

MANAGEMENT CONTROLS, ACCURACY, AND
RELIABILITY OF PROGRAM DATA REPORTED
IN THE UNIFIED ECONOMIC DEVELOPMENT
BUDGET REPORT

LOUISIANA ECONOMIC DEVELOPMENT



PERFORMANCE AUDIT SERVICES
ISSUED NOVEMBER 28, 2018

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 28, 2018

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Taylor F. Barras,
Speaker of the House of Representatives

Dear Senator Alario and Representative Barras:

This report provides the results of our performance audit on the Louisiana Department of Economic Development (LED). The purpose of this audit is to evaluate the management controls, accuracy, and reliability of the program data reported in the Unified Economic Development Budget Report (UEDBR) as required by R.S 51:935.1. LED released the most recent UEDBR in April 2017.

The report contains our findings, conclusions, and recommendations. Appendix A contains LED's response to this report. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of LED for their assistance during this audit.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

LED UEDBR

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Management Controls, Accuracy, and Reliability of Program Data Reported in the Unified Economic Development Budget Louisiana Economic Development

November 2018

Audit Control # 40150070

Introduction

Louisiana Revised Statute (R.S.) 51:935.1 requires the Legislative Auditor to conduct an annual performance audit to evaluate the management controls, accuracy, and reliability of the data reported for at least three economic development programs reported in Louisiana Economic Development's (LED) annual Unified Economic Development Budget Report (UEDBR).¹ LED released the most recent UEDBR in April 2017. In accordance with this mandate, we reviewed three programs from this report.² A description of each program is below:

- **Motion Picture Production Tax Credit (Motion Picture)** offers a tax credit of up to 40% on motion picture production expenditures in Louisiana.³ Effective July 1, 2017, the state cannot issue more than \$150 million in credits each fiscal year. This program is projected to cost the state \$180 million for fiscal year 2019 because there is an additional cap on how much in motion picture credits can be claimed each year.
- **Sound Recording Investor Tax Credit (Sound Recording)** offers a credit of up to 18% on expenditures on sound recording productions in Louisiana and is projected to cost the state \$2 million for fiscal year 2019.
- **Musical and Theatrical Production Income Tax Credit (Musical/Theatrical)** offers a credit of up to 18% of expenditures on musical and theatrical productions in Louisiana, with an additional credit of up to 7% for Louisiana payrolls. This program is projected to cost the state \$6 million for fiscal year 2019.

R.S. 51:935.1 requires LED to produce a UEDBR each year containing summary information on at least 25% of the 19 economic development programs within the department. The other two tax credit programs cited in the UEDBR – the Corporate Headquarters Relocation Program and the Corporate Tax Apportionment Program – were not audited because they had no activity from fiscal years 2014 through 2017.⁴ Each economic development program shall be

¹ The Unified Economic Development Budget Report is available at the Poynter Legislative Research Library.

² LED released the 2016 report in April 2017. The 2017 report has not yet been released.

³ These credit amounts apply to new projects going forward, per R.S. 47:6004, 6023, and 6034. Different rates were in effect for some of the periods covered by the 2016 UEDBR.

⁴ Both the Corporate Headquarters Relocation Program and the Corporate Tax Apportionment Program are listed in LDR's Tax Exemption Budgets as having \$0 of revenue loss for fiscal years 2014 through 2017. R.S. 51:935.1(E) requires that we audit at least three of the programs included in the UEDBR.

included in the report at least once every four years. As required by this law, LED includes the following data elements in the UEDBR for each program:

- Amount of incentives issued;
- Administrative costs;
- Number of jobs created by the program and associated payroll costs;
- Amount of capital investment;
- Economic impact of the program, including the impact on state tax revenues; and
- Overall impact of the program.

We used *Government Auditing Standards* issued by the Comptroller General of the United States to develop criteria for evaluating management controls and the accuracy and reliability of data. Using these criteria, we reviewed LDR's management controls and determined whether they had been properly designed and implemented to ensure the reliability⁵ of the program data. We considered data elements to be reliable if they were supported by source documentation and could be reproduced within +/- 5% (+/- 10% for discrepancies that were smaller than \$50,000) of the figures reported in the UEDBR. To assess the reliability of data, we traced the numbers in the report back to the source documents LED used to compile its report and recalculated the numbers. These documents included the following:

- Lists of projects that obtained final certification⁶ from LED and were included in the UEDBR.
- CPA reports, which we used to validate the amounts in the project lists provided by LED. For Sound Recording projects, we validated the jobs numbers using documents provided by LED.
- Reports from LED's internal tracking system showing projects in progress, which LED provided to us to support their forecasts.
- Louisiana Department of Revenue's (LDR) Tax Exemption Budget.
- LaGov Human Resources reports.

Our assessment of the management controls, accuracy, and reliability of each of the data elements in the UEDBR for each program is summarized in the next section. Appendix A contains LED's response to the report, Appendix B contains our scope and methodology, and Appendix C contains the tables from the UEDBR that we evaluated.

⁵ For the purposes of this report, the term reliable includes accuracy as well.

⁶ Final certification occurs after a project has been completed, CPA cost reports have been submitted to LED, and LED management has concluded that the expenditures qualify for the credit. Upon final certification, credit recipients can claim the credit on their taxes or transfer the credit to another taxpayer.

Objective: Evaluate the management controls, accuracy, and reliability of program data reported in the Unified Economic Development Budget Report.

We found that the information LED reported in the 2016 UEDBR contained some unreliable elements, because the forecast elements lacked sufficient supporting documentation and because LED may have overstated the economic impact of the motion picture tax credit by including only the upper-bound estimate from a contracted economic impact study without also including the accompanying lower-bound estimate. Specifically, we found the following:

- **We could not evaluate the reliability of LED’s forecasts of credits issued and qualified expenditures for all three tax credits for fiscal year 2017 because LED could not provide sufficient documentation supporting its calculations for nine (60%) of the 15 forecast data elements.** As a result, users of the UEDBR should not rely on these numbers to evaluate the projected size of these incentive programs. While LED officials did provide the project lists that they review in formulating their forecasts, the spending amounts for these projects did not add up to the forecast amounts listed in the UEDBR, and LED could not provide documentation showing how it used the project lists to make the forecast.
- **LED may have overstated the economic impact of the Motion Picture Tax Credit in the UEDBR because LED included only the upper-bound estimate from a contracted economic impact study without also including the accompanying lower-bound estimate.** As a result, the economic impact estimate in the UEDBR for the Motion Picture Tax Credit assumes that all motion picture production expenses that qualified for the credit were paid to individuals and businesses that reside or are based in Louisiana. This makes the economic impact of this credit appear greater than the true impact.

These issues are discussed in detail throughout the remainder of the report, along with recommendations to assist LED in strengthening the reliability of the data.

We could not evaluate the reliability of LED’s forecasts of credits issued and qualified expenditures for all three tax credits for fiscal year 2017 because LED could not provide sufficient documentation supporting its calculations for nine (60%) of the 15 forecast data elements.

R.S. 51:935.1 requires LED to include actual amounts for the past three years and forecast amounts for the current or ensuing fiscal year for the following indicators:⁷

⁷ Each are summarized in Appendix C.

- Amount of incentives issued
- Administrative cost of the program
- Qualified Louisiana expenditures
- Qualified Louisiana payrolls (Motion Picture and Musical/Theatrical only)
- Estimated jobs (Sound Recording only)
- Total credits claimed

To meet this requirement, LED included forecast amounts for fiscal year 2017 in the UEDBR for 2016. Although we found that the data elements for the administrative cost of each program and total credits claimed were reliable, LED could not provide sufficient supporting documentation for how it determined the forecast amounts for the credits issued, qualified expenditures, qualified payrolls, and estimated jobs. While LED officials did provide the project lists that they review in formulating their forecasts, the spending amounts for these projects did not add up to the forecast amounts listed in the UEDBR, and LED could not provide documentation showing how it used the project lists to make the forecast. As a result, we could not evaluate the reliability of the forecast amounts for these credit programs. Exhibit 1 shows the forecast data elements for each of the three credit programs that lacked supporting documentation together with the prior-year actuals for comparison purposes only.

Exhibit 1						
Forecasts Lacking Supporting Documentation†						
Comparison with Prior-Year Actuals*						
Program	Motion Picture		Sound Recording		Musical/Theatrical	
Fiscal Year	2016 Actual	2017 Forecast	2016 Actual	2017 Forecast	2016 Actual	2017 Forecast
Credits Issued	\$379 M	\$150 M	\$171 K	\$170 K	\$13 M	\$8 M
Qualified LA Spending	\$1,206 M	\$500 M	\$684 K	\$680 K	\$50 M	\$25 M
Qualified LA Payrolls	\$289 M	\$40 M	<i>n/a**</i>	<i>n/a**</i>	\$3 M	\$2 M
Estimated Jobs	<i>n/a**</i>	<i>n/a**</i>	125	120	<i>n/a**</i>	<i>n/a**</i>
†FY 2016 figures were supported, but FY 2017 forecast figures lacked support. *Amounts in millions (M) or thousands (K) as indicated. **For Sound Recording, LED reported number of estimated jobs created instead of qualified payroll, and LED did not report the estimated jobs for Motion Picture and Musical/Theatrical because these credits have an additional payroll credit, while the Sound Recording credit does not. Source: Prepared by legislative auditor’s staff using information from the UEDBR.						

In addition, without sufficient supporting documentation to verify these forecast amounts, users of the UEDBR should not rely on these numbers to evaluate the projected size of these incentive programs. According to LED, the documentation provided did not match the forecast amounts in the UEDBR because LED adjusted the forecasted amounts by using their judgment to

estimate which of these projects in progress would reach completion during fiscal year 2017 and by how much the anticipated spending amounts for each project would change; however, LED did not document these adjustments.

Recommendation 1: LED should document how it prepares the forecast figures in the UEDBR so that the accuracy and reliability of the forecast figures can be evaluated.

Summary of Management's Response: LED disagrees with this recommendation. According to LED, the amount of credits issued each year for these programs will be predictable going forward because of the newly-imposed legislative caps, so it is not necessary for LED to document their forecasts. LED also stated that there is no finding by the LLA of inaccuracy in the projections that were provided, and that they provided all requested documentation.

LLA Additional Comments: Legislative caps do not eliminate the need to monitor anticipated credit issuance. LED still needs to have some way of forecasting that the credit issuance cap will be met in any given year. If the credit issuance cap is not met, LED would also need to have some way of forecasting the amount of credit issuance. Future releases of the UEDBR will include other incentive programs that do not have caps, in which case this same recommendation will apply.

With regard to the inaccuracy of the projections, LED could not provide documentation showing how it used the project lists to make the forecast. The only information LED was able to provide to support these nine forecast data elements was a set of project lists that do not reconcile to the forecast amounts in the UEDBR. Furthermore, LED could not provide documentation showing how to reconcile the project lists to the amounts in the UEDBR. As a result, we could not evaluate the reliability of the projections.

LED may have overstated the economic impact of the Motion Picture Tax Credit in the UEDBR because LED included only the upper-bound estimate from a contracted economic impact study without also including the accompanying lower-bound estimate.

R.S. 51:935.1 requires LED to include an estimate of the economic impact, including the effect on state tax revenues, for every economic development program included in the UEDBR. To estimate these impacts, LED contracted with Loren C. Scott & Associates, Inc. to prepare a report titled "The Economic Impact of Louisiana's Entertainment Tax Credit Programs for Film, Live Performance, & Sound Recording" (economic impact study).⁸ This study estimated the direct and indirect economic impact of these tax credit programs. The economic impact study adds together the direct and indirect impacts for four types of economic outcomes, including new

⁸ The full report was released in April 2017 and is available on LED's website. [https://www.opportunitylouisiana.com/docs/default-source/Performance-Reporting/2017-entertainment-impact-study-\(final\).pdf](https://www.opportunitylouisiana.com/docs/default-source/Performance-Reporting/2017-entertainment-impact-study-(final).pdf)

business sales, new household earnings, jobs supported, and state tax revenues. Reliably estimating the economic impact of the tax credit is important for legislators to determine whether tax credits are meeting the desired goal and help them to make fiscal decisions regarding what tax credits to fund.

For the Motion Picture Tax Credit, the study includes a range of *low* to *high* estimates for each of these economic outcomes to account for the uncertainty surrounding the number of people who benefit from the credit and reside out-of-state. Exhibit 2 summarizes what is included in the high and low estimates. Specifically, the lower estimate in the economic impact study accounts for people whose salaries qualified to receive the credit, such as actors, directors, producers, and writers, but are assumed to live outside the state and may spend their earnings out of state. The higher estimate assumes that all these people reside in the state and spend their earnings primarily in the state.

Exhibit 2 Explanation of High and Low Economic Impact Estimates in LED's Contracted Report	
High Estimate	Included all qualified spending resulting from the credit, including but not limited to production expenditures and payments to actors, directors, producers, and writers.
Low Estimate	Included all qualified spending resulting from the credit, but excluded payments made to actors, directors, producers, and writers because of the possibility they did not reside in Louisiana.
Source: Prepared by legislative auditor's staff using information from the economic impact study, "The Economic Impact of Louisiana's Entertainment Tax Credit Programs for Film, Live Performance, & Sound Recording."	

Because LED only referenced the highest estimate of economic benefit in the UEDBR instead of a range, the report may not accurately represent the results of the economic impact study because the UEDBR assumes that all motion picture production expenses that qualified for the credit were paid to individuals and businesses that reside or are based in Louisiana. This assumption could lead the report's readers to assume that the economic impact of the program is greater than the true impact. Exhibit 3 shows the estimated ranges of Louisiana spending and the resulting total impacts for all four types of economic outcomes found in the economic impact study and how this compared to what was reported in the UEDBR.

Exhibit 3 Economic Impact Study Total Economic Impact of Motion Picture Tax Credits Calendar Year 2016					
Source	Louisiana Spending	New Business Sales	New Household Earnings	Jobs Supported	Net Effect on State Taxes
Economic Impact Study	\$670-\$893 M	\$916-\$1,222 M	\$677-\$903 M	10,646-14,194	(\$222-\$219 M)
UEDBR	\$893 M*	\$1,222 M	\$903 M	14,194	(\$219 M)
Potential Overstatement in UEDBR	\$0-\$223 M	\$0-\$306 M	\$0-\$226 M	0-3,548	\$0-\$3 M
*The UEDBR does not give an explicit estimate of Louisiana spending, but the economic impact numbers in the UEDBR correspond to the upper-bound Louisiana spending number from the Economic Impact Study, which is shown here. Source: Prepared by legislative auditor's staff using information from the economic impact study prepared by Loren Scott on behalf of LED.					

Recommendation 2: LED should include the range of estimates in the UEDBR, instead of including only the highest estimate, so that it accurately represents the range reported in the contracted economic impact study.

Summary of Management's Response: LED disagrees with this recommendation. LED feels the best data to present demonstrates the highest economic impact, and conversely, the highest (worst) negative impact to the state's fiscal standing. LED feels strongly that the state fiscal impact should not be reported without reporting the state economic impact. LED believes that this is sound and prudent fiscal management for the program and finds nothing in the report that would contradict this fact.

LLA Additional Comments: The economic impact study LED contracted with Loren C. Scott & Associates to perform specifically includes a range of low to high estimates for each of the economic outcomes to account for the uncertainty surrounding the number of people who benefit from the credit and reside out-of-state. Furthermore, LED's response incorrectly asserts that the highest economic impact corresponds to the worst impact to the state's fiscal standing, when the opposite is true. Page 14 of the economic impact study states that the upper-bound economic impact estimate corresponds to a \$219 million net loss to the State Treasury. This is more favorable than the lower-bound estimate which corresponds to a \$222 million net loss.

APPENDIX A: MANAGEMENT'S RESPONSE

November 15, 2018

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Performance Audit Management Response to Louisiana Economic Development (LED)
2017 Unified Economic Development Budget Report (UEDBR)

Dear Mr. Purpera:

This letter serves as the official response to the two performance audit recommendations that purport to provide future guidance to LED for its annual UEDBR program reporting.

Recommendation 1: LED should document how it prepares the forecast figures in the UEDBR so that the accuracy and reliability of the forecast figures can be evaluated.

As your office is aware, due to the nature of the Motion Picture, Sound Recording and Musical Theatrical programs, program administrators employed several factors in forecasting figures for those programs in 2016, a year in which the programs were operating between 2015 legislation and further anticipated legislation in the next Legislative fiscal session occurring in 2017. Requested documentation was provided to the auditors. Factors unique to these programs include:

- Not all projects applying to the program (which is the baseline for forecasting) will actually occur in the year projected by the applicant, and some will never occur.
- Application estimates may not reflect what is ultimately spent in the state.
- While LED may be aware of potential projects, project applications may not be submitted prior to forecast reporting.

In addition, all three of these programs now have statutorily mandated issuance caps that LED cannot exceed and the estimates of project expenditures in process for which tax credits are issued indicated that the caps would be reached. Consequently, the major forecasting factors are known and there is no finding by your office of inaccuracy in the projections that were provided. These known factors are avoided in the report, which over emphasizes “documentation” in lieu of common sense without ever identifying the “documentation” that should have been used or should be used when confronted with similar circumstances in the future. As a result, this recommendation is neither well-founded in fact nor utility.

Recommendation 2: LED should include the range of estimates in the UEDBR, instead of including only the highest estimate, so that it accurately represents the range reported in the contracted economic impact study.

While there is a low and high range of estimates presented in the independent study commissioned every two years to review the entertainment programs, LED feels the best data to present demonstrates the highest economic impact, and conversely the highest (worst) negative impact to the state's fiscal standing. LED feels strongly that the state fiscal impact should not be reported without reporting the state economic impact. LED believes that this is sound and prudent fiscal management for the program and finds nothing in the report that would contradict this fact.

Sincerely,



Anne G. Villa
Undersecretary

APPENDIX B: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. The purpose of this audit was to evaluate the management controls, accuracy, and reliability of the information on the Motion Picture Production Tax Credit, the Sound Recording Investor Tax Credit, and the Musical and Theatrical Production Income Tax Credit reported by Louisiana Economic Development (LED) in the 2016 Unified Economic Development Budget Report (UEDBR). We reviewed this information for fiscal years 2014 through 2017. Our audit objective was:

Evaluate the management controls, accuracy, and reliability of program data reported in the Unified Economic Development Budget Report.

We conducted this performance audit in accordance with generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we reviewed internal controls relevant to the audit objectives and performed the following steps:

- Reviewed laws and information related to LED and incentive programs.
- Reviewed the program performance data reported in the UEDBR.
- Interviewed LED department staff and obtained supporting documentation, including program data tables from LED, entertainment project cost reports audited by certified public accountants, applications for Sound Recording projects, the Louisiana Department of Revenue's Tax Exemption Budget, and LaGov human resources reports to validate the figures reported in the UEDBR and to evaluate management controls over the programs.
- Recalculated all figures in the UEDBR and identified any instances in which the source documentation did not agree to the figures presented in the UEDBR by more than 5%, or by 10% for discrepancies that were smaller than \$50,000.

APPENDIX C: TABLES FROM UNIFIED ECONOMIC DEVELOPMENT BUDGET REPORT FOR 2016

**Exhibit C.1
Motion Picture Production Tax Credit**

	FY 2014	FY 2015	FY 2016	FY 2017 (Projected)
Incentives Issued	\$133,068,530	\$308,913,627	\$379,159,661	\$150,000,000*
Administrative Cost	\$231,999	\$235,143	\$236,432	\$241,576
Qualified LA Expenditures	\$425,996,040	\$995,071,237	\$1,206,394,484	\$500,000,000*
Qualified LA Payroll	\$105,594,105	\$211,615,187	\$288,851,435	\$40,000,000*
Credits Claimed	\$250,699,770	\$201,588,481	\$211,308,897	\$205,833,000

*Auditors could not evaluate the reliability of the data elements associated with these figures.
Source: Prepared by legislative auditor's staff using data from the Unified Economic Development Budget Report (UEDBR) for 2016.

**Exhibit C.2
Sound Recording Investor Tax Credit**

	FY 2014	FY 2015	FY 2016	FY 2017 (Projected)
Incentives Issued	\$252,387	\$353,916	\$171,087	\$170,000*
Administrative Cost	\$137,418	\$146,602	\$149,153	\$152,200
Qualified LA Expenditures	\$1,009,550	\$1,415,665	\$684,348	\$680,000*
Estimated Jobs	198	319	125	120*
Credits Claimed	\$151,561	\$271,357	\$330,206	\$307,000

*Auditors could not evaluate the reliability of the data elements associated with these figures.
Source: Prepared by legislative auditor's staff using data from the UEDBR for 2016.

**Exhibit C.3
Musical and Theatrical Production Income Tax Credit**

	FY 2014	FY 2015	FY 2016	FY 2017 (Projected)
Incentives Issued	\$8,703,370	\$13,400,949	\$12,722,664	\$7,500,000*
Administrative Cost	\$137,418	\$146,602	\$149,153	\$152,200
Qualified LA Expenditures	\$34,276,714	\$53,599,767	\$50,042,605	\$25,000,000*
Qualified LA Payroll	\$3,066,839	\$1,069,789	\$2,802,920	\$1,500,000*
Credits Claimed	\$8,754,304	\$13,408,741	\$5,320,869	\$9,552,000

*Auditors could not evaluate the reliability of the data elements associated with these figures.
Source: Prepared by legislative auditor's staff using data from the UEDBR for 2016.

Exhibit C.4 Economic Benefit Associated with Programs and Overall Impact Calendar Year 2016				
	Sales	Household Earnings	Jobs	Net Impact on State Treasury
Motion Picture	\$1,200 M*	\$903 M*	14,194*	-\$219 M*
Sound Recording	\$700 K	\$500 K	6	-\$100 K
Musical and Theatrical	\$45.7 M	\$16.2 M	341	-\$5.5 M
*LED used upper-bound estimates for these figures. The upper and lower bound figures appear in Exhibit 3 above.				
Source: Prepared by legislative auditor's staff using data from the UEDBR for 2016.				