

DEPARTMENT OF  
TRANSPORTATION AND DEVELOPMENT  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 24, 2014

**LOUISIANA LEGISLATIVE AUDITOR  
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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

December 24, 2014

The Honorable John A. Alario, Jr,  
President of the Senate  
The Honorable Charles E. "Chuck" Kleckley,  
Speaker of the House of Representatives  
Ms. Sherri LeBas, Secretary,  
Louisiana Department of Transportation and Development

Dear Senator Alario, Representative Kleckley, and Secretary LeBas:

This report includes the results of the procedures we performed at the Louisiana Department of Transportation and Development (DOTD) for the period from July 1, 2013 through June 30, 2014, to evaluate its accountability over public funds. The procedures are a part of our audit of the state of Louisiana's financial statements and the Single Audit of the State of Louisiana for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of DOTD for their assistance during our work.

Sincerely,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive.

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

EBT:RR:BQD:THC:aa

DOTD 2014



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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Transportation  
and Development

December 2014

Audit Control # 80140025

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## Introduction

As a part of our audit of the state of Louisiana's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2014, we performed procedures at the Department of Transportation and Development (DOTD) to provide assurances on financial information that is significant to the state's financial statements; to evaluate the effectiveness of DOTD's internal controls over financial reporting and compliance; and to determine whether DOTD complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

DOTD is a component of the State of Louisiana created within the executive branch of government. DOTD is responsible for overseeing the transportation and water resource needs of Louisiana residents, businesses, and government partners. DOTD's mission is to deliver transportation and public works systems that enhance quality of life and facilitate economic growth.

## Results of Our Procedures

### Follow-Up on Prior-Year Findings

Our auditors reviewed the status of the prior-year findings reported in the DOTD management letter dated December 10, 2013. We determined that management has resolved the findings related to overbilled indirect costs and inadequate controls over Fueltrac purchases. The finding related to inadequate controls over change order approvals has not been resolved and is addressed again in this letter.

### Current-Year Findings

#### Inadequate Controls over Change Order Approvals

DOTD did not obtain the required approval of the Federal Highway Administration (FHWA) for 14 (8%) of the 184 change orders tested, totaling \$1,034,323 for Highway Planning and

Construction program projects. Of these 14 unapproved change orders, five were incorrectly categorized as change orders not requiring FHWA approval, and five were required to be approved by FHWA prior to their effective dates. In addition, DOTD did not maintain accurate information in its project management system related to required federal oversight for 12 (2%) of the 638 change orders tested.

Failure to obtain the required FHWA approval could result in reduced federal participation, increased costs to the state, and noncompliance with federal regulations. Inaccurate data in the project management system could result in DOTD personnel not obtaining the proper approval or exhausting DOTD's time and efforts to obtain approval for projects in which FHWA approval is not required. This is the fifth consecutive year we have reported weaknesses in DOTD's controls over change order approvals.

These exceptions were caused by errors in preparation and inadequate review of the change orders by project engineers, inadequate review by the DOTD employees approving change orders, and by the insufficient review of project information entered into the project management system for accuracy. Federal regulations require the state transportation department to obtain FHWA approval of major and certain non-major change orders on full oversight projects. Good internal controls require project information to be maintained to provide reliable data in order for DOTD to appropriately manage projects and ensure compliance with laws and regulations.

DOTD should continue to strengthen its controls and provide training to staff to ensure that they are aware of state and federal requirements and that FHWA approval is obtained for change orders related to federally-funded projects. DOTD management should strengthen controls to ensure that the data maintained in the project management system indicating required FHWA approvals is accurate and to ensure that the review process by change order approvers is sufficient to identify and correct errors made in the categorization of change order type and the level of approvals needed. In addition, DOTD should implement monitoring procedures to review the change orders report in Site Manager and determine that FHWA approval was obtained for all applicable change orders. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

### **Noncompliance with Subrecipient Monitoring Requirements**

DOTD did not adequately monitor its subrecipients for the Recreational Trails (RT) and Safe Routes to Schools (SRS) programs under the Highway Planning and Construction Cluster (HPCC), resulting in noncompliance with federal regulations and increasing the risk of disallowed costs that would require repayment to the federal grantor.

- DOTD failed to properly monitor the contracted RT program administrator to ensure the required site visits of program subrecipients were being conducted. Failure to conduct the required site visits increases the risk that subrecipients are using program funds for unallowable costs.
- DOTD failed to obtain payment documentation from subrecipients of the SRS program for nine (82%) of 11 payments reviewed totaling \$90,739. Funds for this program are sent to subrecipients based on invoices for goods or services. As part

of the ongoing monitoring efforts, DOTD policy requires that subrecipients provide proof of payment for those invoiced goods and/or services within 60 days of the receipt of program funds from DOTD. As of November 2014, DOTD still had not received proof of payment documentation from subrecipients for these nine payments made between October 2013 and April 2014.

- DOTD failed to ensure that a required audit was performed for one (14%) of seven subrecipients sampled.

Failure to monitor subrecipients of federal programs, including obtaining and reviewing supporting documentation for all payments, results in noncompliance with subrecipient monitoring requirements; provides a lack of reasonable assurance that subgrantees utilize federal awards in compliance with all applicable laws and regulations or adequately-achieved program goals; increases the risk of fraud; and may result in disallowed costs that would require repayment to the federal grantor.

DOTD should monitor the activities of the RT program administrator, ensuring all aspects of the interagency agreement have been met and that all federal laws and regulations have been followed. Management should develop standard operating procedures to ensure all necessary documentation is received from subrecipients receiving payments within the stated 60-day timeframe. Finally, DOTD management should implement monitoring procedures to ensure all subrecipients are receiving and submitting the required audits to the department for review. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

### **Overpayments on Construction Contracts**

DOTD made \$108,030 in payments to contractors in excess of approved contract amounts.

Although DOTD has controls in its accounting system to prevent contractor payments from exceeding the original contract maximum, those contract maximums are not being updated for approved change orders that reduce those maximums. This resulted in overpayments to contractors since the department does not have the legal authority to overspend the contract maximum.

DOTD should recoup overpayments from contractors and should implement effective controls to ensure all contract amounts are appropriately updated for approved change orders to reduce the risk of contractor payments in excess of approved contract amounts. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

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## **Financial Statements - State of Louisiana**

As part of our audit of the state of Louisiana's financial statements for the year ended June 30, 2014, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

### **Capital Outlay Escrow**

- Infrastructure
- Construction-in-progress
- Right-of-way
- Expenditures
- Accounts payable

### **Transportation Trust Fund**

- Federal revenue (progress billings)

### **Engineering and Operations**

- Operating and capital grant revenues (classification)

Our audit included tests of DOTD's compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

Based on the results of these procedures on the financial statements, we reported a finding related to overpayments on construction contracts. In addition, the account balances and classes of transactions tested are materially correct.

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## **Federal Compliance - Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2014, we performed internal control and compliance testing as required by Office of Management and Budget (OMB) Circular A-133 on DOTD's major federal program, Highway Planning and Construction Cluster (CFDA 20.205, 20.219).

Those tests included evaluating the effectiveness of DOTD's internal controls designed to prevent or detect material noncompliance with program requirements and determining whether DOTD complied with applicable program requirements.

We also performed procedures on DOTD's Schedule of Expenditures of Federal Awards (Schedule 8) and Summary Schedule of Prior Federal Audit Findings (Schedule 8-3) as required by OMB Circular A-133.

Based on the results of these Single Audit procedures, we reported findings related to inadequate controls over change order approvals and noncompliance with subrecipient monitoring requirements that will also be included in the Single Audit for the year ended June 30, 2014. In addition, DOTD's Schedule 8 and Schedule 8-3 are materially correct.

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### **Other Procedures**

In addition to the financial statement and federal compliance work noted above, we performed certain procedures which included obtaining, documenting, and reviewing DOTD's internal control and compliance of related laws and regulations over the LaCarte purchasing card program, FuelTrac fleet card program, and the State Liability Travel Card and Controlled Billed Account program.

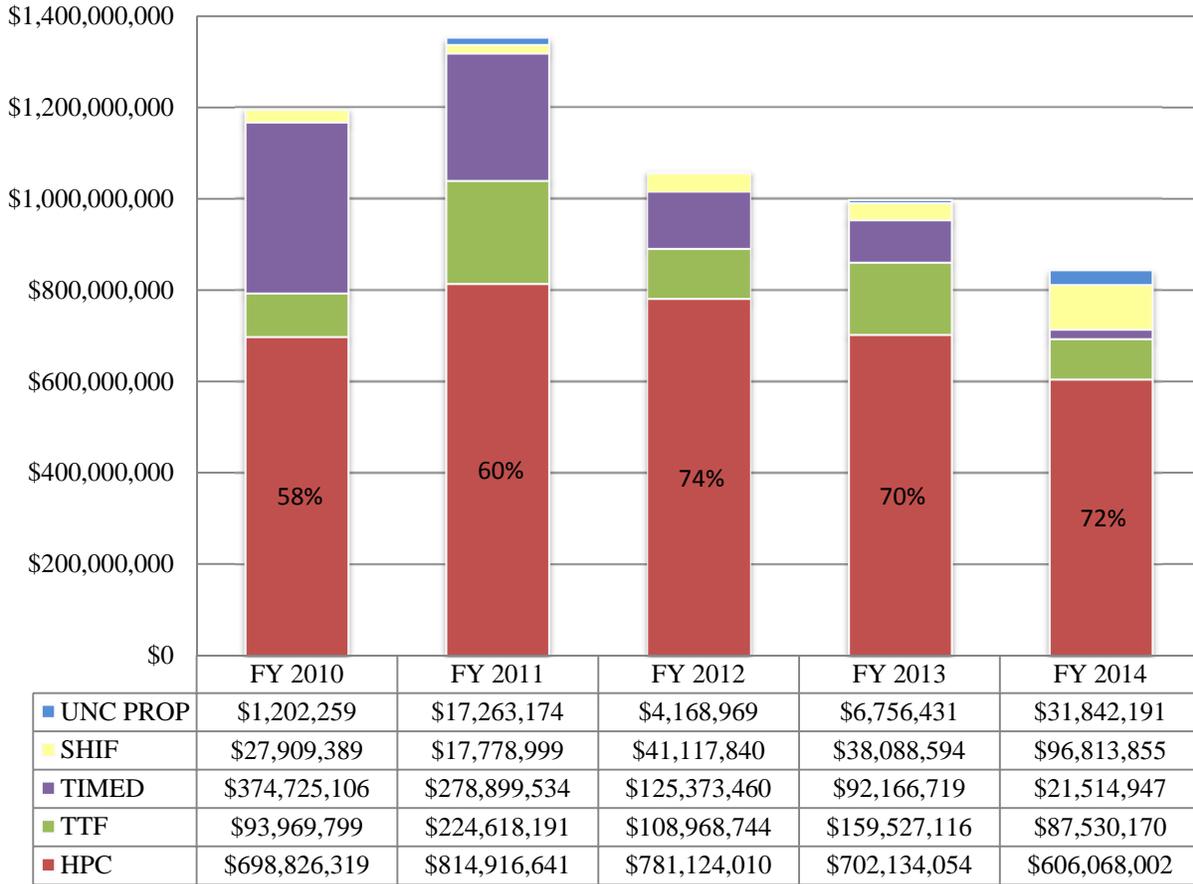
Based on the results of the procedures performed, we found no issues or weaknesses that were required to be reported.

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### **Trend Analysis**

We compared the most current- and prior-year financial activity using DOTD's annual fiscal reports and/or system-generated reports and obtained explanations from DOTD's management for any significant variances. We also prepared an analysis of the significant funding sources of the highway priority program over the last five years.

**Five-Year Trend of Highway Priority Program Significant Funding Sources, by Fiscal Year (FY)**



Source: Fiscal year 2010-2014 DOTD Capital Outlay Annual Financial Reports

**Unclaimed Property Leverage Fund (UNC PROP)** is a special fund that is funded by a portion of unclaimed property collected by the state. It contains two separate accounts, I-49 North and I-49 South, which can only be used to match federal funds for the costs associated with each respective project.

**State Highway Improvement Fund (SHIF)** is a special fund established for the collection of registration and license fees and taxes to be used exclusively for funding projects that are part of the state highway system but not part of the federal system, and thus, is ineligible for federal highway funding assistance.

**Transportation Infrastructure Model for Economic Development (TIMED)** program is funded by a 4 cents gasoline tax and composed of 16 projects approved by the legislature in 1989. Bonds were issued to accelerate the completion of the TIMED program.

**Transportation Trust Fund (TTF)** is funded by a 16 cents gasoline tax, which is used exclusively for the construction and maintenance of the state and federal highway systems, the Statewide Flood-Control program, ports, airports, transit, traffic control, and the Parish Transportation Fund.

**Highway Planning and Construction Cluster (HPC)** provides federal grants to states to assist in the construction and rehabilitation of the National Highway System; to provide aid for the repair of federal-aid highways following disasters; to foster safe highway design; to replace or rehabilitate efficient or obsolete bridges; and to provide for other special purposes.

Source: LA Constitution Article 7, Section 27; LRS 47:820.1 & 47:820.2; [www.whitehouse.gov](http://www.whitehouse.gov); LRS 48:196; LRS 9:165

In analyzing financial trends of DOTD over the past five years, federal funds provided \$606,068,002 (72%) of the significant funding sources for the highway program in FY14, and the proportion of federal funds has remained steady over the previous three fiscal years, with a decrease in TIMED funds due to the completion of projects. Although the proportion of federal funds have remained stable in recent years, the total amount of federal funds, and thus, overall funds for construction projects has steadily decreased since 2011. There has been an increase in the use of monies from the State Highway Improvement Fund and the Unclaimed Property Leverage Fund because of recent bond sales (\$85.4 million of SHIF bonds in FY13 and another \$198.1 million in FY14; \$111.7 million of Unclaimed Property bonds in FY14).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DOTD. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DOTD should be considered in reaching decisions on courses of action. The findings related to DOTD's compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.



## **APPENDIX A: MANAGEMENT'S RESPONSE**





Office of the Secretary  
PO Box 94245 | Baton Rouge, LA 70804-9245  
ph: 225-379-1200 | fax: 225-379-1851

Bobby Jindal, Governor  
Sherri H. LeBas, P.E., Secretary

December 11, 2014

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804

**RE: Department of Transportation and Development  
Audit Finding – Inadequate Controls Over Change Order Approvals**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “Inadequate Controls Over Change Order Approvals”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

The Department of Transportation and Development (DOTD) concurs with the reported finding that the required approval of the Federal Highway Administration (FHWA) was not obtained for 14 of the 184 (8%) change orders tested, totaling \$1,034,323, for Highway Planning and Construction program projects. Additionally, we concur that DOTD did not maintain accurate information in its project management system related to the required Federal oversight for 12 of the 638 (2%) change orders tested.

In regards to the fourteen (14) change orders that did not receive FHWA approval, the following is the status and our action plan for each type:

- Three (3) were due to weather delays. As weather delays are addressed contractually, we have not required a level 1 or 2 project extension change order for these situations. We have a meeting scheduled with FHWA on January 7, 2015 to determine their expectations on these types of change orders. We will then either change procedures to document the requirement, or we will adjust our category worksheet to document the exception.  
**Responsible Party - Mike Vosburg, Chief Construction Engineer.**
- Of the additional eleven (11), nine (9) change orders were executed prior to the finalization of our additional monitoring controls that we implemented in response to this audit issue last year. The remaining two were for a project that was misclassified as non-federal oversight. As a reminder, we modified three (3) reports from our SiteManager system to

include all required change order approvals for the specific change order types, including the FHWA representative. Any outstanding approvals remain highlighted on both the system report and routed signature copy of the change order until all required approvals are obtained. We feel that this control is working as designed. A meeting is scheduled on January 7, 2015 to present and request approval from FHWA for these change orders.  
**Responsible Party – Mike Vosburg, Chief Construction Engineer.**

In regards to the twelve (12) change orders that did not have accurate classification in the project management system, we have changed our process to ensure that a peer review occurs to validate the accuracy of the data entry. This process has already been implemented. Additionally, all noted exceptions have been corrected in our project management system. **Responsible party – Mike Vosburg, Chief Construction Engineer.**

Thank you for the opportunity to respond to these audit findings and to have this Management Response letter included in the final audit report. Please feel free to contact Nita Chambers, Undersecretary, at (225) 379-1270 or myself should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.  
Secretary

SHL/MWS/ch

cc: Mr. Ricky Rodriguez, C.P.A., LLA  
Dr. Eric Kalivoda, P.E., DOTD Deputy Secretary  
Ms. Janice Williams, P.E., DOTD Chief Engineer  
Ms. Nita Chambers, DOTD Undersecretary  
Mr. Don Johnson, DOTD Deputy Undersecretary  
Mr. Mike Vosburg, DOTD Chief Construction Engineer  
Ms. Lesha Woods, DOTD Financial Services  
Ms. Linda McNeil, Internal Auditor  
Mr. Mark St.Cyr, DOTD Audit Director



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December 11, 2014

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804

**RE: Department of Transportation and Development  
Audit Finding – Noncompliance with Subrecipient Monitoring Requirements**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “Noncompliance with Subrecipient Monitoring Requirements”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

DOTD concurs and has commissioned a cross-agency team tasked with improving our controls, updating our procedures, and ensuring compliance with the FHWA guidance on the revised OMB Circular A-133 requirements. **Responsible party - Ann Wills, Director of Local Public Assistance Programs. Expected completion – Spring 2015.**

Additionally, we offer the following details in regards to the specific findings noted:

- 1) The DOTD Transportation Enhancement Program Manager has issued detailed guidance to the Recreational Trails Administrator at CRT. This guidance provides monitoring requirements and re-emphasizes the responsibilities of the intra-agency agreement governing this program.
- 2) We have received all supporting payment documents for the exceptions noted in the Safe Routes to School program and have reiterated the requirements for obtaining this information.
- 3) The DOTD Audit and Quality Control section has issued the compliance review required by OMB circular A-133 for the specific entity noted.

Thank you for the opportunity to respond to these audit findings and to have this Management Response letter included in the final audit report. Please feel free to contact Nita Chambers, Undersecretary, at (225) 379-1270 or myself should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.  
Secretary

SHL/MWS/ch

cc: Mr. Ricky Rodriguez, C.P.A., LLA  
Dr. Eric Kalivoda, P.E., DOTD Deputy Secretary  
Ms. Nita Chambers, DOTD Undersecretary  
Mr. Don Johnson, DOTD Deputy Undersecretary  
Ms. Lesha Woods, DOTD Financial Services Administrator  
Ms. Ann Wills, DOTD Local Public Assistance Programs Director  
Ms. Linda McNeil, Internal Auditor  
Mr. Mark St.Cyr, DOTD Audit Director



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Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804

**RE: Department of Transportation and Development  
Audit Finding – Overpayments on Construction Contracts**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “Overpayments on Construction Contracts”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

While the Department of Transportation and Development (DOTD) concurs that payments were made in excess of approved contract amounts; **no payments were made to contractors for work not performed.** The payments made to the contractors were for work that was performed as directed by DOTD; however, the approved contract amounts were not increased to reflect the additional work performed. We have researched and clarified the appropriateness of all charges and have generated and executed change orders to support the additional costs. These change orders, in turn, raised the approved contract amount to a level that is equivalent to the project expenditures. As such, there are no overpayments that would require recovery. It should be noted that the exceptions were less than one half of one percent of total contract value on these four projects (\$108,030 exceptions / \$27,377,616 contract costs).

The DOTD Headquarters Construction section has implemented additional controls to monitor this process. We have documented our procedures to ensure final reconciliation between our project management system and our financial system prior to issuance of our final payment for the project. This change has already been implemented. **Responsible party - Mike Vosburg, Chief Construction Engineer.**

Daryl G. Purpera  
December 11, 2014  
Page 2 of 2

Thank you for the opportunity to respond to these audit findings and to have this Management Response letter included in the final audit report. Please feel free to contact Nita Chambers, Undersecretary, at (225) 379-1270 or myself should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.  
Secretary

SHL/MWS/ch

cc: Mr. Ricky Rodriguez, C.P.A., LLA  
Dr. Eric Kalivoda, P.E., DOTD Deputy Secretary  
Ms. Janice Williams, P.E., DOTD Chief Engineer  
Ms. Nita Chambers, DOTD Undersecretary  
Mr. Don Johnson, DOTD Deputy Undersecretary  
Mr. Mike Vosburg, DOTD Chief Construction Engineer  
Ms. Lesha Woods, DOTD Financial Services  
Ms. Linda McNeil, Internal Auditor  
Mr. Mark St.Cyr, DOTD Audit Director

## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Transportation and Development (DOTD) for the period from July 1, 2013 through June 30, 2014, to provide assurances on financial information significant to the state of Louisiana and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the state of Louisiana's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014.

- We evaluated DOTD's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of laws and regulations applicable to DOTD.
- Based on the documentation of DOTD's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on DOTD's account balances and classes of transactions to support our opinions on the state of Louisiana's financial statements.
- We performed procedures on the Highway Planning and Construction Cluster of federal programs (CFDA 20.205, 20.219), for the year ended June 30, 2014, to support the 2014 Single Audit.
- We compared the most current- and prior-year financial activity using DOTD's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from DOTD management for significant variances.

The purpose of this report is solely to describe the scope of our work at DOTD and not to provide an opinion on the effectiveness of DOTD's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.

We did not audit or review DOTD's Annual Fiscal Reports and, accordingly, we do not express an opinion on those reports. DOTD's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.