

DEPARTMENT OF
TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MARCH 6, 2013

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

January 29, 2013

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

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements for the fiscal year ended June 30, 2012, we conducted certain procedures at the Department of Transportation and Development (DOTD) for the period from July 1, 2011, through June 30, 2012.

- Our auditors obtained and documented an understanding of the DOTD operations and system of internal controls, including internal controls over major federal award programs administered by DOTD, through inquiry, observation, and review of its policies and procedures, including a review of the related laws and regulations applicable to DOTD.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using DOTD's annual fiscal reports and/or system-generated reports and obtained explanations from DOTD management of any significant variances. We also scheduled the significant funding sources over the past five years for the Highway Priority Program for informational purposes.
- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior management letter, dated May 1, 2012, we reported findings relating to weaknesses in the implementation and user controls over the LaGov ERP system (computerized accounting system); inadequate preparation of the annual fiscal report; noncompliance with the Cash Management Improvement Act; inadequate controls over indirect cost billings; inadequate controls over the Disaster Grants - Public Assistance program; inadequate controls over American Recovery and Reinvestment Act reporting requirements; inadequate controls over change order approvals; and inadequate controls over user access to the Integrated Statewide Information System's Advantage Financial System. All findings except for the finding relating to inadequate controls over change order approvals have been resolved by management, which will be addressed again in this letter.
- Our auditors considered internal control over financial reporting; examined evidence supporting DOTD's capital outlay revenue, infrastructure, right-of-way,

capital outlay expenditures and payables, construction retainage and construction liens payable, and deferred revenue; and tested DOTD's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133 on the Highway Planning and Construction cluster (CFDA 20.205, 20.219) for the fiscal year ended June 30, 2012, as part of the Single Audit for the State of Louisiana.

The Annual Fiscal Reports of DOTD were not audited or reviewed by us, 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.

Based on the application of the procedures referred to previously, we have included all significant findings that are required to be reported by *Government Auditing Standards*. All of these findings, except for the finding on improper reporting of construction retainage and liens payable and capital outlay accounts payable, will be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2012.

The following significant findings are included in this report for management's consideration.

Improper Reporting of Construction Retainage and Liens Payables and Capital Outlay Accounts Payable

DOTD overstated construction retainage by \$10.6 million and construction liens by \$615,260 in the Capital Outlay Annual Fiscal Report (AFR) for the fiscal year ended June 30, 2012, which is used by the Division of Administration (DOA), Office of Statewide Reporting and Accounting Policy (OSRAP), to compile the State of Louisiana's Comprehensive Annual Financial Report (CAFR). In addition, DOTD incorrectly classified 35 of 58 (60%) expenditure transactions tested for the period between July 1, 2012, and August 9, 2012, as fiscal year 2013 transactions instead of fiscal year 2012 transactions, resulting in a \$227,367 understatement of capital outlay accounts payable. Misstatements in DOTD's AFR can result in misstatements of the state's CAFR.

The overstatements of construction retainage and liens payables occurred because a portion of the construction retainage that existed before the implementation of the LaGov system is maintained on manual worksheets. The worksheets were created with inaccurate retainage payable balances obtained from various DOTD sections, which had not been verified by DOTD's Financial Services section. Also, the procedure for removing liquidated retainages from the worksheets does not properly include all transaction types that should be used to prepare the manual offset. In addition, the

worksheet supporting the disclosure in the AFR was not adequately reviewed for accuracy before submitting the AFR to OSRAP.

Although DOTD has procedures in place for multiple levels of review to ensure capital outlay transactions are entered accurately and in the correct fiscal year, the 60% error rate in transactions tested indicates that the review process needs improvement to be effective in preventing these types of errors from occurring.

Good internal controls over financial reporting should include (1) adequate procedures to record, process, and transmit financial data needed to prepare an accurate and complete AFR; (2) adequate training and supervision of staff; and (3) an effective review of the AFR so that errors can be detected and corrected before submitting the AFR to OSRAP for inclusion in the state's CAFR.

Management should ensure that outstanding construction retainage and liens payable are adequately tracked and updated and should implement procedures to ensure the accurate preparation, review, and presentation of the AFR note disclosure related to retainage and liens payable. In addition, management should ensure that employees post transactions to the correct fiscal year and that supervisors conduct an effective review of these transactions to ensure they are posted to the correct fiscal year. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Inadequate Controls over Subrecipient Monitoring

DOTD did not adequately monitor its subrecipients for the Highway Planning and Construction (HPC) cluster resulting in noncompliance with federal regulations and increasing the risk of disallowed costs by the federal government.

- DOTD understated the reported amount of pass-through funds for the HPC cluster by a total of \$1.2 million (\$1,183,214 for the HPC program and \$46,747 for the Recreational Trails program) on Schedule 8-4 of the AFR, which is used to report federal funds passed through to non-state subrecipients in the Single Audit for the State of Louisiana.
- DOTD failed to properly identify and communicate federal award information at the time of the award for six of 18 (33.33%) HPC projects tested.
- DOTD failed to obtain supporting payment documentation from a HPC subrecipient of the Safe Routes to Schools (SRS) program for one of five (20%) advance payments totaling \$83,575, which is considered questioned costs.

DOTD district and section personnel are responsible for identifying subrecipients and are required to provide the department's Financial Services section with the required subrecipient information by uploading data into the AFR Portal. The decentralization of controls at DOTD and a lack of understanding by district and section staff has led to

inconsistent subrecipient identification and reporting to Financial Services, as well as inconsistent communication of the award information to subrecipients. Failure to obtain supporting payment documentation for the SRS subrecipient disbursement was the result of department personnel oversight.

DOA, OSRAP requires state agencies to prepare an AFR, including the reporting of certain disbursements of federal funds to subrecipients, on the Schedule of Non-state Subrecipients of Major Federal Programs (Schedule 8-4). Good internal controls require adequate procedures to properly identify subrecipients to ensure accurate reporting of subrecipient activity. Also, the OMB Circular A-133 *Compliance Supplement* requires that, at the time of the subaward, the pass-through entity should identify to the subrecipient the federal award information (i.e., CFDA title and number and award name and number) and applicable compliance requirements. DOTD requires SRS subrecipients to certify that they will provide proof of payment for invoiced goods or services within 60 days of the receipt of DOTD's disbursement.

DOTD should continue to provide training and guidance to district and section personnel to improve consistency and accuracy of subrecipient reporting to the Financial Services section. Financial Services should run federal expenditure reports in LaGov to identify potential subrecipients that have not been reported by district and/or section personnel. Also, management should provide all program managers within the department the required award information and instruct the managers to provide that information to all subrecipients. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Inadequate Controls over Change Order Approvals

DOTD did not obtain the required approval of the Federal Highway Administration (FHWA) for one of six (17%) contract time extension change orders tested for HPC program projects. In addition, DOTD did not maintain accurate information in its project management system related to required federal oversight for two of six (33%) 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.

These exceptions were caused by inadequate monitoring of contractor activities by DOTD's district and section personnel to ensure that proper approval was obtained for change orders and 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 contract time extensions. Good internal controls require project information to be maintained to provide reliable data for DOTD to appropriately manage projects and ensure compliance with laws and regulations. This is the third consecutive year we have reported weaknesses in DOTD's controls over change order approvals.

DOTD should continue to strengthen its controls and provide training to staff and contractors to ensure they are aware of state and federal requirements and to ensure that FHWA approval is obtained for change orders related to federally funded projects. In addition, DOTD management should strengthen controls to ensure that the data maintained in the project management system indicating required FHWA approvals is accurate. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 5-6).

The recommendations in this letter 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 the department should be considered in reaching decisions on courses of action. The findings relating to DOTD's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of DOTD and its management, others within the entity, and the Louisiana Legislature 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,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

EBT:RR:BQD:THC:dl

DOTD 2012

APPENDIX A

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



BOBBY JINDAL
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SHERRI H. LEBAS, P.E.
SECRETARY

January 23, 2013

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

**RE: Department of Transportation and Development
Audit Finding – Improper Reporting of Construction Retainage and Liens Payables
and Capital Outlay Accounts Payable**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “Improper Reporting of Construction Retainage and Liens Note Disclosure and Capital Outlay Accounts Payable”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

We concur with the finding.

The overstatement of construction retainage part of the finding was caused in part by the use of a manual worksheet process to track retainage on projects prior to the implementation of the new LaGov financial system and by a misunderstanding by the Flood Plain Management Section that reported “retainer contract balances” instead of retainage payable on contracts. The distinction between “retainer versus retainage” has been communicated to the Flood Plain Management and will not be an issue going forward. As a further precaution this distinction will be reiterated to all districts and sections in the annual financial report training provided by Financial Services staff. In addition, Financial Services staff will be providing an additional level of analytical review of the manual spreadsheets to capture large variances.

The overstatement of construction liens portion of the finding was a result of a misunderstanding of the instructions provided by the State LaGov office regarding the compilation of the liens payable note which is extracted from the LaGov system. The instructions for compiling liens payable have been modified to accurately extract the information for FY13.

The accounts payable period misclassification is a training issue and additional training will be delivered in advance of the FY13 annual close. The Districts will be reminded of the importance of proper period posting in our annual AFR training and Financial Services Disbursements staff will receive additional training to ensure that the proper accounting period is recorded in the 45-

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
January 23, 2013
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day close. While this is a control weakness, the amount of the adjustment was \$227,367 which is 0.19% of the \$117,422,139 in accrued payables (July 1-Aug 14, 2012).

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 me or Michael Bridges, Undersecretary, should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.
Secretary

cc:

Mr. Ricky Rodriguez, C.P.A., LLA
Mr. Michael Bridges, P.E., DOTD Undersecretary
Ms. Beverly Hodges, C.P.A., DOTD Financial Services Administrator
Ms. Linda McNeil, Internal Auditor
Mr. John Lyon, DOTD External Audit Director



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SECRETARY

January 23, 2013

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 Subrecipient Monitoring**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled "Inadequate Controls over Subrecipient Monitoring". I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

We concur with the finding.

Unreported subrecipients were noted in the Recreational Trails Program and the Highway Planning and Construction Program. Two subrecipients were omitted from the Recreational Trails Program data submitted by the DOTD Recreational Trails Program Administrator. One Subrecipient was omitted from the Highway Planning and Construction Program due to a misinterpretation of vendor vs. subrecipient.

A deficiency in the communication of award information to subrecipients was noted in six Highway Planning and Construction projects. The communication of award information to Subrecipients is being revised to include the required instructions in new Vendor/State Agreements. As older agreements expire and are replaced with the new template this issue will be resolved.

One Safe Routes to School subrecipient, on cost disbursement, did not have the required proof of payment within 60 days. This was overlooked by the DOTD Construction Audit Staff on this one payment. The required documentation to support the disbursement of Safe Routes to School funds has been requested. The Construction Audit/Estimates Engineer has ensured that procedures are in place to meet the 60 day requirement.

Daryl G. Purpera
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Page 2

Action Plan – The collection of subrecipient data through the DOTD Financial Services AFR portal has improved the compilation of Subrecipient data for inclusion in the report. The definition of vendor vs. subrecipient and the necessity on the part of program managers to use substantiating resources to confirm that all Subrecipients are included will continue to be a highlight in annual AFR training.

Thank you for the opportunity to respond to this audit finding and to have this Management Response letter included in the final audit report. Please feel free to contact me or Michael Bridges, Undersecretary, should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.
Secretary

C:

Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Services Administrator
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January 23, 2013

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**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.

We concur with the finding.

Change orders 2 and 4 on project #315-01-0010 were not approved in the DOTD Site Manager Project management system by FHWA as required. This project is a Federal oversight project whereby all Category 2 change orders (\$50,000 and above) are required to be approved by FHWA. Both change orders were typical small quantity adjustment change orders to correct the planned estimated quantities in the contract to that which was actually needed to perform the original scope of work for the project. Change order number 2 adjusted numerous quantities and resulted in an increase of \$59,542.22. The Project Engineer, who is a consultant to the Department, mistakenly left the FHWA off the Sitemanager approval list. The PE will obtain the required FHWA signature on the official paper copies to keep for the project files. Change order number 4 was mistakenly identified as a Category 2 change order, and should have been Categorized as Category 3 Change Order (less than \$50,000) because of the monetary amount of \$21,804.21. Category 3 change orders do not require FHWA approval.

The LADOTD Headquarters Construction section is taking additional measures to keep this from happening again. These measures include communication via email to each Project Engineer reminding them of department policy that the FHWA is required to approve Category 1 and 2 change orders on Federal oversight project. In addition, the Project Engineers will be reminded

Daryl G. Purpera
January 23, 2013
Page 2 of 2

verbally in the statewide Shade Tree meetings that they are required to attend in January, 2013.

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 me or Michael Bridges, Undersecretary, should you have any questions.

Sincerely,



Sherri H. LeBas, P.E.
Secretary

cc:

Mr. Ricky Rodriguez, C.P.A., LLA
Mr. Michael Bridges, P.E., DOTD Undersecretary
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Mr. Richard Savoie, P.E., DOTD Chief Engineer
Mr. Mike Vosburg, P.E., DOTD Construction Engineer