Department of Transportation and Development
State of Louisiana

Management Letter
Issued June 20, 2012

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EXECUTIVE SUMMARY

Our procedures at the Department of Transportation and Development (DOTD) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- Weaknesses in key controls over the LaGov Enterprise Resource Planning (LaGov ERP) system resulted in over $26 million in unbilled federal expenditures, federal questioned costs totaling $2.4 million, noncompliance with federal matching requirements, and financial statement errors in excess of $42 million.
- For the fifth consecutive year, DOTD did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration, Office of Statewide Reporting and Accounting Policy. DOTD's AFR for the fiscal year ended June 30, 2011, contained numerous errors requiring adjustments.
- DOTD did not comply with the Cash Management Improvement Act, resulting in an estimated $38,000 in lost earnings to the state. After the implementation of the LaGov ERP system in November 2010, DOTD began daily draws which created a potential interest liability owed by the state to the federal government estimated at approximately $6,000.
- DOTD submitted ineligible costs totaling $98,090 to the Governor's Office of Homeland Security and Emergency Preparedness for reimbursement under the Disaster Grants - Public Assistance program.
- For the second consecutive year, DOTD overbilled the Federal Highway Administration (FHWA) for indirect costs totaling $4,110 relating to the Highway Planning and Construction (HPC) program.
- In our review of 14 HPC program projects administered by DOTD and the related American Recovery and Reinvestment Act Section 1512 reports for the quarter ending March 31, 2011, errors were noted, which created a net understatement of $29.5 million.
- DOTD did not obtain the required approval of the FHWA for change orders on two of 10 (20%) HPC program projects we tested with non-major change orders and three of 25 (12%) HPC projects we tested with contract time extension change orders.
- DOTD did not establish adequate controls over monitoring and deactivating user access in the state's Integrated Statewide Information System Advantage Financial System. This increases the risk of error and fraud; however, no errors or fraud were identified in our testing.

This report is a public report and has been distributed to state officials. We appreciate the department's assistance in the successful completion of our work.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 1, 2012

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, 2011, we conducted certain procedures at the Department of Transportation and Development (DOTD) for the period from July 1, 2010, through June 30, 2011.

- Our auditors obtained and documented an understanding of DOTD's operations and system of internal controls, including internal controls over major federal award programs administered by the department, through inquiry, observation, and review of DOTD's policies and procedures, including a review of the laws and regulations applicable to the department.

- 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 department management of any significant variances.

- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior management letter on DOTD, dated February 21, 2011, we reported findings relating to inadequate preparation of the Annual Fiscal Report, inadequate controls over incidental and indirect cost billings, inadequate controls over the Disaster Grants - Public Assistance program (CFDA 97.036), inadequate controls over American Recovery and Reinvestment Act (ARRA) reporting requirements, inadequate controls over subrecipient monitoring, inadequate controls over Davis-Bacon Act (including ARRA), and inadequate controls over contract time extensions. The findings relating to inadequate controls over subrecipient monitoring and inadequate controls over Davis-Bacon Act (including ARRA) have been resolved. All other findings are addressed again in this letter.

- Our auditors considered internal control over financial reporting; examined evidence supporting DOTD's capital outlay revenue and receivables, infrastructure, right-of-way, capital outlay expenditures and payables, deferred revenue, and contingent liabilities; and 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, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with 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, 2011, 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. The department'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 findings were included in the State of Louisiana's Single Audit Report for the year ended June 30, 2011, except for the finding on inadequate controls over user access to the Integrated Statewide Information System (ISIS) Advantage Financial System (AFS).

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

Implementation and User Control Weaknesses Over the LaGov Enterprise Resource Planning System

For fiscal year 2011, weaknesses in key controls over the LaGov Enterprise Resource Planning (LaGov ERP) system resulted in over $26 million in unbilled federal expenditures, federal questioned costs totaling $2.4 million, noncompliance with federal matching requirements, and financial statement errors in excess of $42 million.

The Division of Administration, Office of Information Services (OIS) and DOTD lacked certain key controls over the development, implementation, and maintenance of the LaGov ERP system to ensure compliance with all federal, state, and financial reporting requirements. On November 15, 2010, the OIS and DOTD implemented the LaGov ERP system to replace various stand-alone systems used by DOTD for budgeting, accounting, and project management.

OIS is responsible for the design and maintenance of the system controls over the LaGov ERP system. Our review of the key general and application controls identified the following significant deficiencies:

- The program used to calculate the amount to be billed to the Federal Highway Administration (FHWA) did not appropriately exclude retainage payable. Because expenditures must be paid before being reimbursed, this resulted in DOTD overbilling FHWA and questioned costs totaling $2,422,352.

- The interface between LaGov and the Integrated Statewide Information Systems (ISIS) Advantage Financial System (AFS) did not appropriately include retainage payable, resulting in AFS retainage payable and AFS cash being understated $3,447,840 at year-end.

- The reporting function in LaGov was not developed timely. Some reports necessary for AFR compilation were not developed until after year-end and other reports, such as exception reports critical for detective monitoring, have not been available since the LaGov implementation. As of March 31, 2011, the LaGov reporting function did not include the following:

  - A comprehensive standard list of reports and procedures for using reports

  - Adequate end-user training and communication of report availability

  - Custom reports required for timely financial statement compilation

  - Adequate exception reports

  - Organized documentation of reports tested

- The LaGov depreciation method is not in compliance with the capitalization policy set by the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP), which requires a full year of depreciation in the year of acquisition. LaGov is set to calculate depreciation on a monthly basis rather than an annual basis, which resulted in a $9.5 million understatement of accumulated depreciation.

DOTD is responsible for establishing and maintaining user controls over processing transactions in the LaGov ERP system. Our review of those controls identified the following significant deficiencies:

- Over $26 million in federal expenditures were not billed to FHWA because of conversion errors, coding errors, and inadequate exception reports. In addition, the funding source of expenditure transactions cannot be easily identified, which could result in noncompliance with federal requirements relating to matching and allowable costs. Reconciliations between federal expenditures and federal revenues were not performed nor were exception reports adequately designed to detect such errors.

- Four of 45 (9%) federal projects tested incorrectly contained federal budgets exceeding the amount authorized by FHWA, which increases the risk that state expenditures could be incorrectly coded as federal making it difficult for DOTD to accurately identify the state match on federal projects.

- Two of 50 (4%) payments on federal projects did not correctly allocate the federal and state shared costs. These errors resulted in noncompliance with federal matching requirements.

- There is no requirement in the system for general ledger expenditures to be tied to a land asset; there is no exception report available to identify these variances; and there is no reconciliation between the real estate module and the general ledger to identify and correct these variances. As a result, right-of-way additions were understated by $29.7 million.

- Monthly reconciliations between ISIS and LaGov, related to capital outlay expenditures, were not performed during the last three months of the fiscal year, increasing the risk of undetected errors.

The following weaknesses were noted and could be corrected by either modifying the system or developing adequate user controls:

- Asset records can be created for capitalized projects in Assets under Construction (AuC) even if the project has not been accepted in the project system module. When a project is accepted by DOTD, it is deemed substantially complete and a depreciable asset is created. Because the acceptance is not required in the system before the depreciable asset is created, there is a risk that completed projects will not be identified for retirement in AuC in the proper period.

- A project's federal budget is not limited by the federal authorization amount. Invoice payments are not limited by the project's approved federal percentage share. These weaknesses result in expenditures being identified as federal, although funded by state sources.

Good internal controls over the implementation of a new ERP system requires proper planning and preparation to ensure timely and accurate financial reporting and compliance with federal and state requirements, including the ability to adequately monitor compliance. Reconciliations between various modules of the system are necessary to ensure accurate financial reporting, compliance with applicable laws and regulations, and identification and proper utilization of all funding sources. Failure to properly develop, implement, and maintain key system and internal controls could result in untimely and inaccurate financial reporting; noncompliance with federal requirements, which could result in disallowed costs; and a potential loss of federal funds.

Management should ensure (1) system users are adequately trained and understand how transactions are processed through the various modules of the LaGov ERP system; (2) users understand the reports that are available and the impact of coding errors on federal billings and financial reporting; (3) all expenditures eligible for federal reimbursement are properly identified and billed to FHWA to maximize available funding for capital outlay projects; (4) adequate reports are available to ensure timely and accurate financial reporting; and (5) adequate exception reports are developed to enable sufficient monitoring of transactions for compliance with state and federal requirements. Management partially concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 1-9).

Additional Comments: Management of OIS did not concur that weaknesses relating to the reporting function of LaGov were significant enough to warrant a reportable finding. However, the reporting tool is critical in management's ability to properly monitor and use the system and is of even greater importance during the implementation phase of a new system. Improved reporting could have detected errors during the fiscal year and prevented errors that occurred during AFR preparation.

DOTD management did not concur that there are weaknesses associated with the project budgets reflecting amounts in excess of the federal authorization. Management's response states that no state expenditures were incorrectly coded as federal and no funds had been expended or committed in excess of the federal authorization; however, having the budget reflected in project records at amounts in excess of federal authorization is a weakness that could result in project expenditures in excess of the federal authorization. Management indicates that these are normal timing differences between the time when the federal authorizations are granted and when the department receives the approved federal authorization; however, the errors noted in the finding were identified by the auditors, after the approved authorization had been received by the department. Although these errors were subsequently corrected after we notified the department of the exceptions, the corrections were not made timely. Two of the projects had adjustments to the federal authorizations in January and March of 2011, but were not corrected by the department until February 2012.

DOTD management did not agree that the two invoices with incorrect allocations of federal and state costs resulted in noncompliance with federal matching requirements because one was 100% federally funded and the other was an insignificant amount. DOTD's contention that one project was 100% federally funded is incorrect. This project was approved for 80% federal participation and was also eligible for federal toll credits; however, the toll credits are required to be reduced by the federal participation prior to serving as the state match. DOTD did not reduce the toll credits by the federal participation.

DOTD management did not agree that the inability to match right-of-way general ledger expenditures to capitalized land assets was a weakness. Management stated that it followed the approved methodology in the "White Paper." However, the "White Paper" states, "As new parcels are acquired, parcel detail information will be maintained in SAP and reported to OSRAP in the annual financial report." In addition, the "White Paper" indicates that all right-of-way costs should be settled (matched) to its own asset master record at purchase.

DOTD management did not concur with the weakness noted regarding the lack of monthly reconciliations of capital outlay expenditures during the last three months of the fiscal year. While DOTD confirmed the reconciliations had not been performed, management stated dual reconciliations were performed by the LaGov team and the expenditures were adequately reconciled at year-end. Discussions with the LaGov team indicated the reconciliation process had been turned over to DOTD in March after sufficient training was provided and LaGov had stopped conducting the dual reconciliations.

DOTD management did not agree that the ability to create asset records for capitalized projects in AuC when the project has not been accepted in the project system module is a weakness in the process for the capitalization of assets. Management's response states that the LaGov staff processes final settlements when they receive notification from DOTD with the asset valuation date and that final assets are created based on final acceptance dates. The weakness identified in the finding relates to a manual control that is dependent on one person to timely capitalize assets. Because the control is manual rather than automated, management is unable to effectively monitor assets to ensure they are capitalized in the appropriate fiscal year.

DOTD management did not agree the weaknesses in federal budget and invoice payment limitations could result in expenditures identified as federal even though they were funded by state sources. Management identified the monitoring of the unbilled table as the control to identify and correct coding errors. The unbilled table (also known as the unbilled report) was an ineffective control since it was not properly designed to capture all coding errors resulting in unbilled federal expenditures.

Inadequate Preparation of the Annual Fiscal Report

For the fifth consecutive year, DOTD did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration, OSRAP. DOTD's AFR for the fiscal year ended June 30, 2011 contained the following errors requiring adjustments:

- AuC, also known as Construction-in-Progress, ending balance was understated $61.7 million because of the following errors:
    - Restated beginning balance had a net understatement of $91.5 million due to the inclusion of a project completed before June 30, 2010, incorrect capitalization of a maintenance project, and the incorrect exclusion of two of four associated projects for the expansion of the Huey P. Long Bridge.
    - Additions were overstated $44.0 million due to the incorrect inclusion of right-of-way expenses and current year expenses associated with projects erroneously reported in the restated beginning balance.

    - Deletions were overstated $14.2 million due to the incorrect inclusion of right-of-way expenses.

- Gross infrastructure was overstated by $47.8 million. Infrastructure, net of depreciation, was understated by $5.3 million. DOTD converted and revalued its infrastructure assets as of October 2010 rather than June 30, 2010, which caused activity that had occurred in the first four months of the fiscal year to be misclassified in the note disclosure. The following errors were noted in each column of the note disclosure:

    - Gross and net restated beginning balances were overstated by $64.6 million and $17.0 million, respectively. This error was caused by the untimely conversion and 83 assets having incorrect capitalization dates.

    - Gross and net additions were understated by $26.0 million and $21.1 million, respectively. In addition to the untimely conversion, this error was also caused by DOTD using the incorrect cost per mile when valuing seven roads turned over by local entities and excluding two roads turned over by local entities and accepted by DOTD during fiscal year 2011.

    - Gross deletions were understated by $9.2 million. Deletions, net of depreciation, were overstated $1.2 million. This error was caused by the untimely conversion, using the incorrect mileage length, incorrectly including a road retired in fiscal year 2010, and not fully depreciating retired assets at disposal.

- Contingent liabilities were overstated by a net $14.6 million because of purchase orders containing committed amounts greater than the approved contract amounts. Classification errors between federal and state liabilities also resulted in the following misstatements:

    - State contingent liabilities were overstated by $22.7 million.

    - Federal contingent liabilities were understated by $8.1 million.

- Right-of-way was understated by a net $14.2 million because of the following errors:

    - Additions were understated by $29.7 million. This error was due to differences between parcel values in the Real Estate module and project expenditures for the right-of-way project phase. There were also coding errors which resulted in right-of-way expenses being charged to general ledger accounts for roadway construction.

    - Deletions were understated by $15.5 million due to the improper treatment of a return of prior years' appropriation.

- Federal expenditures reported on the Schedule of Expenditure of Federal Awards (SEFA) for capital outlay were understated by $11.7 million as a result of the following errors:

    - Payables were included on the SEFA, which was prepared on a cash basis. This was caused by DOTD using the posting date to identify payables rather than the entry date.

    - In calculating the SEFA expenditures, prior year unbilled expenses were backed out of current year revenue even though the prior year unbilled expenses had not been collected in the current year.

    - In calculating the SEFA expenditures, current year unbilled expenses were added to current year revenue; however, the LaGov unbilled expenses report was incomplete. In addition, DOTD had not performed a reconciliation of federal revenue and expenses which would have detected the incomplete unbilled expenses report.

    - Current year unbilled expenses were also incorrectly classified as non-ARRA, resulting in an understatement of ARRA expenditures totaling $6.1 million.

These errors have occurred because of inadequate controls over financial reporting; inadequate training and supervision of employees processing transactions and preparing the AFR; and inadequate supervisory review of the AFR before being submitted to 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 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) a review of the AFR so that errors can be detected and corrected before submitting the AFR to OSRAP for inclusion in the state's Comprehensive Annual Financial Report (CAFR).

Failure to establish adequate internal controls over financial reporting, to include the proper supervision of employees who process transactions and prepare the AFR as well as an adequate supervisory review of the AFR, increases the risk of material misstatements in the financial statements that may remain undetected. In addition, an incomplete or inaccurate AFR may cause misstatements in the state's CAFR or delay the issuance of the CAFR.

With the implementation of the LaGov system, coding of most transactions begins outside of Financial Services with final approval for posting by Financial Services. DOTD should provide additional training to ensure employees understand how the

LaGov system processes specific transactions and the implications of coding errors on financial reporting and reimbursement of federal expenses. In addition, management should ensure processes and documentation are sufficiently modified for changes caused by the implementation of the LaGov system. Management should also ensure federal expenses per the general ledger are reconciled to the expenses reported on the SEFA and federal revenue drawn per the general ledger. Finally, management should continue to improve the compilation process to ensure the AFR is adequately reviewed before being submitted to OSRAP. Management partially concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 10-19).

Additional Comments: Management's response indicates the AFR was fairly presented and the combined adjustments were not material in relation to the AFR and CAFR as a whole. However, we consider the adjustments to contingent liabilities, right-of-way additions and deletions, and infrastructure deletions to be material and all noted adjustments are indicative of control weaknesses regarding the AFR compilation process.

DOTD management did not concur that the restated beginning balance of AuC was understated for the Huey P. Long Bridge projects and indicated that the audit adjustment was not consistent with DOTD business practices or the conversion methodology. However, the accounting treatment of those projects was not consistent with the department's normal practices of moving completed projects out of AuC once the asset becomes useful. An audit adjustment was necessary to maintain accounting consistency for those projects.

DOTD management did not concur that additions to AuC were overstated and right-of-way additions were understated because of the improper accounting for right-of-way expenses. Management's response indicates that it is acceptable under the approved methodology in the "White Paper" to include right-of-way costs in AuC if those costs are not identified to a specific parcel of land. However, the "White Paper" states, "As new parcels are acquired, parcel detail information will be maintained in SAP and reported to OSRAP in the annual financial report." In addition, the "White Paper" indicates that all right-of-way costs should be recorded as an asset at the time of purchase and not reported in AuC. Not only did DOTD fail to identify all right-of-way costs as required by the "White Paper," but it also incorrectly reported right-of-way with depreciable capital assets in AuC.

DOTD management did not concur with the portion of the audit adjustment to the beginning balance of gross infrastructure related to assets with incorrect capitalization dates. Management's response states that the adjustment was based on using records outside the approved methodology to adjust capitalization dates. DOTD contends the use of historical records to support valuations is not required by GASB. However, any estimation method should be supported by sufficient appropriate evidence. DOTD used electronic data to estimate the beginning balance of infrastructure. One of the key data elements in determining the estimates was the capitalization dates, which were not always supported by sufficient appropriate evidence and required adjustment.

DOTD management did not concur that the incorrect cost per mile was used on four roads transferred to the state from local governments, resulting in audit adjustments to infrastructure additions. During our audit procedures, the auditor noted the cost per mile being used was based on a draft document, which was confirmed by the DOTD employee in charge of cost estimation. Before the compilation of the AFR, the auditor informed appropriate DOTD personnel of the discrepancy; however, the necessary corrections were not made.

Noncompliance With Cash Management Improvement Act

Noncompliance with the Cash Management Improvement Act (CMIA) by DOTD caused an estimated $38,000 in lost interest earnings to the state and a potential interest liability owed by the state to the federal government estimated at approximately $6,000.

During the fiscal year ended June 30, 2011, DOTD failed to comply with the CMIA for the Highway Planning and Construction (HPC) program (CFDA 20.205) by not abiding by provisions of the Treasury-State Agreement (TSA) between the State of Louisiana and the federal government, which guides how the transfer of federal funds is to occur.

From July 2010 to October 2010, DOTD had an outdated accounting system requiring manual processes that caused DOTD to deviate from the draw schedule resulting in the state receiving funds later than scheduled. Since the federal program is on a reimbursement basis, the time between when state funds were expended and when the reimbursement from the federal government was received creates a loss of interest earnings.

A new accounting system was implemented in November 2010 that was designed to allow DOTD to draw federal funds as often as desired. DOTD began to draw federal funds daily, which was not in compliance with the clearance pattern specified in the TSA. This caused noncompliance with federal regulations and resulted in a potential interest liability owed by the state to the federal government.

Also, for the first quarter of the fiscal year, a federal credit spreadsheet, to report errors or refunds, was submitted to OSRAP by DOTD in accordance with OSRAP policy; however, DOTD did not submit the federal credit spreadsheets to OSRAP for the remaining three quarters of the fiscal year, which could result in errors in the calculation of interest liabilities to the federal government.

DOTD should (1) request an amendment to the TSA in accordance with OSRAP policy, (2) ensure compliance with the approved clearance pattern in the TSA, (3) ensure the federal credit spreadsheets are completed for October 2010 through June 2011 and submitted to OSRAP, and (4) ensure all required documentation is submitted to OSRAP timely, in accordance with OSRAP policy. Management concurred in part with the finding and recommendation and provided a plan of corrective action. While management agreed it was not in compliance with the TSA since implementation of the new system and that the federal credit worksheets were not prepared, management disagrees any potential interest is owed the federal government. DOTD contends the composite billing methodology does not dictate nor limit the frequency of billing (see Appendix A, pages 20-21).

Additional Comments: DOTD concurs that it did not use the approved clearance pattern specified in the TSA, but rather began drawing funds daily when its new system was implemented. The clearance patterns specified in the TSA are designed to be interest neutral to the state and the federal government. Daily draws accelerate the reimbursement process to the state, which could potentially result in interest owed to the federal government.

Inadequate Controls Over the Disaster Grants - Public Assistance Program

DOTD submitted ineligible costs totaling $98,090 to the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for reimbursement under the Disaster Grants - Public Assistance (PA) program (CFDA, 97.036) which, if disallowed, may need to be returned to the federal grantor.

For one of eight (12.5%) DOTD reimbursement requests tested, we noted the following:

- Debris removal expenditures of $60,000 were submitted for reimbursement even though debris removal was not included in the scope of work on the applicable project worksheet (PW). PWs are used to document the location, damage description and dimensions, scope of work, and cost estimate for a project and is the basis for the grant. The debris removal was moved to a separate PW for which DOTD was also reimbursed. Therefore, DOTD was reimbursed twice by GOHSEP for the same work. GOHSEP subsequently disallowed the incorrect payment and a credit memo was issued to reduce future payments. As of January 12, 2012, the funds have not been recouped by GOHSEP.

- Expenditures of $38,090 were incurred on work outside the scope of the PW. The costs were reimbursed by GOHSEP despite being ineligible under the PW's scope of work. GOHSEP stated that a re-versioned PW would be needed to change the scope of work.

DOTD submitted requests and received reimbursement for the same work on two different PWs. Also, ineligible costs were submitted to GOHSEP for reimbursement in anticipation of these costs being allowed in the future through a subsequent re-version of the PWs. However, adequate internal controls should ensure that only eligible costs are submitted for reimbursement and that re-versions of the PWs are approved before submitting additional requests for reimbursement. This is the second consecutive year we have reported weaknesses in DOTD's controls over submitting requests for reimbursement to GOHSEP under the PA program.

Failure to establish adequate internal controls that allow DOTD to identify ineligible activities and costs before requesting reimbursement could result in overpayments by GOHSEP, noncompliance with applicable federal regulations, and future disallowed costs. DOTD should establish policies and procedures to ensure only eligible costs are submitted for reimbursement. When ineligible costs are incurred, the department should timely request re-versions of PWs to facilitate proper approval and future reimbursement of these costs. Management concurred in part with the finding and recommendation. Management concurred that the department was reimbursed twice for the debris removal; however, management states the reimbursement of $38,090 was for items within the scope of the PW (see Appendix A, page 22).

Additional Comments: There was no change between the original PW and the latest PW reviewed by auditors. The scope of work included replacement of the generator/maintenance shed with a maintenance shed that had an extended covered parking area to provide protection for a trailer mounted generator. The scope also included the replacement of the stationary 80kw generator with a 60kw trailer mounted generator. The $38,090 in questioned costs relates to the purchase of a 135kw generator, a 500-gallon fuel tank, generator shroud, and a generator remote panel. DOTD should timely request re-versions of PWs to ensure proper approval and reduce the risk of disallowed costs.

Inadequate Controls Over Indirect Cost Billings

For the second consecutive year, DOTD overbilled the FHWA for indirect costs totaling $4,110 relating to the HPC program (CFDA 20.205), resulting in questioned costs, which if disallowed, may need to be returned to FHWA.

DOTD is required by FHWA to exclude certain pass-through appropriation codes from its indirect cost billings. The indirect cost overbilling was caused by DOTD’s failure to establish adequate controls to ensure the billing system reflected all appropriation codes required to be excluded by FHWA. For billings generated under DOTD’s old legacy system, DOTD failed to exclude one appropriation code resulting in overbilling and questioned costs totaling $4,110. In the new LaGov ERP system, three appropriation codes were not properly excluded on the indirect cost table; however, no billing errors occurred. Failure to properly exclude specified costs results in overbilling FHWA and questioned costs which could result in repayment to the federal government.

Indirect costs are subject to federal regulations that require grantees and subgrantees maintain records that adequately identify the source and application of funds provided for financially assisted activities. Good internal controls require that adequate procedures be developed and implemented to ensure only allowable costs are included in requests for reimbursement and all transactions are properly supported.

DOTD should exclude all unallowed appropriation codes from its indirect cost billings to prevent future overbillings. In addition, management should ensure the full amount overbilled is reimbursed timely to FHWA to avoid potential interest charges.

Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 23).

Inadequate Controls Over American Recovery and Reinvestment Act Reporting Requirements

In our review of 14 HPC program projects administered by DOTD and the related American Recovery and Reinvestment Act (ARRA) Section 1512 reports for the quarter ending March 31, 2011, the following errors, which created a net understatement of $29.5 million, were noted:

- Four (28.5%) project reports did not include $27.2 million in subrecipient payments because of errors in award numbers, resulting in an understatement of reported expenditures. In a further review of data, we noted an additional 33 projects with payments totaling $19.4 million that appear to have the same error in award numbers as those exceptions in our test. It is likely these payments were also not reported on the Section 1512 reports.

- Seven (50%) project reports did not include $3.3 million in vendor and administrative expenditures, resulting in an understatement of reported expenditures.

- One (7.1%) project report included $1.0 million in expenditures that had not been incurred, resulting in an overstatement of reported expenditures.

Section 1512 of the ARRA of 2009 requires each recipient that received ARRA funds from a federal agency to submit quarterly reports to the federal awarding agency containing (1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; (3) a detailed list of all projects or activities for which recovery funds were expended or obligated; and (4) detailed information on any subcontracts or subgrants awarded by the recipient. To facilitate reporting of this information, a nationwide data collection system was created at www.FederalReporting.gov. DOTD is required to report monthly to the Federal Highway Administration (FHWA) using the federal Recovery Act Data System (RADS). The RADS monthly reporting information is extracted and uploaded to FederalReporting.gov for the Section 1512 quarterly reporting.

DOTD entered the subaward payments into RADS with the incorrect award numbers causing the “Total Federal Amount of ARRA Expenditures” to be understated for each award when uploaded to FederalReporting.Gov. The unreported vendor and administrative expenditure errors resulted from certain DOTD personnel being unfamiliar with the new accounting system which affected their ability to obtain correct data. The use of vendor invoices rather than payment transactions caused the overstatement of expenditures. This is the second consecutive year we have reported weaknesses in DOTD’s controls over federal reporting requirements.

Inaccurate ARRA reporting results in noncompliance with federal requirements, limits the ability of the federal government to perform appropriate monitoring, and subjects the department to potential remedial action by the federal government. DOTD should establish policies and procedures to ensure compliance with Section 1512 ARRA reporting requirements. Management should also establish data quality reviews to ensure the accuracy of the Section 1512 reports. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 24).

Inadequate Controls Over Change Order Approvals

DOTD did not obtain the required approval of the FHWA for change orders on two of 10 (20%) HPC program projects we tested with non-major change orders and three of 25 (12%) HPC projects we tested with contract time extension change orders. Failure to obtain the required FHWA approval could result in reduced federal participation, increased costs to the state, and noncompliance with federal regulations.

These exceptions were caused by errors in identifying federal oversight and categorizing change orders in the project management systems. Title 23 CFR Section 635.120 requires all major and non-major changes and extra work to be approved by FHWA. Section 635.121 requires the state transportation department to obtain FHWA approval of contract time extensions. DOTD's *Engineering Directives and Standards Manual* (EDSM) defines major and non-major changes and establishes the change order categories and approval lists. This is the second consecutive year we have reported weaknesses in DOTD's controls over change order approvals.

DOTD should strengthen its controls and properly train its staff to ensure that the required FHWA approvals on change orders are obtained. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 25-31).

Inadequate Controls Over User Access to Integrated Statewide Information System Advantage Financial System

DOTD did not establish adequate controls over monitoring and deactivating user access in the state's ISIS AFS. In a test of 44 employees with AFS access, 17 (39%) were no longer employed by the department. Sixteen of the 17 former employees had access to enter or approve various transactions, including payment documents, which increases the risk of fraud. Failure to monitor and properly disable user access to ISIS AFS increases the risk that unauthorized access to ISIS AFS could occur, data could be compromised, and /or assets could be misappropriated. However, no such occurrences were found in our test work.

DOTD does not have written policies or procedures to address monitoring or deactivating user access in ISIS AFS. Good internal controls require security over information systems, which would include the continual monitoring of user access and the timely deactivation of user access to ensure that the integrity of data is maintained.

Management should establish written policies and procedures for monitoring and deactivating user access to ISIS AFS. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 32-33).

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 recommendation, 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

LLC:RR:BQD:THC:ch

DOTD 11

APPENDIX A

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

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DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
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SHERRI H. LEBAS, P.E.
SECRETARY

February 22, 2012

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

RE: Department of Transportation and Development
Single Audit Finding
Implementation and User Control Over the LaGov ERP System
Legislative Auditor Letter dated February 16, 2012

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled "Implementation and User Control Over the LaGov ERP System". 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 considers the implementation of LaGov, with DOTD as the pilot agency, a huge success, especially considering the deficiencies of our old legacy financial systems. As with any conversion of such magnitude, the first priority is to continue core business functions such as insuring that we continue to collect the millons of reimbursements from FHWA and we continue to pay our consultants and contractors in a timely fashion. DOTD and the state LaGov team worked together throughout the various stages of the project: Blueprint, Realization, Implementation, Go-Live and Post Go-Live. During these phases, there were teams and deadlines established to clean up legacy data, manage conversion issues and transfer duties to DOTD personnel. Steering committees and joint management team meetings occurred on a regular basis which included members of the staff of the Legislative Auditor's Office. We are fully engaged with the LaGov office to continualy put processes in place that will improve the functionality, dependability and security of the system. As with any implementation of this size, there will be improvements made for years to come.

NOTE: Louisiana Legislative Auditor (LLA) Statements and Findings are italicized and preceded by "LLA".

LLA: DOTD is responsible for establishing and maintaining user controls over processing transactions in the LaGov ERP system. Our review of those controls identified the following significant deficiencies:

- *LLA: Over $26 million in federal expenses were not billed to FHWA due to conversion errors, coding errors and inadequate exception reports. In addition, the funding source of expenditure transactions cannot be easily identified which could result in noncompliance with federal requirements relating to matching and allowable costs. Reconciliations between federal expenditures and federal revenues were not performed nor were exception reports adequately designed to detect such errors.*

  DOTD RESPONSE: We PARTIALLY CONCUR. DOTD concurs that there were discrepancies between the funding source identified on expenditure transactions in the General Ledger module and the actual funds used to pay expenditures. While the Federal Aid Unit was aware that certain items were not being billed, the available LaGov exception reports were insufficient in that DOTD was unable to confirm the funding of all federal expenses, which resulted in an inability to reconcile federal revenues to federal expenses. The DOTD maintains that compliance requirements have been and continue to be met. The DOTD Federal Aid Unit on several occasions reported to the conversion teams various areas that were indicative of possible problems with the processing of various types of transactions. The LaGov team was responsive to DOTD concerns. A triaging of priorities was necessary and used in the solution sourcing. Vendor assistance and vendor payments were a first priority and focus.

- *LLA: Four of 45 (9%) federal projects tested incorrectly contained federal budgets exceeding the amount authorized by FHWA which increases the risk that state expenditures could be incorrectly coded as federal making it difficult to accurately identify the state match on federal projects.*

  DOTD RESPONSE: We DO NOT CONCUR. Of the four projects identified: one project has federal authorization at the budgeted amount, two were projects where federal authorizations were decreased and the subsequent budget reduction had not yet been prepared and the last was converted with budget in excess of federal authorization.
  No state expenditures are incorrectly coded as federal funds. No funds have been expended and/or committed to a PO in excess of the federal authorization. DOTD's process is to increase or decrease federal Funds Management (FM) budget on a project upon receipt of an approved federal authorization; therefore, when federal authorizations are decreased, subsequently there will be a period when the FM budget exceeds the federal authorization.

- *LLA: Two of 50 (4%) payments on federal projects did not correctly allocate the federal and state shared costs. These errors resulted in noncompliance with federal matching requirements.*

  DOTD RESPONSE: We DO NOT CONCUR. One of the two projects identified was 100% federally funded. There was a fund center coding error that was corrected but this did not result in noncompliance with federal matching requirements. The second project's coding error was also corrected. The amount incorrectly coded to a federal source was $109. It is DOTD's position that $109 on one of fifty projects is not of significance to warrant a finding which cites the Department as noncompliant with federal matching requirements. It is the Department's contention that systems should be designed and processes in place to detect and correct errors described above.

- *LLA: There is no requirement in the system for general ledger expenditures to be tied to a land asset, there is no exception report available to identify these variances, and there is no reconciliation between the real estate module and the general ledger to identify and correct these variances. As a result, right-of-way additions were understated by $29.7 million.*

  DOTD RESPONSE: We DO NOT CONCUR. The accounting system is not designed to indentify, in a single general ledger expenditure account, a one-for-one change in land asset values. The land asset detail listing balances to the general ledger balance sheet account for Land, Right of Way (ROW), and non-depreciable land improvements. The ROW phases of projects have many costs which are not specifically identified to specific parcel assets. Following GASB and OSRAP guidance, DOTD implemented and followed the approved methodology for conversion and ROW capitalization, and have capitalized specifically identified parcel costs for land assets. Right of way assets were not understated by $29.7 million. As also noted in the response to the AFR finding, the audit adjustment included all ROW phase costs as ROW assets, similar to the Wooster Method which is not in compliance with GASB requirements. The audit adjustment included costs for projects which do not result in the creation of DOTD assets.

- *LLA: Monthly reconciliations between ISIS and LaGov, related to capital outlay expenditures, were not performed during the last 3 months of the fiscal year, increasing the risk of undetected errors.*

  DOTD RESPONSE: We DO NOT CONCUR. With the implementation of LaGov, all DOTD reconciliation processes were changed. It was necessary to develop new reconciliation processes to effectively monitor all transactions between ISIS and SAP. The Cash

Management Unit performed those reconciliations with the guidance and training provided by the LaGov team. All reconciliations of the Department's Escrow Funds, Revenue, and Operating Expenditures were performed in a timely manner throughout the year. The reconciliation of the Capital Outlay expenditures was adequately reconciled at year end However, the reconciliation of the Capital Outlay expenditures were evolving as issues were identified and the Cash Management Unit, working with the LaGov team, continued to make the necessary changes to ensure that material errors were detected and resolved. The LaGov team provided the support by performing dual reconciliations. In addition, there were compensating procedures in place to supplement the reconciliation process. The LaGov team along with DOTD actively monitored all interfaces between the two systems. Reconciling items were identified, documented, communicated, and resolved as quickly as recourse would allow.

- *LLA: Asset records can be created for capitalized projects in Assets under Construction (AuC) even if the project has not been accepted in the project system module. When a project is accepted by DOTD, it is deemed substantially complete and a depreciable asset is created. Because the acceptance is not required in the system before the depreciable asset is created, there is a risk that completed projects will not be identified for retirement in AuC in the proper period.*

  DOTD RESPONSE – We DO NOT CONCUR. When DOTD creates a project in LaGov, a settlement rule is created with associated AuC. Costs are posted to the project throughout the month and settled to the AuC account during monthly close process. When the project is complete, DOTD creates an Asset Master Record (AMR) and adds final settlement rules to the project. LaGov staff process final settlements upon notification from DOTD with the asset valuation date. Assets are created with capitalization dates based on the final acceptance date. Depreciation is calculated on the asset valuation date. Example: An asset value date of 10/1/11 entered on 2/15/12 and final settlement run in the February 2012 close process will calculate depreciation beginning in October 2011. Projects can be processed to settle for any open period. No modification is needed to the LaGov ERP system. As a back-up to having the final acceptance date in the system, copies of the final acceptance letters are sent by e-mail to the DOTD Asset Accountant. The availability of this information acts as a safeguard. This ensures the creation of final assets based on valid dates.

- *LLA: A project's federal budget is not limited by the federal authorization amount. Invoice payments are not limited by the project's approved federal percentage share. These weaknesses result in expenditures identified as federal, although funded by state sources.*

  DOTD RESPONSE: We DO NOT CONCUR. When an invoice is paid that was charged to a

LaGov federal fund, if there is insufficient federal authorized funding, the amount goes to the unbilled table. DOTD monitors this table and researches all items to determine why they did not bill. This research would point out things such as the LaGov budget being put on the wrong project/project phase thus not matching the authorized amount. This report is also used to identify coding errors and prepare necessary journal vouchers. Additionally, the LaGov Office periodically balances the AFS appropriation/appropriation remaining balance to LaGov (Capital Outlay fund center and fund). Although this will not point out an individual project budget not matching the federal authorized amount, it will identify any Federal appropriation by Budget fiscal year that is not in balance in total and the Lagov team would then notify the DOTD budget office.

Corrective Action Plan
Responsible Party – Beverly Hodges, Financial Services Administrator
Post-implementation, business processes and standard operating procedures continue to be reviewed, revised and created. DOTD staff are working in concert with the LaGov team to enhance existing exception reports to achieve a level of user control and monitoring necessary to ensure accurate accounting and reporting. Retraining is occurring when necessary but with any implementation this size a reasonable learning curve should be expected.

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

Sherri H. LeBas, P.E.
Secretary

cc:

Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

BOBBY JINDAL
GOVERNOR

PAUL W. RAINWATER
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Office of Information Services

February 22, 2012

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Implementation and User Control Weaknesses Over the LaGov ERP System

Dear Mr. Purpera:

The Office of Information Services is in receipt of your letter of February 16, 2012, regarding a reportable audit finding titled "Implementation and User Control Weaknesses Over the LaGov ERP System. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

A number of deficiencies were noted in the report in connection with this finding. I cannot fully concur with this finding. Specific responses are noted below for each deficiency documented.

Deficiency: The program used to calculate the amount to be billed to the Federal Highway Administration (FHWA) did not appropriately exclude retainage payable.

OIS Response: Concur. However, as of December 8, 2011, this problem has been corrected and credits have been issued to FHWA.

Deficiency: The interface between LaGov and the Integrated Statewide Information Systems (ISIS) Advantage Financial System (AFS) did not appropriately include retainage payable.

OIS Response: Concur. However, as of December 9, 2011, this problem has been corrected and appropriate adjustments have been made in ISIS/AFS.

Deficiency: The reporting function in LaGov was not developed timely. As of March 31, 2011, the LaGov reporting function did not include:

- A comprehensive standard list of reports and procedures for using reports;
- Adequate end-user training and communication of report availability;
- Custom reports required for timely financial statement compilation;
- Adequate exception reports; and

- Organized documentation of reports tested.

OIS Response: Do not concur. This was noted as a medium issue during the ERP audit of 2011, and was subsequently addressed and corrected. Therefore, we do not agree that it should be included as a reportable finding in the financial audit. This finding was back dated to March 31, 2011, the same time frame that improvements related to the IT audit were being made.

- OIS has published report lists in various locations and through multiple media. Each LaGov user has a list of reports available to him/her, on the SAP menu, which is based on the user's security authorization. Also, OIS issued a listserv message with an attachment listing all reports and their purpose in May of 2011. Reports and related procedures are also maintained on the LaGov help website.
- OIS provided training beginning on September 14, 2010, and has continuously communicated report availability. Information and training on reporting was provided during the Financial training classes delivered for go-live from September 14, 2010 until December 15, 2010. During the numerous training classes, users were instructed to take the online Basic Reporting and Advanced Reporting classes. From implementation on November 15, 2010, a support lab was also available 5 days a week for all forms of LaGov assistance, including reporting, until April 30, 2011, when demand had ended. In February of 2011, a focus group for reporting, composed of OIS and DOTD staff, was formed to determine user needs for reporting and training, and develop an action plan. The OIS Help Desk is staffed five days a week to assist LaGov users with all system questions and issues, including reporting.
- Custom reports were not needed as the standard SAP reports provided by LaGov provided everything needed by DOTD for the preparation of its AFR.
- LaGov provided 15 exception reports at go-live. Other reports continue to be identified and developed as familiarity with the system and data increases, with 20 currently available. At present, there are no requests from DOTD users for new exception reports. OIS will continue to look for problem areas for users that would benefit from new exception reports or enhancements to existing reports.
- Documentation of reports tested is currently well organized according to OIS standards. The documentation related to report testing was reviewed when the project was still in development and under the control of the implementation vendor (IBM). At that time, it was organized according to IBM methodology and standards, which was not very familiar to state staff. When the contract with IBM ended in February of 2011 and OIS assumed control of the project, standard OIS procedures began to be followed, and, as a result, report testing documentation is now better organized for state access.

Deficiency: The LaGov depreciation method is not in compliance with the capitalization policy set by the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP), which requires a full year of depreciation in the year of acquisition.

OIS Response: Concur. Because we were aware of the system being set to calculate depreciation on a monthly basis, system reports were run and manual efforts were also used to obtain the dollar value difference for reporting depreciation which was $9.5 million. These adjusted numbers were provided to both OSRAP and DOTD for use in preparing the AFR and CAFR; therefore, there should have been no misstatement of the depreciation amount reported.

Corrective Action Plan:

- Contact Person: Martha O'Hara
- Corrective Action: The system or the policy will be changed based on the outcome of the open position paper on this issue.
- Anticipated Completion Date: June 15, 2012

Deficiency: DOTD is responsible for establishing and maintaining user controls over processing transactions in the LaGov ERP system, and various deficiencies were noted.

OIS Response: This deficiency area is not applicable to OIS. All items under this section are the responsibility of DOTD and will be addressed in their response.

Deficiency: Asset records can be created for capitalized projects in Assets under Construction (AuC) even if the project has not been accepted in the project system module. When a project is accepted by DOTD, it is deemed substantially complete and a depreciable asset is created. Because the acceptance is not required in the system before the depreciable asset is created, there is a risk that completed projects will not be identified for retirement in AuC in the proper period.

OIS Response: Do not concur. This is not a LaGov system issue. There are a large number of steps that DOTD takes outside of the system before accepting a project. LaGov staff runs final settlement upon notification from the DOTD asset accountant, and depreciation is calculated on the asset value date regardless of when it is entered.

Deficiency: A project's federal budget is not limited by the federal authorization amount. Invoice payments are not limited by the project's approved federal percentage share. As a result, expenditures may be identified as federal, although funded by state sources.

OIS Response: Do not concur. The federal authorization amount is maintained on a custom table. Standard delivered SAP transactions (invoices, PO's, journal vouchers, etc.) do not validate against custom tables. The federal billing program is designed to bill the federal agency in a timely and accurate manner, as well as have sufficient supporting documentation for the billing. Additionally, the design has a compensating control for the federal authorization check, which is the unbilled table. When invoices are paid to the vendor and are charged to a federal fund, the custom billing program checks the remaining federal authorized amount, and, if there is insufficient federal authorization amount remaining, the documents go to the unbilled table. DOTD monitors this table and researches all items to determine why they did not bill. If additional budget is obtained by correction or a federal increase, the unbilled invoices are automatically billed. In addition, if corrections are made by journal voucher, there will be no expenditures identified as federal that are funded by non-federal sources

In summary, it is important to recognize that LaGov is a very large and complex SAP system, with 23 highly integrated modules presently in use. There is always a significant learning curve and ongoing enhancements with such systems, as knowledge of the system increases and as business needs change. OIS and DOTD continue to work together to identify areas that need more knowledge transfer, to identify additional opportunities to exploit system capabilities, and to focus efforts on appropriate areas as determined by business needs. This type of continuing effort is expected for implementations of this size and complexity.

Sincerely,

Martha O'Hara

Martha O'Hara
Director, Office of Information Services

cc: Ed Driesse, CIO
Marsha Guedry, CPA, Internal Audit Administrator
Steven Procopio, PhD, Assistant Commissioner
Monique Appeaning, Deputy Undersecretary
Ray Stockstill, Deputy Commissioner

LaGov OIS Audit Finding Official Response-Final.docx

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SECRETARY

February 22, 2012

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

RE: Department of Transportation and Development
Single Audit Finding
Inadequate Preparation of Annual Fiscal Report
Legislative Auditor Letter dated February 7, 2012

Dear Mr. Purpera:

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

Our response is quite lengthy as we strongly feel that there are aspects of the LLA statements that needed to be clarified and in some cases corrected. But first of all, let me state that the DOTD has successfully undertaken the largest project in its history, involving hundreds of staff and thousands of man-hours. We recognized the shortcomings of our legacy financial systems and made the decision to move forward with the implementation of a comprehensive ERP system with the full understanding that there were going to be challenges and compromises. One of the deciding factors that went into our decision to move forward was the inability of our legacy financial systems to accurately track our infrastructure assets so that we could be in compliance with GASB 34. As you will see in our response, a majority of your findings directly relate to the methodology that we used to covert from the old way of asset accounting to the new. I'd like to point out that we did not develop the new methodology in a vacuum. This was a cooperative effort involving the DOTD, the State LaGov office and the Office of Statewide Reporting and Accounting Procedures (OSRAP). There was even an expert consultant retained to help guide us through the development of the procedures.

<u>DOTD Background:</u>
In FY 2002, Louisiana began reporting Infrastructure using the WOOSTER method [named after the city of Wooster, Ohio]. This was intended to be a stopgap until DOTD's antiquated legacy computer systems could be upgraded. GASB 34 conversion of Infrastructure was not part of

the original request for proposals for the LaGov ERP system. DOTD obtained OSRAP approval to implement segment accounting with the LaGov system. This was developed following guidance for GASB 34 conversions and took place in conjunction with migration of financial and engineering systems. Significant efforts were expended on data conversion over a multi-year period.

DOTD, with the assistance of LaGov ERP staff, outside consultants, and OSRAP developed a proposed segment approach for GASB 34 Implementation for the Reporting of Infrastructure referred to as "The White Paper" which was approved by OSRAP prior to implementation. GASB 34 implementation guidance allowed a number of accommodations to make the implementation of GASB 34 for infrastructure less difficult, recognizing the challenges in obtaining adequate historical records for establishing the cost and age of infrastructure. Estimates were allowed when establishing historical cost and age was not practical. <u>The guidance states that governments may use any approach that complies with the intent of the statements</u>. Governments must review their own facts and circumstances, including the cost of obtaining the information needed by the alternative methods.

Following GASB 34 guidance, a practical and cost effective approach was developed which employed using a programmatic solution which considered the assessment of: the magnitude of number of assets (over 10,000 roads and bridges and Assets under Construction valued at over $23 billion), the number of records readily retrievable, the resources and time available. With over 80,000 projects in TOPS, it was not practical to use historical data sources. We closely followed GASB guidance, kept the process simple and followed a programmatic methodology. DOTD staff from the respective business areas undertook a major data cleanup effort on all legacy systems targeted for replacement by LaGov several years prior to conversion.

The White Paper outlined the "Established Methodology" that would be followed. DOTD followed the approved method and utilized the available electronic data if available and other secondary records if not.

The LLA did extensive search of "historical records" over an extended period of time, which was unavailable to DOTD as reporting timelines are much compressed, and utilized this to change the valuations established for the assets converted. The LLA also changed data source components of the implementation method which produced different asset values. This was not a GASB requirement but one of choice by the LLA.

<u>*NOTE: Louisiana Legislative Auditor (LLA) Statements and Findings are italicized and preceded by "LLA".*</u>

LLA: For the fifth 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). DOTD's AFR for the fiscal year ended June 30, 2011 contained errors requiring adjustments:*

DOTD RESPONSE: We DO NOT CONCUR. DOTD considers the implementation of LaGov, with DOTD as the pilot agency, a huge success, especially considering the deficiencies of the legacy systems and available resources. In our opinion, the LLA identified findings were generally related to data cleanup of the legacy systems, conversion timing and process refinements. These are typical challenges for a conversion of this magnitude. DOTD expended considerable resources in cleaning up legacy data. We believe the AFR presented to OSRAP was fairly presented and that the combined adjustments made by the LLA were not material in relation to the AFR and CAFR as a whole.

DOTD relied on direction and guidance from the Division of Administration (LaGov and OSRAP) in preparing the AFR using the new system, which included the "Approved Methodology" as it relates to Infrastructure, which we believe resulted in a fair presentation of the financial value of the State's Infrastructure. To avoid qualification of the audit opinion, DOTD and OSRAP acquiesced to deviations from the "Approved Methodology" which was an acceptable and cost effective "estimation" method per GASB guidance. The LLA did extensive search of "historical records" over a period of months and utilized this if available to change the valuations established for the assets converted. The use of historical records was not a GASB requirement but one of choice by the LLA.

- *LLA: Assets under Construction (AuC), also known as Construction in Progress (CIP), ending balance was understated $61.7 million due to the following errors:*

    o LLA: Restated beginning balance had a net understatement by $91.5 million due to the inclusion of a project completed prior to June 30, 2010, incorrect capitalization of a maintenance project, and the incorrect exclusion of two of four associated projects for the expansion of the Huey P. Long Bridge.

    o LLA: Additions were overstated $44.0 million due to the incorrect inclusion of right-of-way expenses and current year expenses associated with projects erroneously reported in the restated beginning balance.

    o LLA: Deletions were overstated $14.2 million due to the inclusion of right-of-way expenses.

DOTD RESPONSE: We concur on some parts of this finding and not on others as follows:

We CONCUR that one closed project valued at $47.6 million was included in AuC in error (1.5% of $3 billion in AuC). A small maintenance project valued at $42,840 was included in beginning AuC. $429,453 was included in FY11 expenses and $472,294 was the total settled from AuC to assets for this project (.01% of total AuC).

We DO NOT CONCUR regarding the Huey P. Long Projects. The "Approved Methodology" was followed in the handling of the Huey P. Long Bridge Projects. The 2 closed projects referenced were closed in 2009 and early 2010 following established procedures and were utilized in establishing the age of the road that was converted. The 2 open projects were included in AuC values for infrastructure. The LLA adjustment was not consistent with DOTD business practices or conversion methodology. The adjustment, which adds $139,137,313 to AuC for the 2 closed projects, is not a GASB requirement but a preference by the LLA (4.2% of AuC).
DO NOT CONCUR - Right of Way (ROW):

AuCs are comprised of projects which are expected to produce DOTD assets. These projects record costs in five phases (out of 6 phases) in AuC until the projects are completed. At project completion, the balance in AuC is decreased by the amount of the completed projects that was recorded in AuC. The ROW phase is one of the five phases which contain costs that flow through AuC. Not all ROW phase costs will result in the creation of ROW parcel assets. As asset related parcel costs are identified, the parcel assets are created. GASB guidance states that all related project expenditures are accumulated as construction in progress until the project is finished and then reclassified as capital assets at completion. Following GASB guidance, only costs specifically identifiable to the land parcels is capitalized as land.

DOTD followed the "Approved Methodology" presented in the "White Paper" for the conversion of Real Estate / Land (ROW). Because of lack of records, time, and resources ROW had to be converted in a lump sum cost value. The LaGov ERP staff, in concert with OSRAP, developed the criteria for capitalizing ROW cost going forward from conversion. These criteria were used to capitalize parcel cost for FY 2011 that was reported in the AFR. The LLA adjustment is a continuation of the "Wooster Method" for capitalizing real estate instead of the individual parcel method. Continuation of the "Wooster Method" is not in compliance with GASB. Additionally, as discussed below, the audit adjustments made for ROW expenses are erroneous.

<u>Corrective Action Plan</u>
Responsible Party – Beverly Hodges, Financial Services Administrator
DOTD will collaborate with OSRAP to obtain greater clarification of classification and allocation of ROW phase costs to land and infrastructure assets. We will work with LaGov ERP to explore possible changes in LaGov that may be used to enhance accuracy of ROW asset costs. DOTD will engage LaGov resources to book the necessary adjustments to the individual assets and related depreciation to conform to the alterations created by the LLA. It is expected to consume

considerable resources on both parties (LaGov and DOTD) to make these changes. We will continue to research the ownership and reporting issues that relate to the Huey P. Long bridge.

- *LLA: Gross infrastructure was overstated by $47.7 million. Infrastructure, net of depreciation, was understated by $5.3 million. DOTD converted and revalued their infrastructure assets as of October 2010 rather than June 30, 2010, which caused activity that had occurred in the first four months of the fiscal year to be misclassified in the note disclosure. The following errors were noted in each column of the note disclosure:*

  o LLA: Gross and net restated beginning balances were overstated by $64.6 million and $17.0 million, respectively. This error was caused by the untimely conversion and 83 assets having the incorrect capitalization dates.

  o LLA: Gross and net additions were understated by $26.0 million and $21.1 million, respectively. In addition to the untimely conversion, this error was also caused by DOTD using the incorrect cost per mile when valuing 7 roads turned over by local entities and excluding 2 roads turned over by local entities and accepted by DOTD during FY11.

  o LLA: Gross deletions were understated by $9.2 million. Deletions, net of depreciation, were overstated $1.2 million. This error was caused by the untimely conversion, using the incorrect mileage length, incorrectly including a road retired in FY10, and not fully depreciating retired assets at disposal.

<u>DOTD RESPONSE</u>: We concur on some parts of this finding and not on others as follows:

We CONCUR with Conversion using October rather than July 1st road control section data and other capitalization date issues. In accordance with the practical approach utilized, DOTD continued its "data cleanup" up to the period immediately preceding the conversion. We agree that some current year transactions were included in the restated beginning balance. However, it was immaterial to the net infrastructure of over $10.3 billion reported in the AFR. We feel that GASB 34 conversion guidance allowed this application.

We CONCUR that DOTD did not convert 13 road control section assets (out of 2,000 road assets) with 2 related bridges (out of 8,000 bridge assets). The total length not converted was 3.19 miles (there are 16,000 miles of state highway). The amount of beginning gross value related to this activity is $10,429,927 with $6,262,078 accumulated depreciation. The net $4 million adjustment results in no change to ending inventory and a .06% change in beginning net infrastructure. The gross deletions for the year were understated by this activity.

We DO NOT CONCUR with the part about adjustments for capitalization dates. We do not concur with the remaining beginning balance adjustment amount of ($75,035,925) which is based on revaluations outside of the approved conversion methodology. DOTD followed the "Approved Methodology" and utilized the available electronic data if available and other secondary records if not. The LLA did extensive search of "historical records" and utilized this to change the valuations established for the assets converted. The LLA also changed data source components of the implementation methodology which produced different asset values. These changes were not a GASB requirement but a preference of the LLA.
We CONCUR with Errors in valuing roads turned over by local entities. There were errors in computing the value of 7 incoming road sections (total length 1.92 miles) resulting in an understatement of $3.7 million (.4% of additions) and 3 outgoing roads (total length 4.25 miles) resulting in an understatement of $12 million. Retirements are a very small component of total infrastructure. Because the retirements consist substantially of road transfers, any errors in this amount appear of greater significance (57% of retirements) than its value relative to gross infrastructure (.06% of gross infrastructure). Therefore, we assert that these errors are immaterial to fair presentation of the agency's financial statements.

We DO NOT CONCUR with the LLA values of 4 incoming road sections (2.67 miles) used the wrong cost per mile. DOTD Section 21, Data Collection and Management, is the official source of mileage changes as well as per mile valuations. Although these roads were appropriately valued at conversion, the removal of these assets in transfers is not a "conversion" activity, but a routine business activity. The LLA chose to use the cost chart used in the conversion method rather than the official source for cost per mile. The amount of excess cost computed is $1,335,000 (6.36% of retirements).

Corrective Action Plan
Responsible Party – Beverly Hodges, Financial Services Administrator
DOTD will work with the LaGov staff to implement these alterations. It is expected to consume considerable resources on both parts to make these changes. DOTD will work with the LLA to clarify that DOTD Section 21, Data Collection and Management, is the official source of data on changes to the state highway system and the related valuations.
The business process for road transfers and other changes to the state highway system is under review. We are working to design a process that will deliver the appropriate pertinent data to all areas of DOTD involved in the process on a routine basis throughout the year. This will reduce the work load at year-end. Having multiple entries throughout the year will provide the LLA with the opportunity to audit a sample rather than 100% of these transactions. Simpler computation methods are being considered to limit differences in values between engineering estimates and accounting estimates.

- *LLA: Contingent liabilities were overstated by a net $14.6 million due to purchase orders containing committed amounts greater than the approved contract amounts. Classification errors between federal and state liabilities also resulted in the following misstatements:*

o LLA: State contingent liabilities were overstated by $22.7 million.

o LLA: Federal contingent liabilities were understated by $8.0 million.

DOTD RESPONSE: We CONCUR. Purchase orders were entered at budgeted amounts instead of contract amounts which resulted in the overstatement.

Corrective Action Plan
Responsible Party – Beverly Hodges, Financial Services Administrator

DOTD Financial Services has revised the Standard Operating Procedures to include a review which will validate the Contingent Liability totals provided by the Budget Section. Additionally, subsequent to issuing the 2011 AFR, the LaGov system was enhanced, creating a budget report which is more time sensitive.

- *LLA: Right-of-way was understated by a net $14.2 million due to the following errors:*
  o LLA: Additions were understated by $29.7 million. This error was due to differences between parcel values in the Real Estate module and project expenditures for the right-of-way project phase. There were also coding errors which resulted in right-of-way expenses being charged to general ledger accounts for roadway construction.

DOTD Response: We DO NOT CONCUR. DOTD followed the "Approved Methodology" presented in the "White Paper" for the conversion of Real Estate / Land (ROW). Because of limited available records, time, and resources, ROW had to be converted in a lump sum cost value. The LaGov ERP staff, in concert with OSRAP, developed the criteria for capitalizing ROW cost going forward from conversion. These criteria were used to capitalize parcel cost for FY 2011 that was reported in the AFR.

The LLA adjustment is a continuation of the "Wooster Method" for capitalizing real estate instead of the individual parcel method. Continuation of the "Wooster Method" is not in compliance with GASB. The adjustment incorporated projects which do not produce DOTD assets. The audit adjustment included, in error, $778,143 in ROW costs for Airport projects and a refund of $4,650,000 to the Amite River Basin Commission.

Corrective Action Plan
Responsible Party – Beverly Hodges, Financial Services Administrator
DOTD will work with OSRAP to obtain greater clarification of classification and allocation of ROW phase costs to land and infrastructure assets. We will explore possible changes in LaGov that may be used to enhance accuracy of ROW asset costs.

General Ledger coding was presented as part of the DOTD Business Conference in February, 2012. An Excel sheet listing valid DOTD only codes, their definitions and uses will be placed on the DOTD intranet to provide a tool to illustrate the appropriate codes to use.

- *LLA: Deletions were understated by $15,500,000 due to the improper treatment of a return of prior years' appropriation.*

<u>DOTD RESPONSE:</u> We CONCUR but DO NOT CONCUR that this is a material finding. In March 2011, the Corps of Engineers returned funds, paid to the Corp between 2001 and 2009 from the Capital Outlay Fund for the Comite Diversion Canal project, totaling $15,500,000. DOTD refunded to the Amite River Basin Commission their cost share (1/3) totaling $4,650,000 in June 2011. The balance of $10,850,000 should have been shown as a deletion in Note I which is .6 of 1% of total Right of Way.

<u>Corrective Action Plan</u>
Responsible Party – Beverly Hodges, Financial Services Administrator
DOTD will collaborate with OSRAP to obtain clarification of classification and allocation of ROW phase costs to land and infrastructure assets. We will explore possible changes in LaGov that may be used to enhance accuracy of ROW asset costs. DOTD will work with LaGov to book the necessary adjustments to the individual assets and related depreciation to conform to the alterations created by the LLA. It is expected to consume considerable resources fromboth parties to make these changes.

- *LLA: The Schedule of Expenditure of Federal Awards (SEFA) for capital outlay was understated $11.7 million as a result the following errors:*

    o LLA: Payables were included on the SEFA, which was prepared on a cash basis. This was caused by DOTD using the posting date to identify payables rather than the entry date.

    o LLA: In calculating the SEFA expenditures, prior year unbilled expenses were backed out of current year revenue even though the prior year unbilled expenses had not been collected in the current year.

    o LLA: In calculating the SEFA expenditures, current year unbilled expenses were added to the current year revenue; however the LaGov unbilled report was incomplete. In addition, DOTD had not performed a reconciliation of federal revenue and expenses which would have detected the incomplete unbilled expenses.

o *LLA: Current year unbilled expenses were also incorrectly classified as non-ARRA, resulting in an understatement of ARRA expenditures totaling $6.1 million.*

DOTD RESPONSE: We CONCUR. The DOTD Federal Aid Unit was aware that certain items were not being billed. LaGov had not yet provided reports to confirm funding of all federal expenses, which resulted in an inability to reconcile federal revenues to federal expenses.

Corrective Action Plan
Responsible Party – Beverly Hodges, Financial Services Administrator
The federal aid unit has implemented the following: standard operating procedures has been updated to include the use of entry date instead of posting date; the Unit is monitoring and correcting federal expense items in suspense and not identified on an unbilled report; the LaGov team has developed a means to identify all items coded to TT11 and unbilled (it is not yet in production); the unbilled items will be reported on an exception report to be monitored and reviewed regularly by the budget, project finance and financial services staff; and the federal aid unit is developing a reconciliation task that will continuously balance the federal revenue to federal expense and unbilled items. The implementation of this continuous process will be fully implemented when LaGov moves the TT11 report into a production environment. Prior to that date financial services, budget, and project finance staff are manually correcting the items noted.

LLA: These errors have occurred because of inadequate controls over financial reporting; inadequate training and supervision of employees processing transactions and preparing the AFR; and inadequate supervisory review of the AFR before being submitted to the Division of Administration, Office of Statewide reporting and Accounting Policy (OSRAP).

DOTD RESPONSE: We DO NOT CONCUR. The Department and the Financial Services Section disagree with the assessment that staff has not been adequately trained or supervised and that there is not an adequate system of review for the department's AFR. Compilation procedures are designed to compile and report on materially accurate financial statements, and while it is our goal to achieve perfection in reporting, an audit is performed to attest to fairly presented and materially accurate statements. It is our assertion that reasonable internal controls are designed to faciliate an accurate preparation but must be established at a reasonable level, occasionally any control will fail if not established at 100% surety. Personnel have and continue to receive continuing education. The department recognizes the need to have professional accountants and strives to afford them with the opportunity to stay abreast of the requirements of governmental accounting. For the past four years AFR preparation, Financial

Services has engaged the assistance of CPAs to assist staff with the preparation and review of the AFRs.

Corrective Action Plan
Responsible Party – Beverly Hodges, Financial Services Administrator
The continued refinement of the district mini-AFR will facilitate the compilation of district data necessary to accurately complete the Department's AFR (ongoing, updates are rolled out prior to FYE 6/30/2012.) The post-implementation refinement of business processes using the LaGov (ERP) system will further enhance the timely and accurate compilation (review of AFR compilation processes were undertaken immediately following audit conclusion and revisions will be completed prior to FY 12 preparation commencement 8/15/12.) Multiple level review is currently performed on all components of the AFR compilation it is not anticipated that additional levels of review will be provided or are deemed necessary.

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

cc:

Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

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BOBBY JINDAL
GOVERNOR

SHERRI H. LEBAS, P.E.
SECRETARY

March 15, 2012

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

RE: Department of Transportation and Development
Single Audit Finding
Noncompliance with Cash Management Act
Legislative Auditor Letter dated March 7, 2012

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled "Noncompliance with Cash Management Act". 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 in part with the finding.

The Department was not in compliance with the existing Treasury-State Agreement (TSA) since the date of the LaGov Go-Live because a formal request to OSRAP had not been submitted to amend the Department's clearance pattern. This has since been submitted and a revised agreement was in place effective July 1, 2011.

The quarterly federal credit worksheet was not prepared post Go-Live for nine months. This has been remedied and the calendar year 2011 submitted to OSRAP for review. The report is now prepared and submitted on a monthly basis as of January 2012.

The Department, upon consultation with OSRAP, disagrees that there is any potential interest liability owed by the state to the federal government. Per the composite billing methodology and conversion to a one-day billing turnaround, it is the contention of the Department, and has been confirmed with OSRAP, that no liability is owed. The composite billing methodology does not dictate nor limit the frequency of billing.

Responsible Party – Beverly Hodges, Financial Services Administrator

Action Plan – An amended TSA was requested and approved with an effective date of July 1, 2011. Credit information is being gathered on a daily basis and submitted to OSRAP on a monthly basis as of January 2012. No action is required on the potential interest liability.

Please feel free to contact me, or, Michael Bridges, Undersecretary, should you have any questions.

Sincerely,

Sherri H. LeBas

Sherri H. LeBas, P.E.
Secretary

c: Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

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March 15, 2012

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

RE: **Department of Transportation and Development**
Single Audit Finding
Inadequate Controls Over the Disaster Grants – Public Assistance Program (DFDA 97.036)
Legislative Auditor Letter Dated March 6, 2012

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled "Inadequate Controls Over the Disaster Grants – Public Assistance Program (DFDA 97.036)". 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 that the Department was reimbursed twice by GOHSEP for $60,000 of debris removal expenditures.

CORRECTIVE ACTIONS– Corrective Actions have been identified and implemented as follows:

- We have implemented a more extensive review process of Requests for Reimbursement and supporting documentation prior to submission.
- DOTD has implemented the LAGOV/ERP financial system which provides information on costs incurred more timely, allowing for quality control prior to submitting requests to GOHSEP.
- A final review by a senior staff person will be implemented prior to submission.

We do not concur that $38,090 of expenditures were incurred on work outside of the scope of the PW. The Department received this reimbursement for a generator, fuel tank, shroud and remote panel. These items are listed under the scope of work and are eligible.

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
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

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March 15, 2012

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

RE: Department of Transportation and Development
Single Audit Finding
Inadequate Controls over Indirect Cost Billings
Legislative Auditor Letter dated March 5, 2012

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled "Inadequate Controls over Indirect Cost Billings". 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 Department failed to exclude one appropriation code (in the legacy system) which resulted in an overbilling of \$4,110. Since this error occurred in the legacy system, the corrective action required an adjustment to the LaGov system to allow the credit to process. This corrective action has been delivered and the credit is due to be processed by the end of March 2012.

The three appropriation codes that were not excluded from the LaGov system indirect cost table have also been corrected.

Responsible Party – Beverly Hodges, Financial Services Administrator

Action Plan – The Legacy System has sunset. The Legacy credit is on schedule to be processed in the LaGov system by the end of March 2012. The LaGov system was updated on November 21, 2011 to exclude the three appropriation codes which were erroneously included as billable during initial system configuration.

Please feel free to contact me, or, Michael Bridges, Undersecretary, should you have any questions.

Sincerely,

Sherri H. LeBas

Sherri H. LeBas, P.E.
Secretary

c: Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

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March 15, 2012

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

RE: Department of Transportation and Development
Single Audit Finding
Inadequate Controls Over American Recovery and Reinvestment Act (ARRA) Reporting Requirements
Legislative Auditor Letter dated March 5, 2012

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled "Inadequate Controls Over American Recovery and Reinvestment Act (ARRA) Reporting 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.

We concur that there were inadequate controls over ARRA reporting requirements, specifically reporting expenditure data. Inaccuracies in the expenditure data were attributable in part to DOTD's mid-year conversion from the Legacy systems to the LaGov system. Insufficient legacy data cleanup, timing differences and reconciling items were also contributing factors. Reconciling the data proved to be difficult on active projects. In order to ensure accuracy in the future, the ARRA reporting team has initiated an aggressive schedule of closing out projects, thereby eliminating the need of researching expenditure data discrepancies between the two systems. DOTD is projected to close out all but three projects by the end of this federal fiscal year (September 31, 2012). In order to insure accuracy of the remaining three active projects, the DOTD ARRA reporting team will work with both the DOTD Financial Services Section and the DOTD LaGov ERP Sections to reconcile the differences between expenditures coded to the DOTD accounting system and the amounts billed to FHWA. All discrepancies between the two systems will be resolved by the end of this federal fiscal year.

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
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

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SHERRI H. LEBAS, P.E.
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March 15, 2012

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

RE: Department of Transportation and Development
Single Audit Finding
Inadequate Controls over Change Order Approvals
Legislative Auditor Letter dated March 6, 2012

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.

We do have written Engineering Directives (EDSM) in place (attached) that stipulate the processes and directions that should be used to assure Change Orders are categorized correctly and approved at the correct level. In the three cases listed by the Legislative Auditor, the Project Engineer or Office Manager either did not follow the EDSM or simply made a mistake. The project engineers will get FHWA to sign the paper copies of these Change Orders.

Please feel free to contact me, or, Michael Bridges, Undersecretary, should you have any questions.

Sincerely,

Sherri H. LeBas, P.E.
Secretary

Attachments

c: Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director

Engineering Directives and Standards Read Only Mode

EDSM No:	**III.1.1.1**	Volume: **III** Chapter: **1** Section: **1** Directive: **1**
Subject:	**PROCEDURES FOR CHANGING CONTRACT PLANS AND SPECIFICATIONS FOR CONSTRUCTION WORK PERFORMED BY CONTRACT**	
Effective:		Last Revision: **08/17/2005**

1. PURPOSE:

The purpose of this directive is to establish a uniform policy for revisions in contract plans and specifications.

2. SCOPE:

The directive covers all construction and contract maintenance projects utilizing standard specifications. This directive does not apply to projects for CCCD, 500 Projects or Maintenance of Airports operations.

3. DELEGATION OF AUTHORITY:

For delegation of authority purposes, change orders will be classified by category. Major change orders will fall into Category 1 and the minor change orders will be divided into Category 2 or 3 as defined further in this EDSM. The approval authority for change orders is hereby delegated to appropriate levels within the Department as specified in this EDSM.

For Interstate and NHS 4-R type projects, Category 1 and 2 change orders require FHWA approval. Approval authority for Category 1 and 2 change orders involving NHS 3-R projects and Category 3 change orders involving Interstate and all NHS (4-R & 3-R) projects will be vested in the LA DOTD. A copy of these change orders will be sent to the FHWA for information only.

A major change order is defined as a change in contract amount that exceed certain limitations; a change that revises the scope of the work; structural sections or material quality; a change in specifications; or an extension in contract time associated with added work that exceed certain limitations. Some examples are as follows:

+ Extra or force account work required to add a feature to a project that changes the original intent of the plans.

+ Alterations involving work beyond the termini of the project.

+ Changes that are in conflict with standards or policies or legal issues.

+ Changes in planned access provisions on limited access facilities.

+ Changes in geometrics, except changes that are defined hereinafter as minor change orders.

+ Changes in design that will affect structural capacity or section for pavements and other structural items.

+ Changes in material, construction, and acceptance specifications, except changes that are defined hereinafter as minor change orders.

+ Addition, deletion, relocation or design of a major structure.

+ Settlement of a claim or delay.

+ Acceptance of materials at 50% pay or remove.

+ Changes in the amount of the contract more than +/- 25% of the original project cost.

+ Adding over 30 contract days to the contract time.

+ Force account work over $250,000.00.

Minor Change Orders: A minor change order is defined as revisions required to accomplish the intent of the plans and specifications. Primarily, a minor change order increases or decreases work needed to accomplish plan objectives or to correct plan errors.

The approval authority for minor change orders is hereby delegated to appropriate levels within the Department. For the purpose of delegation of authority for minor change order approval, minor change orders will be subdivided into categories 2 or 3.

CATEGORY 2:

Some examples of Category 2 change orders are as follows:

+ Changes which increase a major item more than 25%.

+ The change in amount of the contract up to $250,000.00.

+ Allowing the addition of up to thirty (30) contract days directly associated with the Change Order work.

+ Changes which require an adjustment in unit price but excluding change orders accepting work at other reduced pay when a reduced pay schedule for such work is not a part of the project specifications.

+ Change in method of measurement.

+ Decreasing a major item over 25%.

+ Change in traffic control plan (Change in sequence).

CATEGORY 3:

Some examples of Category 3 change orders are as follows:

+ Changes which increase the contract amount up to $50,000.00.

+ Changes which decrease a major item up to 25% or $50,000.00 (whichever is less).

+ Decreasing a minor item (any amount).

+ Allowing minor changes in design made by Design Section and formally transmitted through the proper channels in writing to correct plan errors or construction errors.

+ Change approved by memo or directive signed by the DOTD Chief Engineer.

+ Pay adjustments allowed by specifications.

+ Force account up to $50,000.00.

4. PROCEDURE.

Except in cases where the delegated approving personnel are not available (vacations, etc.), the change orders shall be approved at the appropriate level.

On projects requiring FHWA approvals, the Project Engineer will discuss the proposed change order with the appropriate FHWA representative and note this in the change order. The discussion does not necessarily constitute FHWA approval unless it has been specifically requested.

A. Category 1 Major Change Orders. The approval authority for major change orders is retained by the DOTD Chief Engineer or his Authorized

Representative. Signature authority will be as follows:

Project Engineer, Contractor, District Construction Engineer, DOTD Chief Construction Engineer or Authorized Representative, DOTD Chief Engineer or Authorized Representative.

B. Category 2 Minor Change Orders. The approval authority for Category 2 Minor Change Orders is delegated to the DOTD District Construction Engineer, who may further delegate to the Assistant District Construction Engineer during any absence. Signature Authority will be as follows:

Project Engineer, Contractor, District Construction Engineer or Authorized Representative, who will be signing for the Chief Engineer.

C. Category 3 Minor Change Orders. The approval authority for Category 3 Minor Change Orders is delegated to the DOTD District Construction Engineer, who may further delegate to the Assistant District Construction Engineer and/or the Project Engineer. Signature Authority will be as follows:

Project Engineer, Contractor, District Construction Engineer or Authorized Representative, who will be signing for the Chief Engineer.

5. NEW UNIT PRICE

If a new item is established by a change order, the new unit price must be substantiated by one of the following methods and documented in the Change Order. In the engineer's explanation area on the change order, the project engineer must state which one of these three methods is used to establish the cost of the new item.

A. Cost breakdown in accordance with Section 109.04 of the Standard Specifications.
B. Favorable comparison with the current statewide weighted average index.
C. Comparison for bid prices or negotiated prices from other projects with similar quantities, type of work, and degree of difficulty and in the same geographical area.

6. OTHER ISSUANCES AFFECTED:

This directive replaces EDSM No. III.1.1.1, dated February 24, 2003. All other directives, memoranda, or instructions issued heretofore in conflict with this directive are hereby rescinded.

7. EFFECTIVE DATE:

This directive will be effective immediately upon receipt.

III.1.1.1 Chart.htm

CHANGE ORDER CATEGORY WORKSHEET

State Project No. ______________________ Change Order No. __________

Revised December 21, 2010

		Category 3	Category 2	Category 1
Change in Amount of Contract	up to $50,000			
	up to $250,000			
	+/- 25% of original project cost over $250,000			
Added Days	up to 30			
	over 30			
Increasing a MAJOR ITEM more than 25%				
Decreasing a MAJOR ITEM	up to 25% or $50,000 (whichever is less)			
	over 25% or $250,000			
Decreasing a MINOR ITEM (any amount)				
Changes in design / Written appr. by Design or Construction Division				
Changes in Traffic Control Plan (change in sequence)				
Change approved by Memo or Directive signed by Chief Engineer				
Work outside limits of project				
Change in structural design or geometrics				
Addition of a feature that changes plan intent				
Change in typical section				
Change in material specifications				
Change in CONFLICT with Standards and Policies or legal issues				
Change in method of measurement				
Settlement of a claim or delay.				
PAY ADJUSTMENTS	50% Pay or Remove			
	Pay adjustments as per Specifications			
Consultant Inspected Projects	up to $50,000 [1]see footnote below			
	Up to $250,000			
	over $250,000			
Force Account	up to $50,000			
	up to $250,000			
	over $250,000			
Other				

[1] All Change Orders initiated by a Constultant Inspector shall be approved by DOTD District Area Engineer or his designee

FHWA APPROVAL CHECKLIST

	Category 3	Category 2	Category 1
Projects with FHWA oversight approval requirements	No	Yes	Yes

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SHERRI H. LEBAS, P.E.
SECRETARY

November 15, 2011

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

RE: Department of Transportation and Development
Single Audit Finding
Inadequate Controls over User Access to ISIS AFS

Dear Mr. Purpera:

The Department is in receipt of your letter dated November 3, 2011 regarding the Single Audit Finding for Inadequate Controls over User Access to ISIS AFS. I appreciate the opportunity to respond to the report and also to have my response letter included as an attachment in the final report.

Management concurs with the finding.

The following proposed changes will allow for greater oversight of the ISIS AFS Security process.

1. Effective immediately, there will be a routine check to ensure that only current employees and those with a true business need have access to AFS; all others will be revoked.
2. DOTD will develop a set of written standards that will address the process for requesting access to AFS, approving these requests, and the subsequent monitoring and disabling of AFS access; this written process will ensure adequate oversight, prompt action on requests for AFS access, and continued review/action to disable accounts that are no longer necessary. – **To be completed by November 18, 2011**
3. A standardized form to request AFS access will be developed and shared between the AFS Security Administrator and DOTD Management. This form will document all of the appropriate information that an AFS user will need to provide to the Security Administrator to request access. – **To be completed by November 18, 2011**
4. DOTD HR will work with applicable Section Heads to document and clarify procedures for the review of AFS access once employees separate from DOTD. These procedures will then be documented in the overall security process for AFS as well as in DOTD's

Administrative Services Manual. – **Discussion with applicable Section Heads by November 18, 2011; include revisions in the next Administrative Services Manual update.**

5. DOTD will set up a schedule to continually monitor access to AFS; this will initially take place on a quarterly basis, but could be increased to monthly depending on levels of turnover. – **Schedule to be set by November 18, 2011.**
6. DOTD has already coordinated with DOA to remove access to the 17 employees that were indicated in the LLA reportable finding. In order to continue to provide a high degree on oversight to AFS access, the AFS Security Administrator will monitor a master list of all employees with access to AFS and adjust as necessary once informed of a pending separation. – **The AFS Administrator will compile master list of all access for AFS by November 10, 2011; to be reviewed/adjusted as notified of separations.**

DOTD is committed to ensuring that our security processes are correct, adequate, and comprehensive. We believe that these steps will ensure that access to AFS is granted and maintained only for those employees that have a clear need and who are employed by DOTD. Based upon these steps, we are officially requesting that the proposed reportable finding be reduced to an exit only comment and not included in the final audit report.

Thank you for the opportunity to respond to this report 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

Sherri H. LeBas, P.E.
Secretary

c:

Mr. Ricky Rodriguez, CPA, LLA
Ms. Beverly Hodges, DOTD Financial Service Administrator
Ms. Susan Pellegrin, DOTD HR Director
Mr. Toby Comeaux, DOTD ISIS Payroll Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. John Lyon, DOTD External Audit Director