

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED JUNE 2, 2010

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

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DARYL G. PURPERA, CPA, CFE

DIRECTOR OF FINANCIAL AUDIT

THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 6, 2010

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

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2009, we considered the Department of Transportation and Development's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

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

In our prior management letter on the Department of Transportation and Development for the year ended June 30, 2008, we reported findings related to the inadequate preparation of the Annual Financial Report and the overdraw of federal funds. The finding related to the overdraw of federal funds has been resolved by management. The finding related to the inadequate preparation of the Annual Financial Report is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

Inadequate Preparation of the Annual Fiscal Report

For the third consecutive year, the Department of Transportation and Development (DOTD) did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP). Louisiana Revised Statute 39:79 authorizes the commissioner of administration to establish the format of each agency's AFR and requires a signed affidavit that the AFR

presents fairly the financial position of the agency. Good internal control over financial reporting should include (1) adequate procedures to record, process, and transmit financial data needed to prepare an accurate and complete AFR; (2) adequate training and supervision of staff; and (3) a review of the AFR so that any preparation errors can be detected and corrected before submitting the AFR to OSRAP for inclusion in the state's Comprehensive Annual Financial Report (CAFR).

The department's AFR for the fiscal year ended June 30, 2009, included numerous errors requiring adjustments as follows:

- The outstanding net liability for cooperative endeavors was understated by \$146,985,033 on Schedule 16 of the AFR. DOTD does not maintain a comprehensive list of all cooperative endeavors and does not have controls in place to enable the department to support an accurate and complete report.
- Total infrastructure (note H) was understated by \$10,867,140, net of depreciation totaling \$158,358, as a result of the following errors:
 - Net additions for infrastructure (note H) were understated by \$11,672,906, net of depreciation totaling \$692,561.
 - The reduction in infrastructure for abandoned and turned over roads (notes H and J) was understated by \$542,705, net of depreciation totaling \$850,919.
 - The reduction in infrastructure for impairment losses (notes H and K) was understated by \$263,061.
- Total land and land improvements (note I) included in right-of-way expenditures was overstated by \$54,462.
- We noted the following errors for contingent liabilities (note G):
 - Contingent liabilities were understated for federal funds and overstated for statutory dedicated funds by \$2,362,749 because of an error in classification.
 - Contingent liabilities were overstated by \$126,467 because of incorrect adjustments for cooperative endeavors causing an overstatement of the reported liability for statutory dedicated funds totaling \$150,248 and an understatement of the liability for other funding sources totaling \$23,781.
 - The Schedule of Expenditures of Federal Awards (Schedule 8), Schedule 8-1, the Recap of Schedule 8, and the Reconciliation of Schedule 1 to Schedule 8 were incorrectly prepared. Two federal award programs totaling \$178,358 were omitted from Schedule 8, and one federal award program was overstated by \$60,992. In addition, DOTD reported an incorrect program and cluster name and the incorrect agency number for

one program on Schedule 8. DOTD omitted one federal award totaling \$57,417 on Schedule 8-1. These errors affected the Recap of Schedule 8 and the Reconciliation of Schedule 1 to Schedule 8 and resulted in a net understatement totaling \$174,783.

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

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

Management of DOTD should establish a compilation process to ensure that (1) adequate supporting documentation for the department's AFR is maintained; (2) all personnel are adequately trained; and (3) the department's AFR is adequately reviewed before its submission to OSRAP. Management concurred in part with the finding and recommendations, stating it does not concur with the portion of the finding related to the understatement of the liability for cooperative endeavors. Management's response indicates that it believes the auditor misinterpreted the information provided to support reported liabilities from cooperative endeavors (see Appendix A, pages 1-4).

Additional Comment: DOTD management contends in its response that the original number of \$56,774,000 is correct; however, management did not provide any supporting documentation to the auditors that would support that amount. In addition, DOTD management signed an audit adjustment indicating its concurrence with the proposed adjustment to correct the reported understatement of \$146,985,033.

Untimely Collection of Utility Relocation Assistance Funds

DOTD has failed to collect utility relocation assistance funds (URAF) amounts owed to the department by local publicly owned, nonprofit utility companies (utilities) timely and in accordance with the Louisiana Administrative Code (LAC). The provisions of LAC Title 70 Part II Section 301(A) allow utilities to apply for URAF loans when they are unable to bear their share of the cost of relocating their facilities to accommodate a highway project. In addition, the LAC requires the utilities to repay the loaned funds or they will not be allowed to locate their facilities within highway right-of-way. In addition, good internal controls require DOTD to collect URAF amounts due timely.

We identified 169 URAF agreements dated from March 4, 1981, through November 13, 2007, between DOTD and utilities with outstanding balances totaling \$28,286,832, net of payments-to-date from 13 utilities (approximately 8%) totaling \$754,628. The

agreements require repayment of the loans and state that future permits for location of utilities' facilities will only be issued if the previous loans have been repaid or if payments are being made in accordance with other specific provisions in the agreements. Our review of these agreements disclosed the following:

- DOTD only received payments from four of the 169 utilities (approximately 2%) during fiscal 2009 totaling \$62,870.
- DOTD has sent only 10 letters to utilities in an attempt to collect from them. The letters were sent from February 2, 2009, through June 30, 2009. No payments were received from these utilities in fiscal 2009.
- Though the agreements require repayment of the loans, they do not include repayment terms specifying the amount of payments to be made and the time by which the loans are to be repaid.
- Though the agreements require repayment of loans or payments in accordance with other specific provisions in the agreements, we identified at least 14 utilities with multiple agreements from which no payments have been received, which indicates that DOTD may not be enforcing the provisions of the existing agreements.

DOTD has not specified repayment terms in its URAF agreements with utilities and has not established internal controls that include policies and procedures to collect outstanding URAF receivables from utilities. Failure to specify repayment terms in agreements and to establish internal controls over URAF receivables from utilities results in noncompliance with LAC Title 70 Part II Section 301(A) and increases the risk that DOTD will be unable to collect outstanding balances totaling \$28,286,832. In addition, failure to collect balances may result in a constitutionally prohibited donation of state funds to local utilities.

DOTD should establish policies and procedures to comply with the LAC and to collect the current outstanding URAF receivables and should ensure that additional permits to locate utilities' facilities not be issued to utilities that have either not paid their outstanding balances or that are not making payments on those balances in accordance with other specific provisions in the existing agreements. In addition, DOTD should review its URAF agreements and ensure that future agreements specify repayment terms, to include scheduled payment amounts and dates. Management concurred in part with the finding and recommendations, stating that the department did not agree with the reported amount of payments totaling \$62,870 received in fiscal 2009 for four of 169 utilities (see Appendix A, pages 5-9).

Additional Comment: Our finding is based on information prepared by DOTD and provided to us as of June 30, 2009. However, DOTD's response is dated March 18, 2010, and may include updated information as of the date of its response.

Inadequate Controls Over Reporting Subrecipient Activity

DOTD has not established effective internal controls to adequately identify subrecipients of the Highway Planning and Construction Program (CFDA 20.205) for reporting on the Schedule of Non-State Sub-Recipients of Major Federal Programs (Schedule 8-4) and the Schedule of State Entity Sub-Recipients of Federal Programs (Schedule 8-5). The Office of Management and Budget (OMB) Circular A-133 requires a pass-through entity to monitor a subrecipient's activities to ensure the entity's compliance with federal requirements. In addition, the Division of Administration, Office of Statewide Reporting and Accounting Policy requires state agencies to prepare an AFR, including the reporting of certain disbursements of federal funds to subrecipients on Schedule 8-4 and Schedule 8-5.

Our review of DOTD's Schedule 8-4 and Schedule 8-5 disclosed six subrecipients for the Safe Routes to Schools Program (SRS), a part of the Highway Planning and Construction Program, that were not initially reported on Schedule 8-4; however, DOTD did monitor these subrecipients as required by OMB Circular A-133. Fiscal 2009 expenditures to these subrecipients totaled \$133,673.

DOTD district personnel are responsible for the identification and monitoring of subrecipients and are required to submit quarterly reports to Financial Services listing all known subrecipients. In addition to the above active subrecipients not reported on Schedule 8-4, we also identified an additional 26 SRS subrecipients not previously reported to Financial Services in the districts' quarterly reports. Although there were no disbursements to these 26 entities during the fiscal year, district personnel had not previously identified them as subrecipients on quarterly reports so Financial Services would know to identify and report any disbursements made.

Failure to establish adequate internal controls to ensure reporting and central monitoring of all subrecipients increases the risk that DOTD will submit an inaccurate AFR and may not comply with federal regulations for properly identifying and monitoring subrecipients. DOTD should strengthen its policies and procedures to ensure the accuracy of Schedule 8-4 and Schedule 8-5 in the department's AFR. This should include the central monitoring of all districts to ensure that district personnel are adequately identifying subrecipients, reporting them to Financial Services, and monitoring them in accordance with OMB Circular A-133. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 10-11).

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

Other Matters

Recently, it was brought to our attention that a certain contract related to the toll collection system for DOTD's Crescent City Connection Division (CCCD) and the LA 1 project may have violated competitive bid laws. DOTD has represented to us that this contract was entered into by a prior administration and that the current administration has strengthened its legal review of such contracts to prevent a reoccurrence. However, our office is currently working with the state Attorney General's Office to follow up on this issue as well as other related matters concerning DOTD, CCCD, and the LA 1 project. The results of our work will be included in a separately issued report.

In addition, we have included Budgetary Comparison Schedules, which were prepared from the AFRs of DOTD and from additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. The schedules are presented as additional information but have not been subjected to auditing procedures.

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

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

KV:RR:CGEW:BQD:THC:ja

DOTD0809

BUDGETARY COMPARISON SCHEDULES (UNAUDITED)

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UNAUDITED

**DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
AGENCY 273 - ADMINISTRATION**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Federal funds	\$614,170		\$614,170	\$700,000	(\$85,830)
General fund - fees & self-generated				180,000	(180,000)
General fund - interagency transfer (IAT)	2,019,285		2,019,285	2,222,884	(203,599)
Transportation Trust Fund - federal receipts	903,683		903,683	1,034,858	(131,175)
Transportation Trust Fund - regular	33,440,940		33,440,940	41,550,214	(8,109,274)
Overcollections fund	47,500		47,500	47,500	
Total Appropriated Revenues	\$37,025,578	NONE	\$37,025,578	\$45,735,456	(\$8,709,878)

APPROPRIATED EXPENDITURES:

	OFFICE OF THE SECRETARY	OFFICE OF MGMT & FINANCE	ACT 672 & HIRING FREEZE	TOTAL
Salaries	\$3,163,247	\$13,127,982		\$16,291,229
Other compensation	112,321	46,751		159,072
Related benefits	1,299,594	4,963,442		6,263,036
Travel & training	49,564	155,031		204,595
Operating services	25,554	8,916,801		8,942,355
Supplies	27,294	587,900		615,194
Professional services	228,220	926,619		1,154,839
Other charges	47,500	61,825		109,325
Capital outlay		336,647		336,647
IAT	41,385	2,907,901		2,949,286
Total Appropriated Expenditures	4,994,679	32,030,899	NONE	37,025,578
Revised Budget	7,360,787	37,927,848	\$446,821	45,735,456
Variance Favorable (Unfavorable)	\$2,366,108	\$5,896,949	\$446,821	\$8,709,878

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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**DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
AGENCY 275 - PUBLIC WORKS, HURRICANE FLOOD PROTECTION,
AND INTERMODAL TRANSPORTATION**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Federal funds	\$11,680,266		\$11,680,266	\$20,719,543	(\$9,039,277)
General fund - fees & self-generated	233,135		233,135	2,492,100	(2,258,965)
General fund - interagency transfer (IAT)	124,063		124,063	686,950	(562,887)
Transportation Trust Fund - federal receipts	141,221		141,221	144,771	(3,550)
Transportation Trust Fund - regular	8,862,085		8,862,085	10,575,850	(1,713,765)
Overcollections fund	221,580		221,580	485,545	(263,965)
	<u>\$21,262,350</u>	<u>NONE</u>	<u>\$21,262,350</u>	<u>\$35,104,759</u>	<u>(\$13,842,409)</u>

APPROPRIATED EXPENDITURES:

	WATER RESOURCES AND INTERMODAL	AVIATION	PUBLIC TRANSPORTATION	ACT 672 & HIRING FREEZE	TOTAL
Salaries	\$2,430,603	\$564,824	\$528,071		\$3,523,498
Other compensation	10,523	14,200			24,723
Related benefits	903,897	209,027	236,914		1,349,838
Travel & training	64,054	57,556	31,600		153,210
Operating services	212,196	125,484	13,610		351,290
Supplies	72,824	49,715	15,501		138,040
Professional services	755,415	78,703	134,708		968,826
Other charges	2,212,635	159,295	12,254,547		14,626,477
Capital outlay	5,362	3,050			8,412
IAT	85,014	33,022			118,036
	<u>6,752,523</u>	<u>1,294,876</u>	<u>13,214,951</u>	<u>NONE</u>	<u>21,262,350</u>
Total Appropriated Expenditures					
Revised Budget	<u>9,013,659</u>	<u>1,629,310</u>	<u>24,443,375</u>	<u>\$18,415</u>	<u>35,104,759</u>
Variance Favorable (Unfavorable)	<u>\$2,261,136</u>	<u>\$334,434</u>	<u>\$11,228,424</u>	<u>\$18,415</u>	<u>\$13,842,409</u>

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

UNAUDITED

**DEPARTMENT OF TRANSPORTATION & DEVELOPMENT
AGENCY 276 - ENGINEERING AND OPERATIONS**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Federal funds	\$896,376		\$896,376	\$1,400,000	(\$503,624)
General fund - fees & self-generated	40,459,043		40,459,043	51,544,907	(11,085,864)
General fund - interagency transfers (IAT)	4,228,925		4,228,925	15,574,846	(11,345,921)
Transportation Trust Fund - federal receipts	132,737,680		132,737,680	120,481,505	12,256,175
Transportation Trust Fund - regular	277,990,968		277,990,968	324,616,118	(46,625,150)
Transportation Trust Fund - TIMED	2,304,445		2,304,445	3,500,000	(1,195,555)
Right of Way Permit Processing fund	472,178		472,178	582,985	(110,807)
Overcollections fund	892,503		892,503	3,118,375	(2,225,872)
Total Appropriated Revenues	\$459,982,118	NONE	\$459,982,118	\$520,818,736	(\$60,836,618)

APPROPRIATED EXPENDITURES:

	ENGINEERING HIGHWAYS	BRIDGE TRUST	PLANNING AND PROGRAMING	OPERATIONS	MARINE TRUST
Salaries	\$34,517,452	\$5,303,834	\$3,828,876	\$147,602,178	\$3,383,989
Other compensation	523,230			54,056	
Related benefits	13,539,626	2,301,925	1,369,469	62,303,492	1,379,729
Travel & training	790,684	7,559	137,746	1,194,926	265
Operating services	4,180,542	1,318,115	139,480	15,026,055	632,862
Supplies	677,181	932,538	118,786	40,487,656	1,247,220
Professional services	1,508,230	658,546	2,970,954	811,419	87,800
Other charges	7,294,358	2,040,672	6,650,531	36,324,717	
Capital outlay	1,022,818	108,526	92,715	21,832,632	76,275
IAT	1,350,764	4,998,749	51,217	15,220,358	1,625,191
Total Appropriated Expenditures	65,404,885	17,670,464	15,359,774	340,857,489	8,433,331
Revised Budget	72,990,704	23,977,272	32,969,070	372,373,584	9,665,676
Variance Favorable (Unfavorable)	\$7,585,819	\$6,306,808	\$17,609,296	\$31,516,095	\$1,232,345

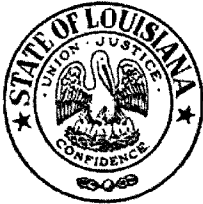
NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

<u>ACT 672 & HIRING FREEZE</u>	<u>TOTAL</u>
	\$194,636,329
	577,286
	80,894,241
	2,131,180
	21,297,054
	43,463,381
	6,036,949
	52,310,278
	23,132,966
	23,246,279
	<hr/>
NONE	447,725,943
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\$8,842,430	520,818,736
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<u>\$8,842,430</u>	<u>\$73,092,793</u>

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



BOBBY JINDAL
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STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
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SHERRI H. LEBAS, P.E.
INTERIM SECRETARY

March 15, 2010

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

Re: **LADOTD Management Response to 2009 Annual Fiscal Report Audit
Inadequate Preparation of the Annual Fiscal Report**

Dear Mr. Purpera:

The Department is in receipt of your audit report for the FY 09 Annual Financial Report (AFR). I appreciate the opportunity to respond to the findings and also to have my response letter included as an attachment in the final report.

The DOTD respectfully objects to the tone of the first sentence of the report wherein the LLA gives the reader the impression that DOTD routinely lacks internal controls over financial reporting. Except for the one large outstanding liability on a cooperative endeavor agreement, which we believe the LLA is in error, the items listed in the finding are insignificant as it relates to our total budget. Given the challenges that we have with our existing financial IT systems that are not part of the state's overall financial systems, we believe great strides have been made over the past few years. None of this progress has been acknowledged in your opening statement.

The following are our comments on the bulleted items:

- **The outstanding net liability for cooperative endeavors was understated by \$146,985,033 on Schedule 16 of the AFR. DOTD does not maintain a comprehensive list of all cooperative endeavors and does not have controls in place to enable the department to support an accurate and complete report.**

Management Response:

We do not agree with this finding. It is our position that the LLA has misinterpreted the information provided by Mr. James McMennis, a project manager with the Office of Coastal Protection and Restoration. DOTD Undersecretary Michael Bridges personally spoke with and corresponded with Mr. McMennis during the week of February 9, 2010 and as a result, Mr. McMennis informed Mr. Bridges that his original number of \$56,774,000 given to DOTD by email on August 21, 2009 is correct. Mr. McMennis believes the information that he provided to Ms. Thornton, LLA Senior Auditor was in response to her question over a future construction agreement and its cost, which we believe she has misinterpreted.

- **Total Infrastructure (note H) was understated by \$10,867,140, net of depreciation totaling \$158,358, as a result of the following errors:**
 - **Net additions for Infrastructure (note H) were understated by \$11,672,906, net of depreciation totaling \$692,5611.**
 - **The reduction in infrastructure for abandoned and turned over roads (notes H and J) was understated by \$542,705, net of depreciation totaling \$850,919.**
 - **The reduction in infrastructure for impairment losses (notes H and K) was understated by \$263,061.**
- **Total land and land Improvements (note I) included in right-of-way expenditures was overstated by \$54,462.**

Management Response:

DOTD concurs. The Department has procedures in place to record, process and transmit financial data needed to prepare an accurate and complete AFR. Those procedures include a review process that allows the department to detect and correct any preparation errors prior to submission of the AFR. Two weeks prior to the submission deadline, key personnel vacated the position that was responsible for compiling critical schedules essential to the note disclosure. When these complex schedules were reviewed, a lack of compliance with GASB 42 was noted. Additional staff was assigned to correct the schedules and assure compliance with the standard. While any finding is a concern of the Department, it is important to note that the \$10.8 million understatement disclosed in the finding is equivalent to 0.08% of the Department's total infrastructure balance of \$12.3 billion. As there is no comprehensive system to record and maintain a comprehensive listing of total infrastructure assets, the compilation process is totally manual. As we move forward with the implementation of LaGov (the State's ERP system), manual processes will be automated and the errors noted will be reduced. In addition, staff members will be available to effectively review the compilation process to correct and detect any preparation errors prior to submission.

- **We noted the following errors for contingent liabilities (note G):**
 - **Contingent liabilities were understated for federal funds and overstated for statutory dedicated funds by \$2,362,749, because of an error I classification.**
 - **Contingent liabilities were overstated by \$126,467 because of incorrect adjustments for cooperative endeavors causing an overstatement of the reported liability for statutory dedicated funds totaling \$150,248 and an understatement of the liability for other funding sources totaling \$23,781.**

Management Response:

DOTD concurs. There was a misclassification error in the compilation of the contingent liability note disclosure which had a net zero impact to the total contingent liability balance reported. While any finding is a concern of the Department, it is important to note that the net overstatement relating to adjustments of \$126,467, disclosed in the finding, is 0.0002% of the Department's total contingent liability balance of \$794 million. As referenced above, this compilation process is a manual process. Moving forward, manual processes will be automated and the errors noted will be reduced with the implementation of ERP and the development of a district mini-AFR. In addition, staff members will be available to effectively

review the compilation process to correct and detect any preparation errors prior to submission.

- **The Schedule of Expenditures of Federal Awards (Schedule 8), Schedule 8-1, the Recap of Schedule 8, and the Reconciliation of Schedule 1 to Schedule 8 were incorrectly prepared. Two Federal Award Programs totaling \$178,358 were omitted from Schedule 8, and one federal award program was overstated by \$80,992. In addition, DOTD reported an incorrect program and cluster name and the incorrect agency number for one program on Schedule 8. DOTD omitted one federal award totaling \$57,417 on Schedule 8-1. These errors affected the Recap of Schedule 8 and the Reconciliation of Schedule 1 to Schedule 8 and resulted in a net understatement totaling \$174,783.**

Management Response:

DOTD concurs. As noted above, the Department manually compiles, from each district, federal awards as there is no comprehensive system to record and maintain a complete listing. The errors noted in the finding are a result of manual processes. The omission of the two federal awards totaling \$178,358 and the one 8-1 omission in the amount of \$57,417 was the result of a DOTD Section's failure to report the federal award to the Financial Services Section. A comprehensive district mini-AFR is proposed to replace the various and numerous memorandum that previously collected this data. District and section training is also planned to facilitate the development of complete and accurate reporting.

The overstatement of \$80,992 was a result of the preparer not receiving the Schedule 8 prior year (2008) audit adjustments which was used to calculate current year (2009) information. Additional procedures have been implemented to disseminate audit adjustments to staff.

The incorrect program and cluster name have been corrected. When the schedule was prepared, the assigned CFDA Number 20.614 was not available on the on-line Code of Federal Domestic Assistance (CFDA) listing. The incorrect agency number has also been corrected due to a typographical error. These errors did not have a monetary impact. As noted previously, this information has been compiled in the field and submitted to Financial Services via memorandum. This compilation process is totally manual. As we move forward, manual processes will be automated and the errors noted will be reduced with the implementation of ERP. In addition, additional staff members will be available to effectively review the compilation process to correct and detect any preparation errors prior to submission.

DOTD agrees that Management should establish a compilation process to ensure that (1) adequate supporting documentation for the department's AFR is maintained; (2) all personnel are adequately trained; and (3) the department's AFR is adequately reviewed before its submission to OSRAP, however, we disagree with the assessment that adequate internal controls have not been established, staff has not been adequately trained and that there is not an adequate system of review for the department's AFR. The reportable findings included one cooperative endeavor agreement that we believe was misinterpreted. This one agreement in

Mr. Daryl Purpera
March 15, 2010
Page 4

question was substantial. All other reportable errors were immaterial in nature (.08% and .0002%). 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 the DOTD does have reasonable internal controls that are designed to facilitate an accurate preparation of the AFR, however, mistakes do happen, especially when compounded by our legacy financial systems. 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.

Notwithstanding our disagreements as stated above, we have directed our Financial Services Administrator Beverly Hodges to develop corrective action plans to mitigate the occurrence of errors. These plans will include the development of a district mini-AFR to facilitate the compilation of district data necessary to accurately complete the Department's AFR. The implementation of the LaGov (ERP) system will further enhance the timely and accurate compilation. The mini-AFR is planned for implementation with the FY10 AFR process. The LaGov system will not be implemented until FY11.

Thank you again for the opportunity to respond to this finding. My staff and I are available to discuss this matter as necessary.

Sincerely,



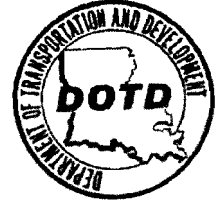
Sherri LeBas, P.E.
Secretary

C: Michael Bridges, DOTD Undersecretary
Kirt Clement, DOTD Deputy Undersecretary
John Lyon, DOTD Internal/External Audit Director
Beverly Hodges, DOTD Financial Services Administrator



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SHERRI H. LEBAS P.E.
INTERIM SECRETARY

March 18, 2010

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Louisiana Legislative Auditor
1600 North Third Street
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Baton Rouge, LA 70804-9397

**Re: LA DOTD Management Response to Untimely Collection
of Utility Relocation Assistance Funds (URAF)**

Dear Mr. Purpera:

The Department is in receipt of the audit report for the Untimely Collection of Utility Relocation Assistance Funds (URAF). I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

LAC Title 70 Part II Section 301(A) allows non-profit utility companies to apply for URAF when they are unable to bear their share of the cost of relocating their facilities to accommodate a transportation project. Although the code allows DOTD to deny additional permits to the utility company if the funds are not recovered, the code does not have strong collection provisions. Until recently there has been little political will to force the issue of collecting funds from utility companies that are often small, rural, and in many cases not fiscally sound. Additionally, given the challenges associated with our existing financial IT systems, especially our accounts receivable system, that are not part of the state's overall financial systems, we have had to go through laborious processes to reconcile the fund liability. However, we believe that we have made significant progress over the past year to resolve these issues.

The Department concurs in part with the findings and includes the following comments on bulleted paragraphs:

- **DOTD only received payments from four of the 169 utilities (approximately 2%) during fiscal 2009 totaling \$62,870.**

Management Response:

The DOTD does not agree with the stated totals. (See attached "Schedule of URAF Agreements") The total of all DOTD categories is 189 agreements. From this total, seven (7) agreements that have been paid in full, and eight (8) agreements that are being repaid in partial installments should be subtracted. The balance should be additionally reduced by fourteen (14) ongoing URAF agreements where the final invoicing is not complete, and eleven (11) projects that are under construction. These projects could have change order(s) made to the agreement, therefore, the total amount

due cannot be determined, until the construction is completed. The total number of outstanding agreements balance needing collection is 149. As of June 30, 2009, Louisiana TIMED Managers (LTM) had 49 URAF agreements which do not appear to be included in the Legislature Auditor's findings.

Eight (8) companies have repayment agreements. Five (5) companies paid on five (5) agreements during the 08-09 fiscal year totaling \$102,981.50. In accordance to LAC Title 70, the payments for the remaining three agreements being paid in partial installments were not due until January 15, 2010.

- **DOTD has sent only 10 letters to utilities in an attempt to collect from them. The letters were sent from February 2, 2009, through June 30, 2009. No payments were received from these utilities in fiscal 2009.**

Management Response:

DOTD concurs. Additional information to determine the amount of URAF debt each utility owes is required before the Statement of Account letters can be prepared. Other complications including two hurricanes, ARRA program and TO cuts impacted our progress.

- **Though the agreements require repayment of the loans, they do not include repayment terms specifying the amount of payments to be made and the time by which the loans are to be repaid.**

Management Response:

DOTD concurs that the agreements do not include repayment terms, however the URAF agreements state general terms of repayment. The amounts on these agreements are estimates only. The exact cost is determined after the work has been completed and audited. Therefore, it is not possible to determine the amount of payments required at the time the URAF agreement is executed, which is far in advance of the DOTD construction project.

- **Though the agreements require repayment of loans or payments in accordance with other specific provisions in the agreements, we identified at least 14 utilities with multiple agreements from which no payments have been received, which indicates that DOTD may not be enforcing the provisions of the existing agreements.**

Management Response:

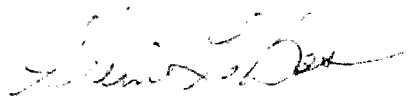
DOTD concurs that some utility companies have multiple agreements but suggest that other circumstances contribute to non-enforcement. A majority of URAF agreements are with small not for profit utilities. At the time a URAF agreement is executed, there exists a possibility that additional underground utility lines belonging to the same utility may require relocation. Therefore, multiple URAF agreements could exist with the same utility while not violating the terms and conditions found in Title 70.

Mr. Daryl Purpera
March 18, 2010
Page 3

As previously stated, we have done much work in this area over the past two years to improve this process. A Quality and Continuous Improvement team was established to assist Ms. JoAnn Kurts, Utility Relocation Administrator, in documenting and mapping an improved process with established internal controls. Please refer to the attached flow chart that is currently being implemented to ensure that DOTD is in compliance with LAC Title 70 in collection of current outstanding URAF receivables and non-issuance of additional permits to utilities not in compliance.

Thank you again for the opportunity to respond to this finding. My staff and I are available to discuss this matter as necessary.

Sincerely,



Sherri LeBas, P.E.
Secretary

Attachments

- c: Michael Bridges, DOTD Undersecretary
- Kirt Clement, DOTD Deputy Undersecretary
- John Lyon, DOTD Internal/External Audit Director
- Richard Savoie, DOTD Chief Engineer
- JoAnn Kurts, DOTD Utility Relocation Administrator

SCHEDULE OF URAF AGREEMENTS

DOTD URAF Agreement counts as of June 30, 2009		
Category Code	Totals	Definition
SA	9	Statement of Account letter sent
IN	27	In line for review and send out Statement of Account Letter
PD	7	Utility Company paid back URAF Debt in full
MP	8	Utility Company repaying URAF Debt in installments
AM	11	Can't find URAF Agreement
DV	102	Needs microfilm research for documents to verify amount URAF owed
UC	11	DOTD Const Project Under Construction
OG	14	On Going - Vouchers/Payments for Utility Relocation not complete
	189	

LTM URAF Agreement counts as of June 30, 2009		
Category Code	Totals	Definition
SA	1	Statement of Account letter sent
IN	0	In line for review and send out Statement of Account Letter
PD	0	Utility Company paid back URAF Debt in full
MP	0	Utility Company repaying URAF Debt in installments
AM	0	Can't find URAF Agreement
DV	10	Needs microfilm research for documents to verify amount URAF owed
UC	19	DOTD Const Project Under Construction
OG	19	On Going - Vouchers/Payments for Utility Relocation not complete
	49	



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SHERRI H. LEBAS, P.E.
INTERIM SECRETARY

March 18, 2010

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Louisiana Legislative Auditor
1600 North Third Street
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Baton Rouge, LA 70804-9397

**Re: LA DOTD Management Response to Inadequate Controls
Over Reporting Subrecipient Activity**

Dear Mr. Purpera:

The Department is in receipt of the audit report for Inadequate Controls Over Reporting Subrecipient Activity. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

The report states that DOTD's Schedule 8-4 and Schedule 8-5 disclosed six subrecipients for the Safe Routes to Schools Program (SRS), a part of the Highway Planning and Construction Program, that were not initially reported on Schedule 8-4; however, DOTD did monitor these subrecipients as required by Circular A-133. Fiscal 2009 expenditures to these subrecipients totaled \$133,673.

The report also states that DOTD district personnel are responsible for the identification and monitoring of subrecipients, and are required to submit quarterly reports to Fiscal Services listing all known subrecipients. In addition to the above active subrecipients not reported on the Schedule 8-4, we also identified an additional 26 SRS subrecipients, not previously reported to Fiscal Services in the districts' quarterly reports. There were no disbursements to these 26 entities during the fiscal year ended June 30, 2009.

Management Response:

The DOTD concurs with this finding. The DOTD manually compiles, from each district and section, federal awards and subrecipient related reporting as there is no comprehensive system to record and maintain a complete listing. The errors noted in the finding are a result of manual processes. The omission of the subrecipients was the result of a section failure to report the subrecipients to the Financial Services Section.

As we move forward, manual processes will be automated and the errors noted will be reduced with the implementation of ERP. In addition, more staff members will be assigned to effectively review the compilation process to correct and detect any preparation errors prior to submission. A comprehensive district mini-AFR is proposed to replace the various and numerous memorandum that previously collected this data.

Mr. Daryl Purpera
March 18, 2010
Page 2

District training is also planned to facilitate the development of complete and accurate reporting. DOTD Financial Services Administrator Beverly Hodges has been assigned the responsibility of developing the mini-AFRs and coordinating the training.

Thank you again for the opportunity to respond to this finding. My staff and I are available to discuss this matter as necessary.

Sincerely,



Sherri LeBas, P.E.
Secretary

C: Michael Bridges, DOTD Undersecretary
Kirt Clement, DOTD Deputy Undersecretary
John Lyon, DOTD Internal/External Audit Director
Beverly Hodges, DOTD Financial Services Administrator