



Issue Date: January 4, 2010
Audit Report Number 2010-AO-1002

TO: Nelson Bregon, General Deputy Assistant Secretary, D

*Tracey Carney*

FROM: Tracey Carney, Acting Regional Inspector General for Audit, Gulf Coast Region, GAH

SUBJECT: State of Louisiana, Baton Rouge, LA, Did Not Always Ensure Compliance Under Its Recovery Workforce Training Program

**HIGHLIGHTS**

**What We Audited and Why**

We performed an audit of the State of Louisiana, Office of Community Development (State), Recovery Workforce Training Program (Program) administered by the State’s subrecipient, Louisiana Workforce Commission (LWC). We initiated the audit as part of the Office of Inspector General (OIG) Gulf Coast Region’s audit plan and examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. Our audit objectives were to determine whether the LWC, as the State’s subrecipient, (1) ensured that its subrecipients under agreement expended Program funds for eligible expenses and (2) adequately monitored its subrecipients under agreement.

**What We Found**

The LWC did not always ensure that its subrecipients under agreement expended Program funds for eligible and supported expenses. In addition, it did not maintain adequate internal controls over the Program’s financial management. Specifically, the LWC did not (1) ensure that reimbursements were consistent with approved budgets before disbursing funds, (2) review its subrecipients’

reimbursements for compliance with agreement requirements or Federal regulations, or (3) maintain adequate records to support the eligibility of reimbursed costs. These conditions occurred because the State did not ensure that the LWC fully complied with the terms of its interagency agreement or applicable Federal requirements. As a result, the State misspent \$147,681 for ineligible and unsupported costs.

Although the State generally provided technical assistance, the LWC did not always adequately monitor its subrecipients under agreement. In addition, the LWC did not submit quarterly reports to the State that included all required performance data. These conditions occurred because the State did not (1) ensure that the LWC had adequate staff to conduct on-site monitoring visits before June 2008, (2) ensure that the LWC prioritized on-site monitoring after July 2008, (3) clearly convey its expectations to the LWC regarding the frequency of on-site monitoring, and (4) ensure that the LWC complied with the terms of its interagency agreement. Without this monitoring and compliance assurance, the State could not (1) effectively monitor the Program's progress and (2) ensure that Program goals were met and deliverables were provided as required.

### **What We Recommend**

We recommend that HUD's General Deputy Assistant Secretary for Community Planning and Development require the State to repay ineligible costs totaling \$2,289 and support or repay unsupported costs totaling \$145,392. In addition, the State must ensure that the LWC (1) completes its subrecipient agreement amendments in a timely manner; (2) ensures that its subrecipients comply with the approved budgets; (3) receives periodic reviews to ensure that it maintains documentation that accurately and adequately identifies and accounts for all Program funds disbursed; (4) implements adequate internal controls to ensure that sufficient reimbursement reviews are conducted; and (5) implements procedures to ensure that its subrecipients comply with laws, regulations, and agreement terms. Further, the State must (1) ensure the LWC conducts and maintains documentation of on-site monitoring for all subrecipients; (2) ensure the LWC maintains adequate staffing levels to ensure that sufficient on-site monitoring visits are conducted; (3) clearly convey and document its expectations to the LWC pertaining to on-site monitoring; and (4) ensure the LWC submit quarterly report data required by the interagency agreement or formally amend the reporting requirements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

During the audit, we provided the results of our review to the State's management staff and HUD. We conducted an exit conference with the State and HUD on November 23, 2009.

We asked the State to provide comments on our draft report by November 30, 2009. We gave the State an extension until December 11, 2009, to respond, and it provided written comments on that day. The State generally agreed with our results and recommendations. The complete text of the auditee's written response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Recovery Workforce Training Program (Program), a \$38 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 Louisiana Workforce Commission (LWC). Through collaborative efforts, the Program provides workforce recruitment, training, and retention strategies for sectors identified as having key roles in the physical and economic recovery of the State and the hurricane-affected parishes in particular. Those sectors include (1) construction, (2) healthcare, (3) transportation, (4) advanced manufacturing, (5) oil and gas, and (6) cultural. The Program addresses the loss of jobs and the reemployment of the State's workforce as a top priority in the recovery of the hurricane-impacted areas.

The State and LWC, which operated under the office of Louisiana's governor, entered into an interagency agreement in October 2006 to administer the Program. The State terminated that agreement, effective June 30, 2008.<sup>1</sup> The State then entered into an interagency agreement<sup>2</sup> with the new LWC, formerly known as the Department of Labor, to administer the Program.<sup>3</sup> The LWC's mission is to lead the development of the system that delivers the workforce that Louisiana's current and future employers need.

The LWC's funding for the Program is provided solely through Community Development Block Grant (CDBG) disaster recovery funds administered by the State. The interagency agreement allowed the LWC to execute subrecipient agreements to aid in implementing the Program. Therefore, it executed 18 subrecipient agreements which were divided among the six sectors. The interagency agreement required the LWC to (1) monitor its subrecipient performance measures; (2) monitor and track its subrecipient agreements via budget projections; (3) review and approve budget amendments; and (4) perform site visits to monitor its subrecipient expenditures, invoices, progress, completion of services, etc.

As of December 31, 2008, the State had allocated \$38 million to the LWC for Program related expenses incurred by the 18 subrecipients. Of this amount, the LWC had paid more than \$13.1 million to the subrecipients. Our audit objectives were to determine whether the LWC, as the State's subrecipient, (1) ensured that its subrecipients under agreement expended Program funds for eligible expenses and (2) adequately monitored its subrecipients under agreement.

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<sup>1</sup> The agreement was terminated due to Act 743 of the 2008 Regular Session of the Louisiana Legislature, transferring the administration of the Program from the LWC (under the office of the Louisiana governor) to a new LWC (formerly known as the Department of Labor).

<sup>2</sup> Effective July 1, 2008.

<sup>3</sup> Therefore, any references concerning activities before July 1, 2008, refer to the former LWC, and any references to the LWC after July 1, 2008, refer to the newly named LWC.

## RESULTS OF AUDIT

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### Finding 1: The LWC, As the State's Subrecipient, Did Not Always Ensure That Funds Were Spent for Eligible and Supported Expenses

The LWC did not always ensure that its subrecipients under agreement expended Program funds for eligible and supported expenses. In addition, it did not maintain adequate internal controls over the Program's financial management. Specifically, the LWC did not (1) ensure that reimbursements were consistent with approved budgets before disbursing funds, (2) review its subrecipients' reimbursements for compliance with agreement requirements or Federal regulations, or (3) maintain adequate records to support the eligibility of reimbursed costs. These conditions occurred because the State did not ensure that the LWC fully complied with the terms of its interagency agreement or applicable Federal requirements. As a result, the State misspent \$147,681 for ineligible and unsupported costs.

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#### State Requirements

As HUD's grantee, the State is responsible for administering and monitoring its CDBG disaster-related programs. To aid in its efforts, the State executed an interagency agreement with the LWC. According to the interagency agreement, the State required the LWC to

- Comply with 24 CFR (Code of Federal Regulations) 84.25 and follow accounting principles and procedures, use adequate internal controls, and maintain necessary source documentation for all costs incurred;
- Administer the Program in conformance with Office of Management and Budget (OMB) Circulars A-21, A-87, or A-122 as applicable;
- Review and analyze its subrecipients' cost reports and other documentation to ensure that (1) reimbursements were consistent with approved budgets, (2) the agreements were complied with, (3) costs were eligible and reasonable, and (4) requested funds did not exceed immediate need; and
- Maintain accounts and project records, including financial records, adequate to identify and account for all costs pertaining to the agreement and such other records deemed necessary by the State.

## **\$147,681 Paid for Ineligible and Unsupported Costs**

An expense eligibility review of 37 subrecipient reimbursement requests (reimbursements) determined that costs in 23 (62 percent) were ineligible or unsupported because the reimbursements

- Included costs that were not approved under the budget that was applicable at the time of reimbursement;
- Did not agree with the subrecipient-approved budget amounts;
- Included costs that were not allowable or reasonable according to OMB Circular requirements, such as costs related to entertainment and limousine services; and
- Were missing supporting documentation, such as receipts or invoices.

As a result, as of December 31, 2008, the State had misspent \$2,289 in ineligible and \$145,392 in unsupported costs. The remaining 14 reimbursements were eligible and supported (appendix C).

In addition, the LWC did not (1) ensure that reimbursements were consistent with approved budgets, (2) ensure that its subrecipients complied with the agreement requirements, and (3) maintain adequate financial records to identify and support the eligibility of the reimbursed costs. This condition displays an internal control weakness, as the State did not ensure that the LWC complied with the terms of the interagency agreement. The State must (1) ensure that the LWC, supports or repays the \$147,681 in questioned costs; (2) ensure that subrecipients comply with their approved budgets; (3) maintain adequate records that will accurately account for the costs being charged on the reimbursements; and (4) implement adequate internal controls to ensure that sufficient reviews are conducted before disbursing funds for the reimbursements.

## **Agreement Terms and Regulations Not Followed**

Although 14 of 37 reimbursements were eligible and supported, the LWC did not follow the terms of the interagency agreement for five (13.5 percent), resulting in various internal control weaknesses in its financial management of the Program. Specifically,

- The reimbursements contained support that inadequately accounted for the totals charged on the reimbursements. For example, supporting documentation for charges such as salaries or benefits conflicted with the reimbursement amount. Although the supported amount was greater than the charged amount, the reimbursements did not contain calculations, explanations, or timesheets to support how the charges were derived or how they pertained to the Program. As a result, the LWC did not adequately account for the reimbursements. However,

the State's interagency agreement required that the LWC maintain accounts and project records, including adequate financial records, to identify and account for all costs pertaining to the agreement. (Appendix C)

- The reimbursements were not in accordance with the approved budget. Specifically, some costs were either not included in the approved budget or were included in the approved budget, but charged under the incorrect budget category. To correct the issue, the LWC executed retroactive budget revisions, making those costs eligible, as the costs were not eligible at the time of reimbursement.<sup>4</sup> In doing this, the LWC and its subrecipients violated the terms of their agreements, which required it to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with Title 24 CFR Part 84.25.

These issues display internal control weaknesses, as the State did not ensure that the LWC (1) properly safeguarded and accounted for Program funds and (2) complied with applicable rules and regulations. The State should conduct periodic reviews of the LWC to ensure that it maintains adequate documentation that accurately and adequately identifies and accounts for all funds disbursed. The State also must ensure that the LWC complies with the interagency agreement terms and Federal regulations.

### State and LWC Taking Action

To address the issues, the LWC now requires its program managers to conduct a first-level review of the reimbursements. In doing so, program managers can request additional documentation and conduct recalculations of costs as deemed necessary. After the first-level review, program managers provide the reimbursement to the fiscal manager for second-level review and payment processing. In addition, as of August 20, 2009, the LWC planned to implement a revised reimbursement request form to alleviate accounting ambiguities. This form will require subrecipients to submit reimbursements according to each specific task, instead of expense category as previously required.

Further, in an effort to provide additional clarifications and aid in developing additional reimbursement requirements, the LWC has coordinated with the State and begun amending subrecipient agreements. Specifically, the amendments were to include more specific budget requirements. As of August 21, 2009, of 18 agreements, the LWC had completed 10 amendments and was near the completion of six. The LWC had terminated the remaining two agreements for poor performance. We acknowledge the State's and the LWC's steps toward improving the Program's processes.

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<sup>4</sup> According to 24 CFR 570.480(c), the State has the authority to amend its agreements, requirements, policies, etc., as deemed necessary.



## Conclusion

The LWC did not (1) ensure that reimbursements were consistent with approved budgets, (2) ensure compliance with agreement requirements or Federal regulations, and (3) maintain adequate records to support the eligibility of reimbursed costs. These conditions display various internal control weaknesses regarding the LWC's financial management and its expenditure of funds. Therefore, the State must repay or support \$147,681 in ineligible and unsupported costs. The State must also ensure that the LWC implements adequate internal controls to ensure that sufficient reviews are conducted before disbursing funds and complies with applicable laws and regulations and the terms of the interagency agreements.

## Recommendations

We recommend that HUD's General Deputy Assistant Secretary for Community Planning and Development require the State to

- 1A. Repay its Program \$2,289 in ineligible costs.
- 1B. Support or repay its Program \$145,392 in unsupported costs.
- 1C. Ensure that the LWC ensures that its subrecipients comply with the approved budgets and complete the subrecipient agreement amendments in a timely manner to ensure that the subrecipient budgets related to allowable expenditures are clear.
- 1D. Conduct periodic reviews of the LWC to ensure that it maintains adequate documentation to accurately and adequately identify and account for all funds disbursed pertaining to the Program.
- 1E. Ensure that the LWC implements adequate internal controls to ensure that sufficient reviews are conducted before disbursing funds for the reimbursement requests and that its subrecipients maintain compliance with laws, regulations, and terms prescribed in their respective agreements.

## RESULTS OF AUDIT

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### Finding 2: The LWC Did Not Always Adequately Monitor Its Subrecipients and Submit Its Quarterly Reports As Required

Although the State generally provided technical assistance, the LWC did not always adequately monitor its subrecipients. In addition, the LWC did not submit quarterly reports which included all required performance data. These conditions occurred because the State did not (1) ensure that the LWC had adequate staff to conduct on-site monitoring visits before June 2008, (2) ensure that the LWC prioritized on-site monitoring after July 2008, (3) clearly convey its expectations to the LWC regarding the frequency of on-site monitoring, and (4) ensure that the LWC complied with the terms of its interagency agreement. Without this monitoring and compliance assurance, the State could not (1) effectively monitor the Program's progress and (2) ensure that Program goals were met and deliverables were provided as required.

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#### State's Monitoring Requirements

As part of the interagency agreement, the State also required the LWC to

- Provide technical assistance to its subrecipients.
- Schedule and conduct on-site monitoring visits of its subrecipients. After the visits, the State required the LWC to prepare written monitoring reports, receive written responses to monitoring letters from subrecipients, and ensure that subrecipients completed follow-up corrective actions in a timely manner.
- Prepare and submit quarterly progress reports for all subrecipient activities, which included eight performance measures.<sup>5</sup>

#### Technical Assistance Provided but On-Site Monitoring Not Conducted

Although a review of 18 subrecipients determined that the State provided technical assistance to 14, it also identified that these 18 (100 percent) subrecipients received limited or no on-site monitoring from the LWC, as reflected in the table below.

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<sup>5</sup> The performance measures were (1) percentage of participants entering training who completed training, (2) percentage of participants recruited that are placed in employment, (3) percentage of average earnings increase after job placement, (4) percentage of workers placed in jobs that retain employment after 6 months of placement, (5) percentage of participants who were displaced by the storm, (6) number of participants who completed training, (7) number of participants who were placed in employment, and (8) number of workers retained in jobs per quarter.

<b>Number of subrecipients</b>	<b>Monitored (yes/no)</b>	<b>Technical assistance (yes/no)</b>	<b>Comment</b>
1	Yes (limited)	No	This subrecipient received limited on-site monitoring in November 2007. The State explained that this was the only on-site monitoring conducted for this subrecipient, and at that time, the LWC staff did not have the capacity to conduct on-site monitoring. Therefore, the monitoring for this subrecipient was limited, as it had not been monitored for more than a year.
1	No	No	This subrecipient had not received on-site monitoring since its March 2007 agreement execution. The State explained that the LWC, at that time, would not allow monitoring of this subrecipient. As of August 2009, this subrecipient had not received on-site monitoring.
1	No	No	This subrecipient appeared to have been monitored by HUD but not the LWC.
1	No	No	For this subrecipient, the State indicated that monitoring was conducted but could not provide supporting documentation.
14	No	Yes	The State provided technical assistance documentation for these 14 subrecipients. The purpose of the technical assistance was not to monitor but to obtain an update on the status of the Program.

According to the State and the LWC, monitoring was limited because the LWC, which had administered the Program from its inception<sup>6</sup> to June 2008, did not have the staff to perform such reviews. As a result, on-site monitoring was not performed. The State eventually coordinated with the LWC to initiate subrecipient on-site monitoring in June 2008. However, effective June 30, 2008, the Louisiana governor's office terminated the State's agreement with the LWC and continued the Program with a new LWC, effective July 1, 2008. Therefore, on-site monitoring was further delayed.

In addition, the new LWC staff prioritized disbursing funds for backlogged invoices and amending subrecipient agreements, instead of monitoring. The lack of on-site monitoring continued, and monitoring visits were not scheduled to commence until late April 2009. Therefore, the State had not ensured that the LWC adequately monitored all subrecipients as required by the interagency agreement. The State must ensure that the LWC (1) conducts and maintains documentation of on-site monitoring for all 18 subrecipients and (2) maintains adequate staffing levels to ensure that it conducts sufficient subrecipient monitoring.

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<sup>6</sup> October 2006.

## **State's Expectations Not Specific**

Although the interagency agreement between the State and the LWC required the LWC to conduct on-site monitoring of its subrecipients, it did not specifically define the expectations or requirements related to the frequency of those visits. Specifically, the interagency agreement lacked clarity regarding the number of expected on-site monitoring visits throughout the duration of the Program. Therefore, the State must amend the interagency agreement to ensure that it clearly conveys and documents the LWC's expectations related to the frequency of on-site monitoring.

## **Reporting Not in Compliance with Agreement**

The State did not ensure that the LWC's quarterly reports included all of the data required by the interagency agreement. Between October 2006 and December 31, 2008, the LWC submitted seven quarterly reports to the State.<sup>7</sup> However, a review of the seven reports determined that three did not include a significant amount of data required by the interagency agreement.

Regarding the required data, the interagency agreement required the LWC to include eight performance measures in its reports. However, on May 15, 2008, the State instructed the LWC to amend the reports to include only three of the performance measures. When asked, the State indicated that it did not provide a revised policy or amendments to the interagency agreement that documented that the data were no longer required and stated that the reporting was a "moving target" and continued to change. Since there was no formal written documentation approving the changes, the LWC should have provided the reports in accordance with the interagency agreement.

According to the State, the reports were one of the tools used to aid in monitoring the LWC's compliance with the Program. Therefore, the State must ensure that the LWC submits reports, including all required data, or amend its reporting requirements in the agreements to ensure that all 18 subrecipients (1) follow the scope of work and establish timetables, (2) accurately report levels of accomplishment, and (3) collect and correlate all data.

## **The State's and LWC's Progress**

As of April 30, 2009, the State and the LWC had made progress and commenced on-site monitoring. As of August 24, 2009, of 18 subrecipients, the LWC had completed on-site monitoring visits for 15, with 3 remaining. For the 15 completed on-site monitoring

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<sup>7</sup> Quarters 2-4 for year 2007 and quarters 1-4 for year 2008.

visits, seven were conducted between April 30 and July 29, 2009, and the LWC had completed the monitoring reports. For the remaining eight, the LWC was in the process of drafting the monitoring reports.

Overall, the monitoring reports included concerns related to file management, financial management, fiscal compliance, questioned costs, and procurement. The LWC's recommendations included but were not limited to subrecipients (1) conducting steps to resolve questioned costs, using a cost-price detail form and additional support documentation, and (2) establishing cost reasonableness and deliverable information for procured services, etc. Generally, it appeared that the LWC had determined that the subrecipient files and financial data (e.g., general ledgers, payroll journals) were adequately maintained and the internal controls over financial information complied with applicable CDBG laws and regulation.

## **Conclusion**

The State, through the LWC, did not always ensure that it adequately monitored subrecipients under agreement or submitted quarterly reports in compliance with the interagency agreement. Specifically, although technical assistance was provided to 14 of 18 subrecipients, a review determined that all 18 received limited or no monitoring as required by the interagency agreement. Further, three of seven quarterly reports that LWC submitted to the State did not contain all performance measure data required by the interagency agreement. These conditions occurred because the State did not (1) ensure that the LWC had adequate staff to conduct on-site monitoring visits before June 2008, (2) ensure that the LWC prioritized on-site monitoring after July 2008, (3) clearly convey its expectations to the LWC regarding the frequency of the on-site monitoring, and (4) ensure that the LWC complied with the terms of its interagency agreement. Without this monitoring and compliance assurance, the State could not (1) effectively monitor the Program's progress and (2) ensure that Program goals were met and deliverables were provided as required.

The State must ensure that the LWC consistently conducts and maintains documentation of on-site monitoring for all subrecipients, maintains adequate staffing levels to ensure that sufficient subrecipient monitoring will be conducted, and submits the quarterly reports with all required performance measures or formally amend the reporting requirements to reflect the change. The State must also ensure that it clearly conveys and documents the LWC's expectations pertaining to the frequency of on-site monitoring.

## **Recommendations**

We recommend that HUD's General Deputy Assistant Secretary for Community Planning and Development require the State to

- 2A. Ensure that the LWC conducts and maintains documentation of on-site monitoring for all subrecipients.
- 2B. Ensure that the LWC maintains adequate staffing levels to ensure that sufficient subrecipient on-site monitoring will be conducted.
- 2C. Clearly convey and document the LWC's expectations pertaining to the frequency of monitoring (e.g., number of visits to be conducted, frequency of those visits).
- 2D. Submit the quarterly reports with data required in the interagency agreement or formally amend the reporting requirements to reflect the change.

## SCOPE AND METHODOLOGY

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We conducted our audit at the State's and the LWC's office in Baton Rouge, LA, and the HUD Office of Inspector General (OIG) office in New Orleans, LA. We performed our audit work between March and October 15, 2009.

To accomplish our objective related to expense eligibility, we used the LWC's disbursement data for 18 subrecipients as of December 31, 2008. Through file reviews, we determined that the reimbursement data were generally reliable. Between June 26, 2007, and December 05, 2008,<sup>8</sup> the reimbursement data contained a universe of 329 reimbursements. We conducted a preliminary nonstatistical sample review of six invoices, based upon highest and average dollar amount. Due to the results of the preliminary sample, we expanded our review to include a stratified proportional statistical sample of 31 invoices pertaining to all 18 subrecipients,<sup>9</sup> which were randomly selected. Therefore, the reimbursements reviewed totaled 37 reimbursements. We reviewed the hard-copy files, as well as additional documentation provided by the State and LWC, for the 37 reimbursements to evaluate whether the reimbursement expenses were eligible and supported according to the executed agreements and Federal regulations.

To accomplish our objective related to monitoring, we selected a 100 percent sample of the 18 subrecipients. We reviewed monitoring reports, technical assistance notes, and quarterly reports to evaluate whether the State ensured that the LWC monitored the subrecipients through on-site monitoring and submitted quarterly reports as required.

In addition to the reviews, we

- Reviewed the HUD-approved action plan, HUD and State grant agreements, State and the LWC interagency agreement and amendments, the LWC and 18 subrecipient agreements and budgets, State and the LWC 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 HUD and the Louisiana legislative auditor's office; and
- Interviewed key HUD, State, and LWC staff.

Our audit period covered October 1, 2006, through December 31, 2008. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>8</sup> Dates were based on the dates the draw requests were sent to the State.

<sup>9</sup> For the stratification sample, we used 18 strata related to the 18 subrecipients.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives 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. Internal controls 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.

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## Relevant Internal Controls

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

- Program operations - Policies and/or procedures that management has implemented to reasonably ensure that subrecipients comply with the monitoring and expense eligibility requirements.
- Validity and reliability of data - Policies and/or procedures that management has implemented to reasonably ensure that data regarding expensed invoices are valid and reliable.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that CDBG disaster fund use is consistent with HUD's laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that CDBG disaster funds are 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 Weakness

Based on our review, we believe that the following items are significant weaknesses:

- The State did not ensure that the LWC (1) ensured that reimbursements were consistent with approved budgets before disbursing funds, (2) reviewed the subrecipients' reimbursements for compliance with agreement requirements or Federal regulations, and (3) maintained adequate records to identify and/or account for reimbursed funds (see finding 1).
- The State did not always ensure that the LWC monitored its subrecipients (see finding 2).
- The State did not always ensure that the Louisiana Workforce Commission complied with the terms of the interagency agreement (see findings 1 and 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <sup>1/</sup>	Unsupported <sup>2/</sup>
1A	\$2,289	
1B		\$145,392

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.


2/ 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

### Ref to OIG Evaluation

### Auditee Comments

		
BOBBY JINDAL GOVERNOR		ANGELE DAVIS COMMISSIONER OF ADMINISTRATION
<b>State of Louisiana</b> Division of Administration Office of Community Development Disaster Recovery Unit		
December 11, 2009		
<p>Ms. Sonya D. Lucas Acting Regional Inspector General for Audit, Gulf Coast Region Hale Boggs Federal Building 500 Poydras Street, 11<sup>th</sup> Floor New Orleans, Louisiana 70130</p>		
<p>RE: The State Did Not Always Ensure Compliance Under Its Recovery Workforce Training Program</p>		
<p>Dear Ms. Lucas:</p>		
<p>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 of the State of Louisiana, Office of Community Development (State), Recovery Workforce Training Program (Program) administered by the State's subrecipient, Louisiana Workforce Commission (LWC). The HUD OIG's audit objectives were to determine whether the LWC, as the State's subrecipient, (1) ensured that its subrecipients under agreement expended Program funds for eligible expenses and (2) adequately monitored its subrecipients under agreement. The audit resulted in two findings with nine recommendations. OCD and LWC worked together in formulating the response to the recommendations contained in the audit.</p>		
<p>Presented below, by finding, is the response to each of the recommendations.</p>		
<p><u>Finding 1: The LWC, As the State's Subrecipient, Did Not Always Ensure That Funds Were Spent for Eligible and Supported Expenses</u></p>		
<p>The State and LWC concur that the program's processes and controls did not always ensure that all funds were spent for eligible and supported expenses during the HUD-OIG's audit period (October 1, 2006 through December 31, 2008). While HUD-OIG reported that 75.6 percent or 28 out of 37 files contained ineligible or unsupported reimbursements, the State would like to point out that \$252,541 out of \$2,575,327, or 9.81 percent of the total dollars reviewed by HUD-OIG were determined ineligible or unsupported.</p>		
<small>150 3rd Street, Suite 700 • Baton Rouge, Louisiana 70801 • (225) 219-9600 • 1-800-272-3587 • Fax (225) 219-9605 An Equal Opportunity Employer</small>		

### Comment 1

Ms. Sonya D. Lucas  
December 11, 2009  
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The State and LWC have been working together to improve and correct the program's processes and controls and are pleased that the HUD-OIG acknowledged and included in its report some of the steps the State and LWC have taken to improve the program's processes. These steps and the corrective actions described in each of the recommendations have improved the program's processes and controls adding assurance that only eligible and supported costs are paid.

Recommendations:

**Comment 2**

1A. Repay its Program or justify \$4,041 in ineligible costs.

The State and LWC have reviewed the \$4,041 in ineligible costs and will supply the HUD-OIG with a spreadsheet and documentation that supports and/or justifies all but \$652 of these costs.

The State and LWC appreciate the previous opportunity it received from HUD-OIG to review and provide supporting documentation to clear ineligible and unsupported costs as reported in a preliminary draft report. As you are aware, this process enabled the State and LWC to provide documentation which greatly reduced both the ineligible and unsupported costs contained in the preliminary draft report. The State and LWC have continued to review and assemble supporting documentation for the ineligible and unsupported costs included in this report so that the HUD-OIG can reassess whether or not the questioned costs can now be considered eligible and/or adequately supported. This documentation will be provided to HUD-OIG electronically. The information contained in this paragraph is also applicable to recommendation 1B.

**Comment 3**

1B. Support or repay its Program \$248,500 in unsupported costs.

The State and LWC have reviewed the \$248,500 in unsupported costs and will supply the HUD-OIG with a spreadsheet and documentation that supports all but \$18,726 of these costs. Requests have been made to LWC's subrecipients to provide additional supporting documentation and this information continues to be received. The State and LWC appreciate the continued opportunity to provide additional documentation to support these costs.

**Comment 4**

1C. Ensure that the LWC ensures that its subrecipients comply with the approved budgets and complete the subrecipient agreement amendments in a timely manner to ensure that the subrecipient budgets related to allowable expenditures are clear.

Since the Recovery Workforce Training (RWT) Program was transferred to the new LWC, the LWC has been taking internal measures to ensure subrecipient amendments are completed in a timely manner. While agreement amendments were completed under the "old" LWC, when the program was transferred to the "new" LWC, the "new" LWC was given incorrect internal guidance on how to complete subrecipient agreement amendments. Consequently, the contracts division of the "new" LWC took corrective action and informed the RWT Program staff that previous amendments were not completed in compliance with internal rules and regulations. As a result, they had to retroactively "walk" the amendments through their agreement modification process, which required including all past modifications in the new agreements. This corrective action process resulted in significant delays. Since the completion of this process, the RWT Program staff has been properly trained by the agency's contracts department on how to submit and approve agreement amendments. The State has monitored the LWC's amendment process and is satisfied with the timeliness and effectiveness of this process. Since February 2009, RWT Program staff has amended all active agreements. All of these agreements have been approved by the Division of Administration, Office of Contractual Review.

Additionally, RWT Program staff has made it an internal policy to only approve reimbursements for costs that are allowable under current and approved budgets. While the LWC had retroactively applied budget amendments to reimbursed costs in the past, this practice has ceased and is monitored by the State.

1D. Conduct periodic reviews of the LWC to ensure that it maintains adequate documentation to accurately and adequately identify and account for all funds disbursed pertaining to the Program.

**Comment 5**

Since the transfer of the RWT Program from the "old" LWC to the "new" LWC, the staff has been more open to receiving technical assistance and input from the State on subrecipient and fund disbursement monitoring. The State monitored the subrecipients in conjunction with the staff of the "new" LWC on a weekly basis between the months of April and September 2009. During this time, the State provided the RWT Program staff with technical assistance to ensure the LWC would either monitor or receive enough documentation from the subrecipients to ensure that funds were being reimbursed for eligible and supported costs. Consequently, the RWT Program staff changed its internal approval process as described below.

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In the past, invoices were sent to RWT Program Managers, but only the Fiscal Manager reviewed invoices and support documentation, thereby over-tasking the person in this position. However, Program Managers are now responsible for reviewing all supporting documentation to ensure that only allowable and supported costs are reimbursed. Subrecipients are required to submit all requested support documentation during an invoice review. This information is compiled in the subrecipients' invoice files. Program Managers also generate a Findings of Review Summary that details what a subrecipient is being reimbursed for and includes notes as to why, if applicable, costs are disallowed. This system assists the unit in tracking the costs that are paid and those that are not paid. This information is then placed in the invoice file as additional supporting documentation. Additionally, the RWT Program Director has final approval of the payments and verifies that any necessary support documentation has been added to the reimbursement requests and that there is sufficient documentation to support the expenses.

This new process is monitored continually by the State when the LWC submits draw requests to the State. The State will also monitor through planned on-site visits and desk monitoring.

1E. Ensure that the LWC implements adequate internal controls to ensure that sufficient reviews are conducted before disbursing funds for the reimbursement requests and that its subrecipients maintain compliance with laws, regulations and terms prescribed in their respective agreements.

## Comment 6

In the past, the RWT Program Fiscal Manager had the primary responsibility for reviewing all 18 original sub-recipients' invoices as well as preparing, editing and updating all financial information relating to the RWT Program. Although the Fiscal Manager and the RWT Program Director would approve invoices for payment, it was recognized that additional controls were needed.

The staff structure of the RWT Program was redesigned to provide adequate internal controls and increase the amount of technical assistance they offer to their subrecipients at each stage of the process as further described. Currently, two Program Managers are assigned to provide an initial review of all reimbursement requests, adding an additional review step to the LWC's reimbursement review process. The RWTP Fiscal Manager then reviews the final draw request with supporting documentation and sends it to the RWTP Director for final review at the LWC. Should the Program Managers, Fiscal Manager or the Program Director have any questions or concerns about whether or not costs are in compliance with any laws, regulations, terms or cost principles as related to the RWT Program, they will contact the State and receive technical assistance that they can pass along to the subrecipient. Additionally, when the invoices are reviewed at the State level and the State staff has questions as to whether or not a cost is allowable or supported, they will either disallow a cost, provide technical assistance or request

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additional information/documentation to ensure adequate review. This multiple review and approval process adds assurance that only allowable costs are reimbursed.

Finding 2: The LWC Did Not Always Adequately Monitor Its Subrecipients and Submit Its Quarterly Reports As Required

**Comment 7**

The State concurs that LWC did not adequately monitor its subrecipients and did not submit its quarterly reports as required during the HUD OIG's audit period. The State and LWC feel the actions described in each of the recommendations will resolve this finding.

Recommendations

**Comment 8**

2A. Ensure that the LWC conducts and maintains documentation of on-site monitoring for all sub-recipients.

In previous years, although RWT Program Managers were assigned to subrecipients, they were still learning the laws and regulations governing the RWT Program. The newness and urgency of implementing the program created room for error.

At the request of the State, the "new" LWC planned and coordinated a series of on-site monitoring visits to every subrecipient during the period of April to September of 2009. Prior to conducting these monitoring visits, the RWT Program staff created a monitoring document and a checklist of questions to ask each subrecipient. From the responses to these questions, the RWT Program Manager compiled and submitted monitoring reports to the State and the subrecipients that included findings and recommended corrective actions, if applicable. The subrecipients were then given the opportunity to respond to the report. The State received copies of the reports and correspondence, and has monitored the LWC to ensure they are maintaining records and copies of the monitoring documents and responses in their files. The LWC plans to conduct another series of on-site monitoring visits during 2010, as the program has been extended another year.

**Comment 9**

2B. Ensure that the LWC maintains adequate staffing levels to ensure that sufficient subrecipient on-site monitoring will be conducted.

The RWT Program was originally administered by an agency (the "old" LWC) that was understaffed given the workload of the program. The program was new to the State. During the first two years, the Program experienced a high turnover rate, thereby complicating staffing issues. Upon the transfer of the RWT Program to the "new" Workforce, the LWC has attempted to hire enough staff to efficiently run the program and also increase on-site monitoring. In February 2009, the LWC had reached its staffing goal, and was able to conduct sufficient monitoring, reviews and provide sufficient

technical assistance to its subrecipients. However, the Program Director resigned the position in September 2009, and due to the implementation of a hiring freeze by the State's Governor, the LWC is operating with one less staff member. The State will recommend to the LWC upon receipt of the HUD OIG's final audit report, the necessity of increasing staff levels for the RWT Program. The State will encourage the LWC to seek an exemption to the hiring freeze. In an administrative budget amendment submitted by the LWC to the State in August 2009, the RWT Program staff requested additional funds for the LWC's agency monitoring team. It is the LWC's plan to have their agency's monitoring team conduct frequent financial on-site monitoring visits of the subrecipients while the RWT Program staff conducts programmatic on-site and desk monitoring.

**Comment 10**

2C. Clearly convey and document the State's expectations pertaining to the frequency of LWC's monitoring (e.g. number of visits to be conducted, frequency of those visits).

The State expects LWC to enhance its monitoring activities, to that end the State will require LWC to submit for review and approval its monitoring plan.

As discussed in recommendation 2A, LWC conducted on-site monitoring visits to every subrecipient during the period of April to September, 2009. At present, the LWC plans to conduct one on-site monitoring visit of each of the subrecipients during 2010.

The State has contracted with Reznick to create a comprehensive monitoring plan for the State's Disaster CDBG activities. Each CDBG program received its own program-specific monitoring plan that includes a risk assessment which will be used as a guide in determining the frequency of monitoring visits. This will be used by the State in assessing LWC's monitoring plan.

**Comment 11**

2D. Submit the quarterly reports with data required in the interagency agreement or formally amend the reporting requirements to reflect the change.

RWTP originally completed and signed its grant agreements before the deadline had been set for submitting quarterly data to HUD. In the original agreements, quarterly data was required and was submitted by the subrecipients, but the date set for submission was two weeks later than required to meet the HUD deadline. Since completing the contract amendments in 2009, the subrecipient agreements were amended so that the subrecipients' quarterly data would be submitted by the 10<sup>th</sup> day of the month the quarterly reports were due, thereby allowing LWC staff ample time to compile and submit data required in the interagency agreement by the set deadlines.



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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,



Paul Rainwater, Executive Director  
Office of Community Development

PR/SU

C: Ms. Angele Davis  
Mr. Curt Eysink  
Ms. Cathy Breaux  
Ms. Dwan Johnson  
Mr. Thomas Brennan  
Ms. Lara Robertson  
Mr. Richard Gray  
Mr. William Hall

## OIG Evaluation of Auditee Comments

**Comment 1** The State and LWC concurred that the Program's processes and controls did not always ensure that all funds were spent for eligible and supported expenses during the HUD OIG's audit period. The State asserted that it had been working together with the LWC to improve and correct the Program's processes and controls.

We acknowledge the State's actions to improve the Program's processes and controls.

**Comment 2** In response to recommendation 1A, the State asserted that it and the LWC reviewed the \$4,041 in ineligible costs and would supply the HUD OIG with a spreadsheet and documentation to support or justify all but \$652 of the costs.

We reviewed the documentation provided by the State and agreed that \$3,389 of the ineligible costs were eligible and adequately supported. However, \$652 of the costs remained ineligible. In addition, based upon our review of supporting documentation, provided by the State for disbursements deemed unsupported, we determined that an additional \$1,637 was ineligible. Specifically, the costs were ineligible because the costs were either (1) not allowable under the subrecipient agreements, (2) duplicate payments, or (3) overpayments. As such, we amended our recommendation and Finding 1 to reflect \$2,289 in ineligible costs.

**Comment 3** In response to recommendation 1B, the State asserted that it and the LWC reviewed the \$248,500 in unsupported costs and would supply HUD OIG with a spreadsheet and documentation to support all but \$18,726 of these costs.

We reviewed the documentation provided by the State and agreed that \$103,108 of the \$248,500 of unsupported costs were eligible and adequately supported. However, we determined that the remaining \$145,392 of costs were still unsupported. Specifically, the costs were unsupported because either (1) the State referenced a budget revision to support the costs, but did not provide the approved budget revision, or (2) costs could not be corroborated to the budget using the additional supporting documentation. As such, we amended our recommendation and Finding 1, to reflect \$145,392 in unsupported costs.

**Comment 4** In response to recommendation 1C, the State asserted it has been taking internal measures to ensure subrecipient agreement amendments are completed in a timely manner. In addition, the State stated that it monitored the LWC's amendment process and was satisfied with the timeliness and effectiveness of this process. Further, the State stated that as of February 2009, the Program staff had amended all active agreements and all agreements were approved by the Division of Administration, Office of Contractual Review. The State also indicated that Program staff developed an internal policy to approve only reimbursements for costs that are allowable under current and approved budgets.

We acknowledge the State's proactive measures in ensuring that (1) the subrecipient agreements were amended and (2) the Program staff developed an internal policy to approve only reimbursements allowable under current and approved budgets.

- Comment 5** In response to recommendation 1D, the State asserted that it monitored subrecipients in conjunction with the LWC between April and September 2009. The State stated that at that time, it provided technical assistance to ensure the LWC either monitored or received enough documentation from subrecipients to ensure funds were reimbursed for eligible and supported costs. The State asserted that as a result, the LWC changed its internal approval process and the new process is monitored continually by the State through draw requests.

We acknowledge the State's approach to ensuring that the LWC monitor and receive enough documentation from subrecipients to ensure funds are reimbursed for eligible and supported costs.

- Comment 6** In response to recommendation 1E, the State recognized that additional controls were needed. The State asserted that the staff structure for the Program was redesigned to provide adequate internal controls and increase the amount of technical assistance offered to subrecipients at each stage of the reimbursement process. The State commented that this redesign adds assurance that only allowable costs are reimbursed.

We acknowledge the State's approach to implementing adequate internal controls.

- Comment 7** The State concurred that the LWC did not adequately monitor its subrecipients and did not submit quarterly reports as required during the HUD OIG's audit period. The State asserted that it developed responses to the recommendations in which it believed would resolve the findings.

We acknowledge the State's proactive measures in resolving the findings.

- Comment 8** In response to recommendation 2A, the State asserted that it (1) requested that the LWC coordinate a series of on-site visits during April and September 2009, (2) received copies of the reports and correspondence generated from the on-site visits, and (3) monitored the LWC to ensure that the LWC is maintaining records of the monitoring documents and responses in the files. Further, the State stated that the LWC planned to conduct another series of on-site visits in 2010, since the Program was extended another year.

We acknowledge the State's efforts to ensure subrecipients are monitored and documentation is maintained.

- Comment 9** In response to recommendation 2B, the State asserted that as of February 2009, the LWC had reached its staffing goal and was able to conduct sufficient

monitoring, reviews, and provide sufficient technical assistance to its subrecipients. The State noted, however, that the Program Director resigned as of September 2009 and the LWC was operating with one less staff member. Finally, the State agreed to recommend to the LWC the necessity to increase the Program staff and noted that the LWC asked for additional funds to incorporate the LWC's agency monitoring team to conduct frequent on-site monitoring visits of the subrecipients.

We acknowledge the State's proactive measures for ensuring that the LWC maintains adequate staffing levels.

**Comment 10** In response to recommendation 2C, the State asserted that it will require the LWC to submit a monitoring plan for its review and approval. In addition, the State stated that it contracted with Reznick to create a comprehensive monitoring plan for its Disaster CDBG activities. Further, the State stated that each CDBG program received its own program specific monitoring plan that includes a risk assessment, which will be used as a guide when the State determines the frequency of monitoring visits. The State asserted that it will also use this for assessing the LWC's monitoring plan.

We acknowledge the State's approach to ensuring that the frequency of on-site monitoring visits is clearly conveyed to the LWC.

**Comment 11** In response to recommendation 2D, the State asserted that the original agreement for the Program had quarterly data deadlines that were two weeks later than the required HUD deadline. The State also asserted that the amended agreements require submissions by the tenth day of the month, thereby allowing the LWC staff ample time to compile and submit data required in the interagency agreement by the set deadline.

We acknowledge the State's actions regarding amending the quarterly report submission deadlines. However, the State must ensure that either the LWC submits quarterly reports that include the eight required performance measures; or that it amend its reporting requirements by revising its policy or amending the interagency agreement between it and the LWC.

## Appendix C

### RESULTS FROM REIMBURSEMENT SAMPLE REVIEW

Sample	Grant #	Request number	Paid amount	OIG-identified eligible costs	OIG-identified ineligible costs	OIG-identified unsupported costs
1	649069	8	\$139,799	\$139,799	\$0	\$0
2	649662	1	668,345	668,345	0	0
3	649661	39	8,670	8,596	0	74
4	649006	10	130,263	130,263	0	0
5	649668	4	49,231	48,376	0	855
6	649668	5	511,425	511,425	0	0
7	649066	6	34,540	23,302	0	11,238
8	649067	9	7,846	3,249	0	4,597
9	649068	2	73,639	26,243	142	47,253
10	649069	12	28,869	28,869	0	0
11	649069	19	97,597	97,598	0	0
12	649070	8	107,221	104,150	0	3,071
13	649103	10	819	819	0	0
14	649103	11	21,262	21,262	0	0
15	649203	3	61,647	61,026	621	0
16	649661	21	3,346	1,847	857	642
17	649661	7	13,370	0	0	13,370
18	649661	31	5,503	5,503	0	0
19	649661	15	3,820	3,779	41	0
20	649662	21	33,207	33,207	0	0
21	649662	12	65,077	50,282	0	14,795
22	649663	14	93,889	93,889	0	0
23	649664	6	110,988	99,498	0	11,490
24	649664	16	19,835	16,962	0	2,873
25	649665	10	155,553	155,553	0	0
26	649667	5	27,302	17,210	0	10,092
27	649668	1	5,781	5,781	0	0
28	649669	6	5,513	272	0	5,241
29	649669	1	6,441	293	0	6,148
30	649670	2	13,714	10,643	0	3,071
31	649671	4	7,383	7,383	0	0
32	649671	12	10,895	10,057	31	807
33	649672	13	6,580	4,497	0	2,083
34	649672	38	7,880	6,838	0	1,042
35	649672	2	28,528	24,405	597	3,526
36	649672	16	7,754	5,671	0	2,083
37	649672	30	1,791	750	0	1,041
<b>Totals</b>			<b>\$2,575,323</b>	<b>\$2,427,642</b>	<b>\$2,289</b>	<b>\$145, 392</b>