to retrieve all off-site archived files prior to the start of the review.

Program Lacking Sufficient Controls

Comment 4

The HUD-OIG found that the policies and procedures for this Program were not detailed enough to provide sufficient control over what records should be maintained with disbursements or the process for reviewing and determining the eligibility of costs. OCD/DRU agrees that the Program policies and procedures could have contained additional detail, as is true of most policies and procedures. However, the policies and procedures that were in place must have been adequate, a conclusion based on this HUD-OIG report; there were no ineligible disbursements and of the nearly \$19 million of disbursements reviewed 99.5 percent were supported.

Ms. Rose Capalungan
April 14, 2010
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Recommendations:

Comment 5

1A. Support or repay its Program \$107,263 in unsupported costs.

OCD/DRU and the DCRT will continue to obtain documentation to fully support the \$107,263.

Comment 6

1B. Review the remaining 128 disbursements, related to five subrecipients reviewed, to ensure that the disbursements are adequately supported.

OCD/DRU requests the HUD-OIG reconsider this recommendation, since less than one half of one percent (0.5%) of the \$17.9 million of disbursements reviewed by the HUD-OIG were found to lack supporting documentation. This is such a low error rate it would be difficult to cost justify the man hours required to review the remaining 128 disbursements.

Comment 7

1C. Ensure that the DCRT's records are readily available for review.

In the future, if the HUD-OIG performs another review of the Tourism Marketing Program, OCD/DRU will request the DCRT to retrieve all off-site archived files prior to the start of the review.

We appreciate the cooperation and diligence of your staff in conducting this audit. If you have any questions or require additional information, please contact me.

Sincerely,



Robin Keegan, Executive Director
Office of Community Development/DRU

RK/SU

C: Ms. Angele Davis
Ms. Barbara Goodson
Mr. Mark Brady
Ms. Marsha Guedry
Mr. Thomas Brennan
Ms. Lara Robertson
Mr. Richard Gray
Mr. William Hall
Mr. Robbie Viator

OIG Evaluation of Auditee Comments

Comment 1 The State asserted that the \$82,752 of unsupported costs reported by HUD OIG represented less than 0.5 percent of the total dollar amount of disbursements and conversely 99.5 percent of the disbursements were adequately supported. The State contended that this amount of unsupported costs was immaterial and should be considered an acceptable error rate.

Although the State considers the amount of unsupported costs immaterial, the State must ensure that all costs are fully supported, as required by its grant agreement with HUD.

Comment 2 The State indicated that the DCRT provided both it and the HUD OIG a spreadsheet identifying total CDBG expenditures of \$4,999,818 charged to the subrecipient's \$5 million budget. The State asserted that the DCRT identified a vendor invoice totaling \$67,894.74 and; that only \$43,201.20 of CDBG funds was used to pay the invoice and the balance was paid with other DCRT funds. The State also stated that it tracks all the DCRT draw requests, which total \$4,999,818.

We reviewed the documentation provided by the State, as well as the DCRT, and agreed that \$24,511 of the unsupported costs were adequately supported. As such, we removed all reference to the one subrecipient reviewed that exceeded its approved budget from the final report.

Comment 3 The State agreed that complete documentation should be available in local files. However, the State asserted that this will not always occur because the level of supporting documentation is not always clearly defined and the documentation requirements of various audit entities may vary as to what is considered adequate, which will necessitate the need to obtain additional documentation from the subrecipients. The State also noted that the Program ended in June 2008, and it is understandable that the DCRT had archived files off-site since on-site storage was limited.

During our review we noted that in some instances, the DCRT did not have any documentation to support certain costs, which in part, caused the unsupported costs. In addition, since the DCRT had to obtain invoices or supporting documentation either directly from the subrecipients or from its off-site archived files, our file reviews were delayed by more than three weeks. As such, the State must ensure that the DCRT maintains complete files that are readily available for review.

Comment 4 The State agreed that Program policies and procedures could have contained more detail, but believed that the DCRT had adequate Program policies and procedures in place, since the HUD OIG did not identify any ineligible costs and of the nearly \$19 million of disbursements reviewed 99.5 percent were supported.

Although we did not identify any ineligible costs, we did identify unsupported costs in some instances. Therefore, we stand by original conclusion that more detailed written policies and procedures may have assisted the State and the DCRT in ensuring that all costs were adequately supported.

Comment 5 In response to recommendation 1A, the State stated that it and the DCRT would continue to obtain documentation to fully support the \$107,263.

We acknowledge the State's efforts to support the \$107,263 in unsupported costs. In addition, based upon our review of documentation provided by the State, as well as the DCRT, we revised this recommendation to reduce the unsupported costs from \$107,263 to \$82,752.

Comment 6 In response to recommendation 1B, the State requested that HUD OIG reconsider its recommendation to review the remaining 128 disbursements since less than one percent of the \$17.9 million of disbursements reviewed were found to lack supporting documentation. The State further stated that it would be difficult to cost justify the man hours required to review the remaining 128 disbursements.

Considering the percentage of unsupported costs and the State's concern regarding available resources, we revised the recommendation for the State to consider reviewing a sample of the remaining 128 disbursements, related to the five subrecipients reviewed, to provide reasonable assurance that the disbursements are adequately supported.

Comment 7 In response to recommendation 1C, the State indicated that for future HUD OIG reviews, it will request the DCRT to retrieve all off-site archived files prior to the start of the review.

We acknowledge the State's approach to ensuring that the DCRT's complete documentation is readily available for review.