

DEPARTMENT OF THE TREASURY  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 9, 2015

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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

**ASSISTANT LEGISLATIVE AUDITOR**  
**FOR STATE AUDIT SERVICES**  
NICOLE B. EDMONSON, CIA, CGAP, MPA

**DIRECTOR OF FINANCIAL AUDIT**  
ERNEST F. SUMMERVILLE, JR., CPA

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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.55. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at [www.la.la.gov](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 3353 or Report ID No. 80150080 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

---

# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Audit Control # 80150080

## Department of the Treasury

December 2015

---

## Introduction

As a part of our audit of the Comprehensive Annual Financial Report (CAFR) of the state of Louisiana for the year ended June 30, 2015, we performed procedures at the Department of the Treasury (Treasury) to provide assurances on financial information that is significant to the CAFR and to evaluate the effectiveness of the Treasury's internal controls over financial reporting.

The Treasury is responsible for the custody and disbursement of state funds, accounting, depository control, and investment of state funds. The Treasury also handles functions relating to the management, analysis, and control of state debt, including the issuance of bonds. The mission of the Treasury is to manage state funds by promoting prudent cash management and investment strategies as well as monitoring, regulating, and coordinating state and local debt obligations as mandated by the Constitution and the laws of the state of Louisiana

## Results of Our Procedures

---

### Current-year Finding

#### Over-invested in Stocks

The Treasury invested more than 35% of the Louisiana Education Quality Trust Fund's (fund) \$1.3 billion of assets in stocks, in violation of Article 7 §10.1(B) of the Louisiana Constitution. During fiscal year 2015, the percentage of the fund's stock portfolio ranged from 35.9% to 37.3% and ended fiscal year 2015 at 37.3%, or approximately \$30 million over-invested.

The Treasury acknowledged that it had been maintaining a stock portfolio greater than 35% to maximize dividends on investments; however, this practice increases the fund's risk in the event of a market downturn. Treasury management should rebalance its portfolio to comply with the Louisiana Constitution. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

---

## **Comprehensive Annual Financial Report - State of Louisiana**

As a part of our audit of the CAFR for the year ended June 30, 2015, we considered internal control over financial reporting and examined evidence supporting account balances and transaction classes relating to cash, investments, unclaimed property, and bonds.

Based on the results of these procedures on the financial statements, we reported a finding relating to being over-invested in stocks, as described previously. In addition, the account balances and classes of transactions tested are materially correct.

---

## **Other Reports**

The Legislative Auditor's Financial Audit Services issued a report on November 12, 2015, on interfund borrowing. The full report is available in the Audit Report Library on the Legislative Auditor's website at [www.lla.la.gov](http://www.lla.la.gov).

---

## **Trend Analysis**

We compared the most current and prior-year financial activity using the Treasury's annual fiscal reports and/or system-generated reports and obtained explanations from management for any significant variances.

The Treasury-managed state assets decreased by approximately \$2.5 billion between fiscal years 2011 and 2015, as shown in Exhibit 1, while the Treasury-managed state debt increased by \$1.2 billion, as shown in Exhibit 2.

The \$2.5 billion reduction in the state's assets managed by the Treasury was due to the following:

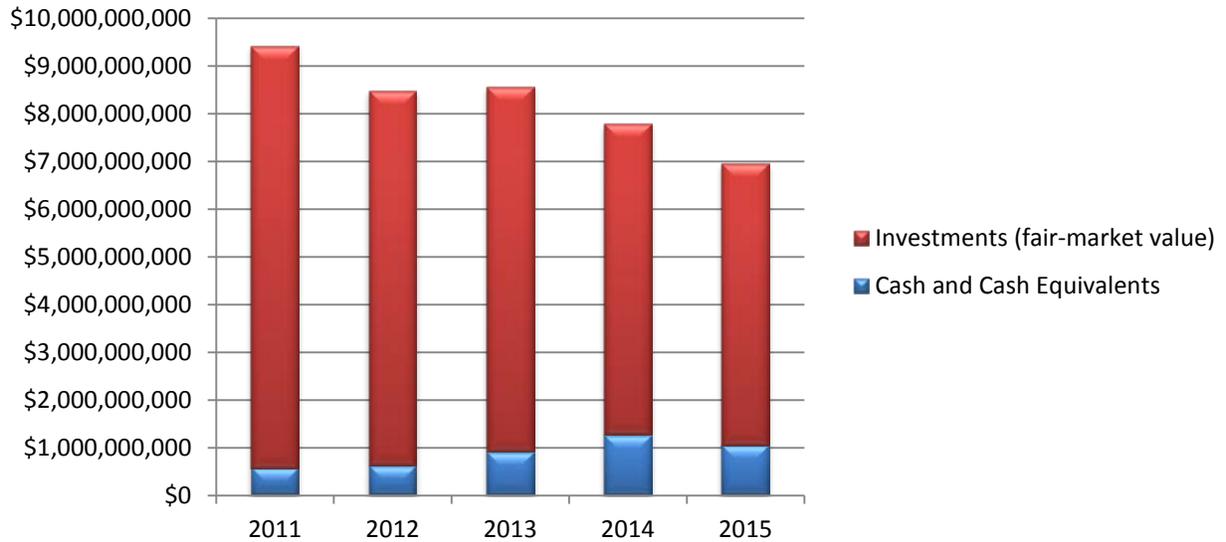
- Cash in the General Fund, Capital Outlay Escrow Fund, and various dedicated funds that is not needed in the short term is invested in the state's pooled investment portfolio, which exceeded \$5 billion in fiscal year 2011 and decreased to \$3 billion in fiscal year 2015. Investments were liquidated in order to fund legislative appropriations. The majority of the \$2 billion decrease occurred during fiscal years 2014 and 2015 due to decreased revenues and fund sweeps from dedicated funds.
- The Medicaid Trust Fund's investment portfolio decreased \$560 million, from \$600 million in fiscal year 2011 to \$40 million in fiscal year 2015. Although the fund was created with the intent for the principal to remain intact and only the investment earnings be appropriated toward the state's match of federal Medicaid funds, the Legislature has consistently appropriated the principal of the fund.

The \$1.2 billion increase in the state's debt managed by the Treasury was due to the following:

- The debt on general obligation bonds used to fund capital outlay projects has been consistently increasing, from \$2.5 billion in fiscal year 2011 to \$3.4 billion in fiscal year 2015. General obligation bonds were issued every year from fiscal year 2011 to fiscal year 2015.
- State highway improvement revenue bonds totaling \$300 million were issued in fiscal years 2013 and 2014 to finance the construction costs of certain roads which are part of the state highway system but not part of the federal highway system. Future motor vehicle taxes and fees collected by the Department of Public Safety and Corrections - Public Safety Services have been pledged to repay the bonds.
- Unclaimed property revenue bonds for \$100 million were issued in fiscal year 2014 to match federal funds for the construction of the I-49 north and south projects. Future unclaimed property held by the state has been pledged to repay the bonds.
- The debts on gasoline and fuels tax revenue bonds decreased \$100 million. Although no new debt was issued, substantially all of the debt service payments were interest. Future taxes on gasoline and fuels have been pledged to repay the bonds.

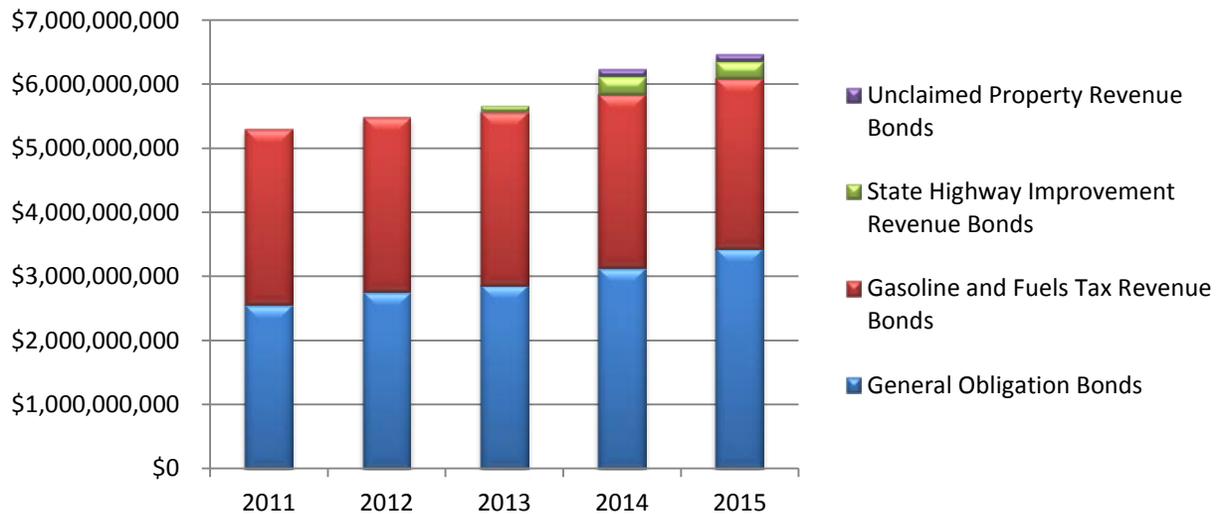
The unclaimed property held by the Treasury has steadily increased, from \$600 million in fiscal year 2011 to nearly \$900 million in fiscal year 2015, as shown in Exhibit 3. The Treasury attributes this increase to unclaimed property audits and participation in multi-state examination of life insurance companies. These efforts have increased companies' awareness of their obligation to remit unclaimed property to the state as required by law. At June 30, 2015, the Treasury estimates \$187 million of the \$700 million unclaimed cash will be claimed.

**Exhibit 1  
Treasury-Managed State Assets at Year-End,  
Fiscal Years 2011-2015**



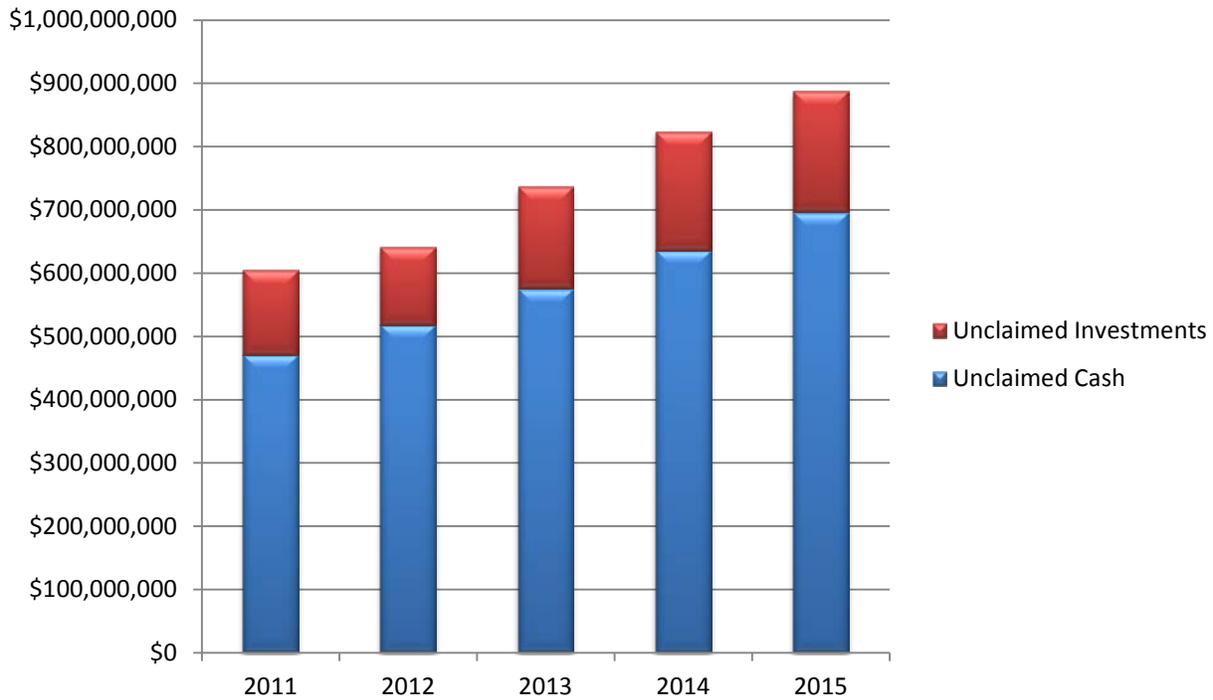
Source: Treasury’s Annual GASB 40 Cash and Investment Letters

**Exhibit 2  
Treasury-Managed State Debt at Year-End,  
Fiscal Years 2011-2015**



Source: CAFR and Treasury’s amortization schedules

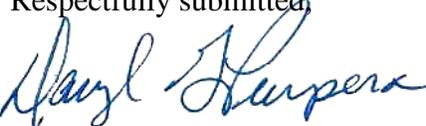
**Exhibit 3  
Unclaimed Property at Year-End,  
Fiscal Years 2011-2015**



Source: Treasury's unclaimed property reports

The recommendation in this letter represents, in our judgement, that which is most likely to bring about beneficial improvements to the operations of the Treasury. The nature of the recommendation, its implementation costs, and its potential impact on the operations of the Treasury should be considered in reaching decisions on courses of action.

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

Respectfully submitted,  
  
 Daryl G. Purpera, CPA, CFE  
 Legislative Auditor

CH:BF:BDC:EFS:aa

TREASURY2015



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





## TREASURER OF THE STATE OF LOUISIANA

John Neely Kennedy  
State Treasurer

P. O. Box 44154  
Baton Rouge, LA 70804  
(225) 342-0010  
[www.latreasury.com](http://www.latreasury.com)

December 2, 2015

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

RE: Department of the Treasury  
LEQTF Compliance Finding

Dear Mr. Purpera:

We concur that during Fiscal Year 2014-2015, the market value of the Department of the Treasury investment portfolio for the Kevin P. Reilly, Sr. Louisiana Education Quality Trust Fund's \$1.3 billion of assets in stocks exceeded the 35% market value limitation, in violation of Article 7 §10.1(B) of the Louisiana Constitution. In response, Treasury has implemented an additional internal control procedure to monitor the total market value of the portfolio on a monthly basis and rebalance the portfolio at the end of each quarter to maintain an equity balance within the Constitutional limits. Treasury would like to note that the over allocation of investments and equity securities during FY 2014-15 allowed the fund to earn an additional \$150,000 on an annualized basis. These additional earnings will be split and used by Higher Education and Elementary and Secondary Education for their authorized programs.

Thank you for the opportunity to submit a management response in this matter. If you have any questions regarding the actions taken to resolve these items, please call me at 225-342-0055.

Sincerely,

A handwritten signature in black ink that reads "Ron J. Henson".

Ron J. Henson  
First Assistant State Treasurer

RJH:lel



## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of the Treasury (Treasury) for the period from July 1, 2014, through June 30, 2015, 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, review of policies and procedures, and review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the state of Louisiana's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2015.

- We evaluated the Treasury's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Treasury.
- Based on the documentation of the Treasury's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on the Treasury's account balances to support the opinions on the CAFR.
- We compared the most current and prior-year financial activity using the Treasury's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from Treasury management for significant variances.

The purpose of this report is solely to describe the scope of our work at the Treasury and not to provide an opinion on the effectiveness of the Treasury'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 the Treasury's Annual Fiscal Report, and, accordingly, we do not express an opinion on that report. The Treasury's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.