

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT  
STATE OF LOUISIANA



MANAGEMENT LETTER  
ISSUED JUNE 3, 2009

**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
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BATON ROUGE, LOUISIANA 70804-9397**

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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.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$14.60. 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 Web site at [www.la.la.gov](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 3366 or Report ID No. 80080037 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 Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

April 29, 2009

**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, 2008, we considered the Department of Transportation and Development'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 the Department of Transportation and Development 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 the Department of Transportation and Development for the year ended June 30, 2007, we reported findings related to the inadequate preparation of the Annual Financial Report and the overdraw of federal funds. These findings have not been resolved and are addressed again in this letter.

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* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

**Inadequate Preparation of the Annual Financial Report**

For the second consecutive year, the Department of Transportation and Development (DOTD) did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP). Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format of each agency's AFR and requires a signed affidavit that the AFR presents fairly the financial position of the agency. Good internal control 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) a review of the AFR so that any preparation errors can be detected and corrected before submitting the AFR to OSRAP for inclusion in the state's Comprehensive Annual Financial Report (CAFR).

Although we noted significant improvements in the department's AFR compilation process over the prior year, the department's AFR for the fiscal year ended June 30, 2008, still included numerous errors requiring adjustments as follows:

- The outstanding liability for cooperative endeavors on Schedule 16 of the AFR was understated by \$28,853,642 because of incomplete data used to prepare the schedule. DOTD does not maintain a comprehensive list of all cooperative endeavors and does not have controls in place to enable the department to support an accurate and complete report.
- The contingent liability note disclosure, which reports the remaining obligation of advanced construction projects, was overstated by \$57,786,057, primarily because DOTD included cooperative endeavors in error. DOTD's original note disclosure, provided for audit purposes before completion of the AFR, included an additional \$22,365,187 overstatement for a project included in error; however, we brought it to management's attention and it was adjusted before submitting the AFR to OSRAP.
- DOTD's infrastructure was overstated by \$44,790,849 because of the inclusion of expenditures for the Louisiana Transportation Authority's (LTA) LA-1 project totaling \$50,758,686. Management had not identified expenditures paid from DOTD resources that should have been reported in LTA's financial statements. The overstatement in infrastructure was offset by an understatement of \$5,967,837 resulting from unrecorded liabilities at June 30, 2008.
- Accounts payable for capital outlay expenditures were overstated by \$7,143,250, primarily because of the improper inclusion of a fiscal year 2009 transaction totaling \$5,943,279 and a Crescent City Connection Division transaction totaling \$1,197,034.

Management of DOTD has not established adequate internal controls over financial reporting to include detailed, written procedures for the compilation of AFR amounts and has not adequately trained its accounting staff in OSRAP and Governmental Accounting Standards Board reporting requirements. In addition, management has not developed an adequate review process to ensure that the department's AFR is accurately presented.

Failure to establish adequate internal controls over financial reporting may result in misstatements, whether from errors or fraud, and an incomplete or inaccurate AFR that may cause misstatements in the state's CAFR or a delay in the CAFR's issuance.

Management of DOTD should establish a formal written compilation process to ensure that (1) adequate supporting documentation for the department's AFR is maintained; (2) all personnel are adequately trained; and (3) the department's AFR is adequately reviewed before its submission to OSRAP. Management substantially concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-2).

### Overdraw of Federal Funds

DOTD failed to properly recognize local matching funds received which caused an overdraw of \$454,709 in federal funds from the Highway Planning and Construction Program (CFDA 20.205), which we consider to be questioned costs. The Office of Management and Budget Circular A-133 *Compliance Supplement*, Parts 3 and 4, Section G stipulates that a non-federal entity must provide matching or cost sharing of a specified amount or percentage. These amounts or percentages vary according to the type of funds authorized and are stated in project agreements with the federal government.

During the fiscal year, DOTD incorrectly coded matching funds received from a local government resulting in 100% of the projects' expenditures being charged to the federal program in error. Failure to ensure the timely detection and correction of coding errors relating to matching funds received subjects DOTD to noncompliance with federal matching requirements, overdrawing federal funds, and potential interest liabilities.

Management of DOTD should comply with established policies and procedures over the receipt and coding of local matching funds received and should review these transactions to identify and correct potential errors before requesting federal reimbursements. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-4).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. 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. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended solely for the information and use of the department and its management, others within the department, 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,



Steve J. Theriot, CPA  
Legislative Auditor

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





BOBBY JINDAL  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT

P.O. Box 94245  
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www.dotd.la.gov



WILLIAM D. ANKNER, Ph.D.  
SECRETARY

February 16, 2009

Mr. Steve Theriot  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, La. 70804-9397

Re: Legislative Auditor Report  
Department of Transportation and Development  
Inadequate Preparation of the Annual Fiscal Report

Dear Mr. Theriot:

Although the Department of Transportation and Development (Department) did strive for perfection in the preparation of both of the Annual Fiscal Reports within the time frame allowed, the Department acknowledges some errors and responds to the finding regarding Inadequate Preparation of the Annual Fiscal Report (AFR) as noted below.

**DOTD Capital Outlay AFR**

**Bullet #1** - We concur with the understatement of cooperative endeavors in the amount of \$28,853,642. It should be noted that DOTD's error rate is a 90% improvement over last year due to the significant improvements in this area. Our goal is to reach 100% accuracy in FY 09 and to that end DOTD has initiated a system of requesting quarterly reports to better capture cooperative endeavor data from within the department. In addition, a quality improvement team is working on a system to archive all DOTD contracts, including cooperative endeavors.

**Bullet #3** - We concur in part with the statements related to the overstatement of DOTD's infrastructure. We would like to clarify that the Department has always been aware of the LTA expenditures which has always been included in and audited as a part of the Department's infrastructure in the past. The Department did provide a schedule identifying all of the expenditures for the LTA project (LA-1) from the implementation of the project until the current fiscal year. The accounting for the LA-1 project was handled in this manner in the past because the Department pays the LA-1 expenditures and is reimbursed by LTA which provides only approximately 37% of the total revenue for the entire LA-1 project. Unfortunately, when a decision was reached by all parties involved to include 100% of the asset on the LTA AFR, it was two weeks prior to the AFR deadline and the Department had to request an extension from OSRAP which was granted.

During this extension period the Department had to restate the 2006, 2007 and 2008 LTA AFRs (even though the 2006 and 2007 LTA AFRs were not required for the CAFR) and make the necessary revisions to the DOTD capital outlay and operating related AFR schedules. Based on several meetings conducted after the close of the 2008 fiscal year between your staff, OSRAP and the Department, we were able to resolve the LTA outstanding issue and make the necessary revisions to the Department and LTA AFRs.

**Bullet #4** - We concur with the overstatement of the accounts payable expenditures in the amount of \$7,143,250. It should be noted that due to DOTD's legacy systems a manual process is required to produce this report. It is envisioned that implementation of the state ERP will automate this process.

**DOTD Operating AFR.**

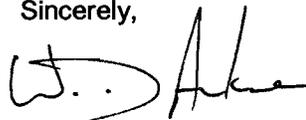
**Bullet #2** - We concur with the overstatement of the contingent liability note in the amount of \$57,786,057. Cooperative endeavors are considered contingent liabilities; however, cooperative endeavors are reported in a separate schedule which was prepared by a different employee and resulted in a duplication of contingent liabilities. Although we did much better than last year's understatement of \$116,413,867, our goal for FY 09 is to be error-free. To that end, this process will be modified so that the contingent liability note and cooperative endeavor schedule will be prepared by same employee and reviewed and approved by the same manager.

Although I agree with your general concern as it relates to good internal control, in the spirit of fairness, the Department would like to recognize the current Financial Services Administrator for the tremendous effort put forth in a short period of time related to the training of the staff; the preparation of the AFR procedures; the preparation of support documentation; and the implementation of the review and approval process related to the preparation of six AFRs. There has been a notable improvement in the Financial Services Section and all except two of the prior year issues (which showed notable improvement in the error rate), were corrected in their entirety this current fiscal year. I have every confidence that the current Financial Services Administrator will continue to receive the Department's support in an effort to correct the remaining issues. Also, the Department continues to hire competent staff within the Financial Services Section which will contribute to the Department's effort to provide accurate and reasonable AFRs.

My staff and I would like to take this opportunity to thank you and your staff for their continued cooperation.

Thanks

Sincerely,



William Ankner, Ph.D.  
Secretary

c: Michael Bridges, Undersecretary  
Kirt A. Clement, Deputy Undersecretary  
Monica Mealie, Financial Services Administrator  
John Lyon, External/Internal Audit Supervisor



BOBBY JINDAL  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT

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March 12, 2009



WILLIAM D. ANKNER, Ph.D.  
SECRETARY

Steve J. Theriot, CPA  
Legislative Auditor  
Post Office Box 94397  
Baton Rouge, Louisiana 70804-3800

Dear Mr. Theriot:

In answer to your letter of February 25, 2009, we offer the following in respect to Overdraw of Federal funds:

- ***The Department of Transportation and Development (DOTD failed to properly recognize local matching funds received which caused an overdraw of \$454,709 in federal funds from the Highway Planning and Construction Program (CFDA 20.205) which we consider to be questioned costs.***

In reference to the Audit finding on Overdraw of Federal Funds we concur. The following is a recap of the cause:

The original agreement (dated 5/28/98) listed the state project numbers as 053-09-00053 and 420-01-0033 for construction with DOTD contributing the 20% match. Supplemental Agreement No. 1 (dated 8/2/05) added the corresponding project numbers 053-09-0071 and 420-01-0038 for right of way and utility issues. The city committed to the 20% match (\$815,000) based on an estimated total cost of \$4,075,000. The entity was invoiced for the match; however the invoice erroneously reflected the construction projects nos. (053-09-00053 & 420-01-0033). The funds were received by the department and credited to the construction projects numbers. When the right-of-way and utility projects were funded, they reflected the 80% ratio of federal funds without the city's match. Payments were made for 100% of the invoiced cost within the 80% of federal funds obligated to the project.

This project funding issue was discovered in our Financial Services Section in November 2008. DOTD corrected the issue and credited FHWA within the same month.

The corrective actions to minimize future potential errors of this type are as follows:

1. In future invoicing for matching funds, particular attention will be given to accurately listing the proper project numbers relating to the work category (i.e. Right-of-Way). An additional quality review will be performed in the Consultant Services Section. When funds are received the Financial Services Section will notify the Project Finance Section, which will encumber the funds to the project, thus closing the funding cycle.

Mr. Steve J. Theriot, CPA

March 12, 2009

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2. Project payments will be reviewed by the Financial Services Contracts Payable unit to ensure that the proper ratio is being paid and if a question of match arises the issue will be directed to Project Finance for research.
3. The Enterprise Resource Planning (LaGov) to be implemented 2010 will significantly reduce the probability of this type of issue by tying designated funding to existing and future projects and having one point of entry in one system rather than multiple entries. All project phases and funding will be tied to an overall project number.

We appreciate your bringing this matter to our attention so that it could be corrected. If you have any questions or need assistance concerning the above, please contact us,

Sincerely,



William D. Ankner, Ph.D.  
Secretary

c: J. Michael Bridges  
John Lyon