

DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA



MANAGEMENT LETTER

ISSUED JUNE 20, 2007

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

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$14.76. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3366 or Report ID No. 06203012 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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May 30, 2007

**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, 2006, 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, 2005, we reported findings related to the untimely collection of utility relocation assistance funding receivables and deficiencies in the disaster recovery plan. These findings have been resolved by management.

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* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2006.

**Noncompliance With the Cash Management
Improvement Act**

During fiscal year 2006, the Department of Transportation and Development (DOTD) failed to draw funds on the scheduled draw date as determined by the established clearance pattern for the Highway Planning and Construction program (CFDA 20.205) in the Cash Management Improvement Act (CMIA) Agreement between the State of Louisiana and the United States Department of the Treasury. In addition, DOTD failed to

properly report refunds to the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP), as required by the CMIA Agreement and OSRAP's Policy and Procedures Manual (PPM) for Control Agencies of CMIA programs.

The CMIA Agreement requires that the state calculate a scheduled draw date in accordance with the established clearance pattern and request federal funds on that scheduled draw date to ensure funds are received and credited to the state account by the times specified in the funding technique, which is designed to be interest neutral to the state and the federal government. The CMIA Agreement also requires that the state calculate interest liability to the federal government on refunds exceeding a \$50,000 threshold. Because OSRAP calculates interest liability for the state on all CMIA programs, OSRAP's PPM requires the agency to prepare a CMIA spreadsheet and attach supporting documentation, to include a spreadsheet showing the amount and date of refunds received.

Our tests revealed that the actual draw date for 22 of all 36 billing cycles for the year (61%) deviated from the scheduled draw date, as calculated by the established clearance pattern in the CMIA Agreement. Of these 22, a total of 20 resulted in late receipt dates causing a loss of interest to the state of approximately \$59,171 and two resulted in early receipt dates causing an interest liability to the state of approximately \$4,898.

In a test of 21 individual transactions from progress billings, two refunds were identified. Both of these refunds, totaling \$359,281, exceeded the \$50,000 threshold but were not properly reported to OSRAP to ensure proper calculation of the state's interest liability. Estimated interest liability for these two refunds is \$475.

These errors occurred because of inadequate controls over program draws and lack of knowledge of procedures requiring the reporting of refunds. Failure to properly draw funds on the scheduled draw date and failure to properly report refunds subjects the department and the state to noncompliance with the CMIA Agreement and subjects the department and the state to lost interest earnings.

Management of DOTD should ensure that federal funds are drawn on the scheduled draw dates and that refunds are properly reported to OSRAP as required by the CMIA Agreement and OSRAP's PPM. Management partially concurred with the finding but responded that it has adequate controls over program draws (see Appendix A, pages 1-3).

Additional Comment: We believe that late draws resulting in lost interest of \$59,171 and interest liability of \$4,898 indicate a need to either modify the current clearance pattern or implement new controls to ensure timely program draws in accordance with the established clearance pattern.

Inadequate Controls Over Matching Requirements

DOTD failed to adhere to established internal controls over matching requirements for the Highway Planning and Construction program (CFDA 20.205) that resulted in overdrafts of federal funds. The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Parts 3 and 4, Section G, stipulates that a non-federal entity must provide matching or cost sharing of a specified amount or percentage as provided in the project agreements with the federal government.

Of 15 Highway Planning and Construction projects tested, DOTD overdrew federal funds for two (13%) totaling \$402,852, which we consider questioned costs. These overdrafts were the result of inadequate monitoring of the cost share split between federal and state funds. Estimated interest liability is approximately \$25,105. Although DOTD has policies and procedures for the review of system-generated reports indicating errors in cost share percentages, management failed to ensure compliance with these policies and procedures.

Management of DOTD should ensure overdrawn funds are returned to the federal government, along with applicable interest, and should ensure compliance with established policies and procedures over matching to ensure timely detection and correction of errors and compliance with OMB Circular A-133 requirements. Management partially concurred with the finding, but contended that it did follow many of its established policies and procedures and explained that many of the 26 overdrafts that were discovered in subsequent procedures are under the CMIA reporting requirement of \$50,000; therefore, the overdrafts would not result in an interest liability to the federal government (see Appendix A, pages 4-5).

Additional Comment: We recognize that the department has established controls over the matching process and did follow some of those controls; however, this finding resulted from the failure to follow all established controls (specifically, the review of the “second” report, as referred to in management’s response). The review of this report would have allowed management to detect and correct the identified errors. In addition, the \$50,000 threshold referred to in the department’s response relates to refunds, which is a recovery of funds previously paid out for program purposes. The errors identified above were overdrafts because of departmental error, which we believe would be subject to interest liability to the federal government.

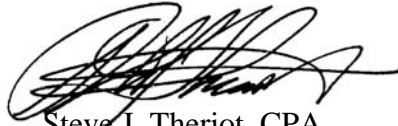
The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be 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.

This letter is intended for the information and use of the department and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT _____

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", written in a cursive style.

Steve J. Theriot, CPA
Legislative Auditor

RR:BQD:THC:dl

DOTD06

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



KATHLEEN BABINEAUX BLANCO
GOVERNOR

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JOHNNY B. BRADBERRY
SECRETARY

(225) 379-1200

March 22, 2007

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
PO Box 94397
Baton Rouge, LA 70804-9397

**RE: DOTD Single Audit Finding:
Noncompliance with the Cash Management Improvement Act**

Dear Mr. Theriot:

In response to your letter dated March 14, 2007 in which the Office of Legislative Auditor has found reportable audit findings relative to noncompliance by DOTD with the Cash Management Improvement Act (CMIA), I would like to state that we concur with the first finding regarding our not following procedures for reporting refunds, however we do not fully concur with the finding that we do not have adequate controls over federal program draws. I would like to respond to these two findings separately below:

The first finding is the failure to report refunds to the Office of Statewide Reporting and Policy (OSRAP) as required by both CMIA and OSRAP policies for any individual occurrence exceeding \$50,000. We concur with your finding. Kurt Demmerly of OSRAP was unaware that DOTD processed refunds of federal funds and our staff was not aware of the requirement to specifically report refunds to OSRAP. The Department is in compliance with the actual processing of refunds of federal funds as they are processed against the current or next billing cycle according to the dates of the action versus the billing cycle. The Department's correction plan will be to implement the required separate reporting on refunds with the 2006-2007 fiscal year. This new reporting task will be added to the current CMIA reporting responsibilities of Robbie Hutchinson, Accountant Manager 1, of Financial Services PMFS Unit who can be contacted at 379-1658. This correction plan began immediately. Financial Services staff met March 14, 2007 with Mr. Demmerly and Mr. Ladatto of OSRAP concerning clarification of what constitutes a refund and necessary accompanying backup necessary to comply with reporting requirements.

Mr. Steve Theriot
March 22, 2007
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The second finding is the failure to draw funds on the scheduled draw date and cites cause as inadequate controls. The report indicated we missed 22 of the 36 scheduled draw dates and this resulted in an increased cost to the state in interest. I fully agree with the fact that we must be as efficient as possible, but it appears that we only missed the scheduled dates by one or two days each time. The one time that we missed it five days was the week immediately following the landfall of Hurricane Katrina.

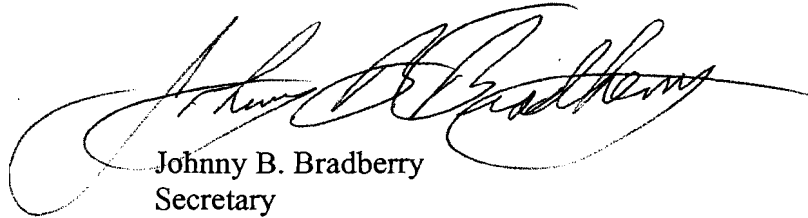
We feel that the Department has adequate controls in place over program draws. Procedures implemented in 2001 have been followed to the letter regarding the calculation of the scheduled draw and receipt dates. Timely and thorough filings of these reporting requirements have been made to OSRAP. In addition, we have taken steps and continue to incorporate efficiencies in our legacy system to complete billings more efficiently. One system enhancement was as recent as the last indirect billing in which one day was shaved off the processing time due to additional programming work of our IT department on automation of some of the current credit research by staff. This enhancement has only been in place for one cycle. This is a positive step in the right direction, but it is still not going to correct all of the issues. The calculated draw and receipt dates while formulated properly rely most heavily on our daily disbursement figures for federal funds which are not calculated until the last day of the billing cycle. When a large disbursement occurs at the beginning of a billing cycle, it contracts the time frame for the scheduled draw and scheduled receipt dates to as short as next day. When a billing takes two days to process, it is highly unlikely that we will make the deadline. On the other hand, if the large disbursement occurs toward the end of the billing cycle it pushes forward the due date for several days allowing for our processing time. Two years ago, the Department implemented an additional billing (Indirect Cost in January 2005) to our already aggressive processing schedule. This additional billing along with the original two (2) billings (last Progress and Incidental) are all processed at the end of the month, which causes timing issues with meeting schedules for the end of the month and many times the 1st and possibly 2nd Progress billings for the next month.

We have every intention to stay committed to finding technology and internal process efficiencies that can eliminate the problem of missing the draw schedule. We believe the ultimate solution to the problem will come as a result of our aggressive support of the State's initiative to move to a statewide Enterprise Resource Platform for financials, which will include a federal-aid billing interface directly to the FHWA system.

If you need any additional information, please contact Patty Parsons, Financial Services Administrator at 379-1615 or PattyParsons@dotd.la.gov.

Mr. Steve Theriot
March 22, 2007
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With Highest Regards,



Johnny B. Bradberry
Secretary

cc: Michael Bridges, DOTD Undersecretary
Kirt A. Clement, DOTD Deputy Undersecretary
Patty O. Parsons, DOTD Financial Services Director
John Lyon, DOTD Audit Director



KATHLEEN BABINEAUX BLANCO
GOVERNOR

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JOHNNY B. BRADBERRY
SECRETARY

April 13, 2007

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
PO Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Controls Over Matching Requirements (Federal Audit)

Dear Mr. Theriot:

The Department is in receipt of your audit finding titled Inadequate Controls Over Matching Requirements. We concur only in part with your finding.

The finding sites that DOTD failed to adhere to its policies and procedures for the review of system-generated reports which indicate errors in cost share percentages billed to the Federal Highway Administration. However, we do not feel this statement nor the statistics accurately reflect our current controls. There are two separate and distinct system reports generated to review the more than approximately 5,500 separate project billings during a fiscal year which total in excess of \$540 million dollars on approximately 1,320 active projects. We are in compliance for consistent review of the system generated batch warning reports produced during the federal aid progress billing process and corrections are pursued when applicable. Follow up by staff is manual between the units of Federal Aid, Contracts Payable and PMFS. The second report, which is user requested and manually submitted, was created as a means to follow up on issues that could be remaining from the first report. Both reports require much manual review. These reviews correct outliers in cost share splits that can fall into two large categories: those involving Metropolitan Planning Organization (MPO) matching funds, or state funds are coded as non-participating. Based on the fact that we are in compliance with a portion of the controls in place, we concur only in part to failure to ensure compliance by not following all of our internal procedures.

This audit used a sample size of only 15 against the approximately 1,320 active projects. Unfortunately, the sample included two projects with overdraws of federal funds. Only one project met the Cash Management Improvement Act (CMIA) reporting requirement of \$50,000. The Department on March 27th, in response to discovery of this issue during the audit, corrected both projects immediately with entries and corresponding credits (refunds) to the federal government processed in the next billing. The interest due

April 13, 2007

RE: Inadequate Controls Over Matching Requirements (Federal Audit)


will be calculated and reported by the Division of Administration's Office of Reporting and Accounting Policy in its annual report.

The user requested report mentioned previously was reinstated which queried all active projects in the population finding only 26 out of the 1,320 total projects to review. Of the 24 remaining report errors, 7 projects were non issues as explained above, 12 projects revealed cost split differences under the \$50,000 reportable threshold and have been corrected, and 5 remaining projects are still being reviewed at this time and are below \$50,000; therefore, our report on the population revealed no additional project cost split corrections meeting the Cash Management Improvement Act (CMIA) reporting requirement of \$50,000 and will not result in interested owed to the federal government. The Department, while acknowledging the errors noted in the finding, believes that the review of progress billing batch error reports only for the last two years has been most effective in monitoring any errors and has adequately managed the CMIA refund issue.

During this process review, it was discovered that personnel changes due to retirements resulted in a lack of knowledge transfer which caused these errors. The responsibility of this reporting task has been assigned to Karen Robert, Accountant Manager 2, of Financial Services Federal Aid/PMFS Unit who can be contacted at 379-1678.

If you need any additional information, please contact Patty O. Parsons, Financial Services Administrator at 379-1615 or PattyParsons@dotd.la.gov.

Sincerely,


For Johnny Bradberry
Secretary

cc: Michael Bridges
Kirt A. Clement
Patty O. Parsons