

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Transportation
and Development
State of Louisiana
Baton Rouge, Louisiana

February 26, 2003



Financial and Compliance Audit Division

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**DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Management Letter
Dated February 12, 2003

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

February 26, 2003



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February 12, 2003

**DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2002, we considered the Department of Transportation and Development's (DOTD's) internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of DOTD is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on DOTD for the year ended June 30, 2001, dated January 8, 2002, we reported findings relating to construction materials not sampled, inadequate monitoring of Davis-Bacon Act, unrecorded commitments, equipment rental rates not current, untimely closing of projects, failure to monitor preliminary engineering projects, and theft of payroll funds. The finding relating to untimely closing of projects has not been resolved and is addressed again in this letter. The remaining findings have been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2002.

Untimely Closing of Projects

DOTD did not close certain completed construction projects within two years after final acceptance. The departmental Engineering Directives and Standards Manual directive dated December 14, 2001, requires that all construction and associated projects (engineering, utilities, and right-of-way) be closed within two years after the final acceptance date. Final acceptance is defined as a project being ready and available for public use. A good system of internal control would include procedures to close projects in accordance with the departmental directive.

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DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

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At June 30, 2002, DOTD has not closed 203 construction projects that were completed before June 30, 2000. The Project Control Section subsequently closed 25 of these construction projects in August 2002. Total funds (federal and state) committed to the remaining 178 projects were \$128,681,813 and total expenditures were \$114,817,070. The remaining \$13,864,743 committed on these projects are not available for other projects until these projects are closed. This condition occurred because the Project Control Section either did not receive adequate information to close the projects or did not process the information they did receive in a timely manner. This is the fifth year that a finding of this nature has been reported.

DOTD should close completed construction projects within two years after final acceptance. Management concurred with the finding and stated that the department will continue its practice of identifying and expediting closure of those projects where substantial funds would be released, thus making them available for use on additional projects (see appendix A, page 1).

Thefts Not Properly Reported

DOTD did not notify the legislative auditor and the parish district attorney of misappropriations of property. Louisiana Revised Statute (R.S.) 24:523 requires the secretary of the department who has actual knowledge of any misappropriation of public funds or assets to immediately notify, in writing, the legislative auditor and the appropriate parish district attorney.

During the year ended June 30, 2002, the department became aware of the following misappropriations of property but did not notify the legislative auditor or the parish district attorney:

- An employee billed inappropriate phone calls to the department in the amount of \$964. The employee was allowed to resign.
- Employees stole scrap sign material estimated to be worth approximately \$210. Two of the employees resigned while one of the employees received a two-day suspension without pay.
- An employee was performing other activities not related to her job while on duty. Time spent on these inappropriate activities is estimated to be 11 hours. Disciplinary actions is pending in this matter as soon as the employee returns from extended family medical leave.
- The department could not locate fence posts stored at one of its maintenance units. The cost of the missing fence posts is \$198.

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- An employee was allegedly stealing diesel and working on his personal property during work hours. The department could not determine the actual time involved nor the amount of material taken because of the uncertainty of witnesses. The employee was allowed to resign.
- The department could not locate several pieces of computer equipment and subsequently filed a police report. The depreciated value of the equipment is \$1,602. An employee resigned to avoid pending disciplinary actions for negligence.
- An employee admitted taking fence posts from the scrap pile as well as two steel doors. The value of the missing items is estimated to be \$600. The employee submitted his resignation.

Department management did not report these incidents because it was unsure at what state of the investigation the incident should be reported or at what dollar level a report should be made. Failure to notify the legislative auditor and parish district attorney of any misappropriation increases the likelihood that actions to recover the misappropriated funds or assets will not be taken and that responsible persons will not be identified and reported to law enforcement authorities.

DOTD should notify the legislative auditor and the parish district attorney, in writing, as soon as it becomes aware of any misappropriation. In addition, the department should actively pursue criminal charges when possible and file a police report on all misappropriations. Management partially concurs with the finding. Management maintains that it complied with the provisions of R.S. 24:523, but will adjust its internal procedures to notify the Legislative Auditor's office in a more timely manner (see Appendix A, page 2).

Property Improvement Inventory Not Adequate

DOTD did not initiate and maintain inventory control over all improvements acquired in connection with DOTD projects. An improvement is any structure on a parcel of land that is not considered a movable item. Improvements include things such as water wells, cisterns, fences, buildings, signs, silos, gravel, asphalt, et cetera. The department's *Real Estate Manual (Improvement Control Activities)* requires the Real Estate District Manager and the Titles and Acquisition Unit to initiate and maintain inventory control over all improvements acquired in connection with DOTD's construction projects. The inventory data must be consistently updated so that any personnel involved in the improvement control function can assume the disposal activities for improvements on a project at any state of the disposal process. However, improvements for five of 20 projects tested (25%) had not been entered into the computer inventory system.

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DEPARTMENT OF TRANSPORTATION
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STATE OF LOUISIANA

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This condition occurred because management has not placed sufficient emphasis on maintaining the inventory control system. As a result, property could inadvertently be disposed of at less than its true value.

Management should maintain proper inventory control over all improvements acquired in connection with DOTD projects in accordance with departmental policy. Management concurs that the database did not include all of the improvements required. However, management does not believe that this would result in the property being inadvertently disposed of at less than its true value. Management stated that it is in the process of implementing a new comprehensive management and tracking system (see Appendix A, page 3).

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

This letter is intended for the information and use of the department and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Grover C. Austin, CPA
First Assistant Legislative Auditor

LJD:MB:PEP:ss

[DOTD02]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



M. J. "MIKE" FOSTER, JR.
GOVERNOR

December 16, 2002

KAM K. MOVASSAGHI
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Untimely Closing of Projects

Dear Dr. Kyle:

The Department concurs with the finding, although the exact number of projects cited is questionable. Nevertheless, significant progress continues to be made in this area. The basic challenge remains addressing the huge volume of projects with a modest staff.

The Department will continue its practice of identifying and expediting closure of those projects where substantial funds would be released, thus making them available for use on additional projects. As noted in previous management letters, the CFR does not establish a deadline for final voucher submission after final acceptance, and therefore has not violated any federal regulation.

Sincerely,

Kam K. Movassaghi, Ph.D., P.E.
Secretary



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



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Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Thefts Not Properly Reported

Dear Dr. Kyle:

The Department partially concurs with the finding. The Department complied with the provisions of LRS 24:523, however it will adjust its internal procedures to notify the Legislative Auditor's office in a more timely fashion.

The Department has always had an aggressive policy of eliminating waste, fraud and abuse. The Department has a full time internal affairs investigator and internal auditor to professionally pursue those instances of misappropriation or misconduct committed by DOTD employees. The incidents cited in this finding were all discovered and thoroughly dealt with by DOTD management. Typically, the investigator and/or the internal auditor will prepare an individual report for each incident. In the future, the Department will forward a copy of each report involving misappropriation to the Legislative Auditor and parish district attorney (if appropriate).

The Department respectfully rejects the assertion that failure to notify the Legislative Auditor's office would somehow increase the likelihood that actions to recover misappropriated funds would not be taken or the responsible employees not be held accountable. The Department is self motivated to eliminate waste fraud and abuse and has been doing so for many years prior to the enactment of LRS 24:523. Nevertheless, we are only too willing to provide copies of our investigations to your office.

Sincerely,

Kam K. Movassaghi, Ph.D., P.E.
Secretary



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December 16, 2002

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Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Property Improvement Inventory Not Adequate

Dear Dr. Kyle:

The Department partially concurs with the finding. The computer database did not contain all of the improvements required. The Department is in the process of implementing a new comprehensive management and tracking system. This new system will alert management when improvements have not been entered into the tracking system as required by DOTD procedures. This improved system should significantly help to eliminate this type of omission.

The Department respectfully disagrees with the conclusion that property could inadvertently be disposed of at less than its true value. When the Department disposes of improvements by public sale (the least used method of disposal), it relies on data contained in a bid booklet, which is prepared using information contained in appraisal reports, not from the database.

Sincerely,

Kam K. Movassaghi, Ph.D., P.E.
Secretary