

DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED FEBRUARY 6, 2020

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and online at www.la.la.gov.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.40. 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 website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3366 or Report ID No. 80190094 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 Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Transportation
and Development

February 2020



Audit Control # 80190094

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit Report of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2019, we performed procedures at the Department of Transportation and Development (DOTD) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of DOTD's internal controls over financial reporting and compliance; and determine whether DOTD complied with applicable laws and regulations.

Results of Our Procedures

Current-year Findings

Inadequate Controls Related to Highway Planning and Construction Cluster Quality Assurance Requirements

DOTD did not have adequate controls in place to ensure that documentation relating to its quality assurance program was completed timely for projects of the Highway Planning and Construction Cluster (HPCC). DOTD's Construction Contract Administration Manual requires the Summary of Samples and Test Results (Form 2059) to be submitted within 30 days of final acceptance of the project. However, in practice, DOTD requires Form 2059 to be submitted within 90 days of final acceptance. The Summary of Samples and Test Results is certified by applicable engineers and includes documentation relating to the quality of materials used for the project, including the sampling plans and test results of the materials.

In a sample of 19 projects, DOTD did not ensure Form 2059 was completed within 90 days of the project's final acceptance for eight (42%) of the projects tested, ranging from 93 to 329 days after final acceptance. In addition, we reviewed the two largest projects and identified where Form 2059 was completed for one project 393 days after final acceptance.

Federal regulations require that state transportation departments develop a quality assurance program which will assure that the materials and workmanship incorporated into each federal-aid highway construction project are in conformity with the requirements of the approved plans and specifications.

DOTD did not adequately track projects receiving final acceptance to ensure timely submission of Form 2059. Failure to timely complete the Summary of Samples and Test Results increases the risk that the sampling and testing were not in accordance with DOTD's quality assurance program, which could result in substandard materials and workmanship used on a project.

DOTD should actively track projects receiving final acceptance to ensure Form 2059 is submitted within 90 days. Additionally, DOTD should update its Construction Contract Administration Manual and other applicable policies regarding the deadline of Form 2059 to reflect actual procedures. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Noncompliance and Inadequate Controls Related to Highway Planning and Construction Cluster Subrecipient Monitoring

DOTD did not adequately monitor subrecipients of the HPCC programs. Audit procedures resulted in the following:

- DOTD did not obtain payment documentation in a timely manner from certain subrecipients receiving funds on a "cost disbursement" basis. Payments under this method are sent to subrecipients based on invoices for goods or services, prior to the subrecipients actually paying for the goods or services. DOTD's policy requires that these "cost disbursement" subrecipients provide proof of payment for those invoiced goods and/or services within 60 days of receipt of funds from DOTD.

In a review of 48 payments, 20 of which were advance payments to "cost disbursement" subrecipients, DOTD did not obtain payment documentation for two (10%) of the 20 advance payments in accordance with its policy. Prior to inquiry by the auditor in September 2019, DOTD had not obtained proof of payment for these two advance payments totaling \$668,826 from one subrecipient who was paid in July 2018 and another subrecipient who was paid in October 2018. In addition, subsequent payments were made by DOTD to these two subrecipients without having proper documentation for the previous advance payments, which conflicts with DOTD policy. The proof of payments were later obtained and reviewed by DOTD after inquiry by auditor.

- DOTD did not adequately evaluate subrecipients' risk of noncompliance, which includes evaluating whether subrecipients have sufficient accounting controls to properly manage federal funds. The evaluation of subrecipients is to be used for the purpose of determining the appropriate level of monitoring related to the subaward. Two (20%) of the 10 subrecipients reviewed did not have documentation that a risk assessment was performed, while one (10%) subrecipient's last risk assessment was performed in April 2017. This resulted in DOTD not properly evaluating the risk of three (30%) subrecipients. Furthermore, we noted that procedures performed by DOTD do not include evaluating the risk of state subrecipients, only non-state subrecipients.

- DOTD did not have adequate controls in place to ensure that subrecipients were not suspended or debarred prior to the subaward. Two (20%) of the 10 subrecipients reviewed did not have documentation of DOTD verifying that the subrecipient was not suspended or debarred. Based on the results of our procedures to identify any suspended or debarred subrecipients, none were noted.
- DOTD did not have adequate controls in place to ensure that required audits were completed within nine months of the subrecipient's fiscal year end. In a review of 10 subrecipients, DOTD could not provide documentation that two (20%) of the subrecipient audit reports were reviewed or that management decisions were issued for any findings to ensure timely and appropriate corrective action by subrecipients.

Federal regulations require that pass-through entities monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals. Federal regulations also require that pass-through entities evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate monitoring of the subrecipient. Further, states are responsible for determining if subrecipients have sufficient accounting controls to properly manage federal funds. In addition, non-federal entities must ensure, prior to making a subaward, that the subrecipient is not debarred, suspended, or otherwise excluded from or ineligible for participation in the federal program. Finally, pass-through entities must: ensure subrecipients expending \$750,000 or more in federal awards during the subrecipient's fiscal year are audited as required, and that the required audits are completed within nine months of the end of the subrecipient's audit period; issue a management decision on applicable audit findings within six months after receipt of the subrecipient's audit report; and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

DOTD has not developed a centralized method of tracking subrecipient monitoring activities, such as tracking subrecipients who receive advance payments to ensure payment documentation is later provided, tracking new subrecipients to ensure risk assessments are performed, and to ensure subrecipients are not suspended or debarred. In addition, DOTD's subrecipient risk assessment process involves several different sections within DOTD, and there is not an overall policy outlining the responsibility of each section. Finally, for subrecipient audit reports, DOTD is not ensuring completeness of the LaGov expenditure report utilized in determining which subrecipients require an audit in addition to not considering if those expenditures were incurred in the subrecipient's fiscal year.

Failure to properly monitor subrecipients may result in noncompliance with federal regulations and increases the likelihood of disallowed federal funds that DOTD may have to return to the federal grantor.

DOTD should develop a centralized method of tracking subrecipients for advance payment review to ensure all necessary documentation is obtained from subrecipients receiving cost disbursements within the required 60-day timeframe and should retain necessary documentation to support policy adherence. DOTD should also create an overall subrecipient risk assessment

policy which outlines the responsibility of each section and develop a tracking mechanism to ensure risk assessments are performed and documented on all subrecipients, including state subrecipients, to determine the appropriate level of monitoring. In addition, DOTD should implement procedures to verify that subrecipients are not suspended or debarred at the time of subaward. Finally, DOTD should strengthen controls to ensure the review of all required subrecipient audit reports are obtained and reviewed timely. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Comprehensive Annual Financial Report – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2019, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Capital Outlay Escrow

- Infrastructure
- Construction-in-progress
- Right-of-way
- Expenditures
- Accounts payable

Transportation Trust Fund

- Federal revenue (progress billings)

Engineering and Operations

- Operating and capital grant revenues (classification)

The account balances and classes of transactions tested are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2019, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on DOTD's major federal program, Highway Planning and Construction Cluster (CFDA 20.205, 20.219).

Those tests included evaluating the effectiveness of DOTD's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether DOTD complied with applicable program requirements. In addition, we performed procedures on information submitted by DOTD to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA), as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Inadequate Controls Related to Highway Planning and Construction Cluster Quality Assurance Requirements and Noncompliance and Inadequate Controls Related to Highway Planning and Construction Cluster Subrecipient Monitoring. These findings will also be included in the Single Audit for the year ended June 30, 2019. In addition, DOTD's information submitted for the preparation of the state's SEFA is materially correct.

Other Procedures

In addition to the CAFR and Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing DOTD's internal control and compliance with related laws and regulations over the Transportation and Training Education Center Fund (TTEC Fund) for fiscal years 2018 and 2017.

DOTD receives statutorily dedicated funds under the TTEC Fund (R.S. 48:105.1), which includes restrictions on the use of such funds. The TTEC Fund includes revenue received by the Louisiana Transportation Research Center (LTRC) for registration fees from participants in transportation education courses. Monies in the fund are used to defray the expenses of the LTRC in connection with the development, contracting, delivery, and administration of the transportation training program.

We performed procedures on the TTEC Fund to determine that internal controls were in place to adequately collect all required fees and appropriately classify collections to the required fund in accordance with state laws. We identified the related expenditures and determined if those fund expenditures complied with statutory restrictions.

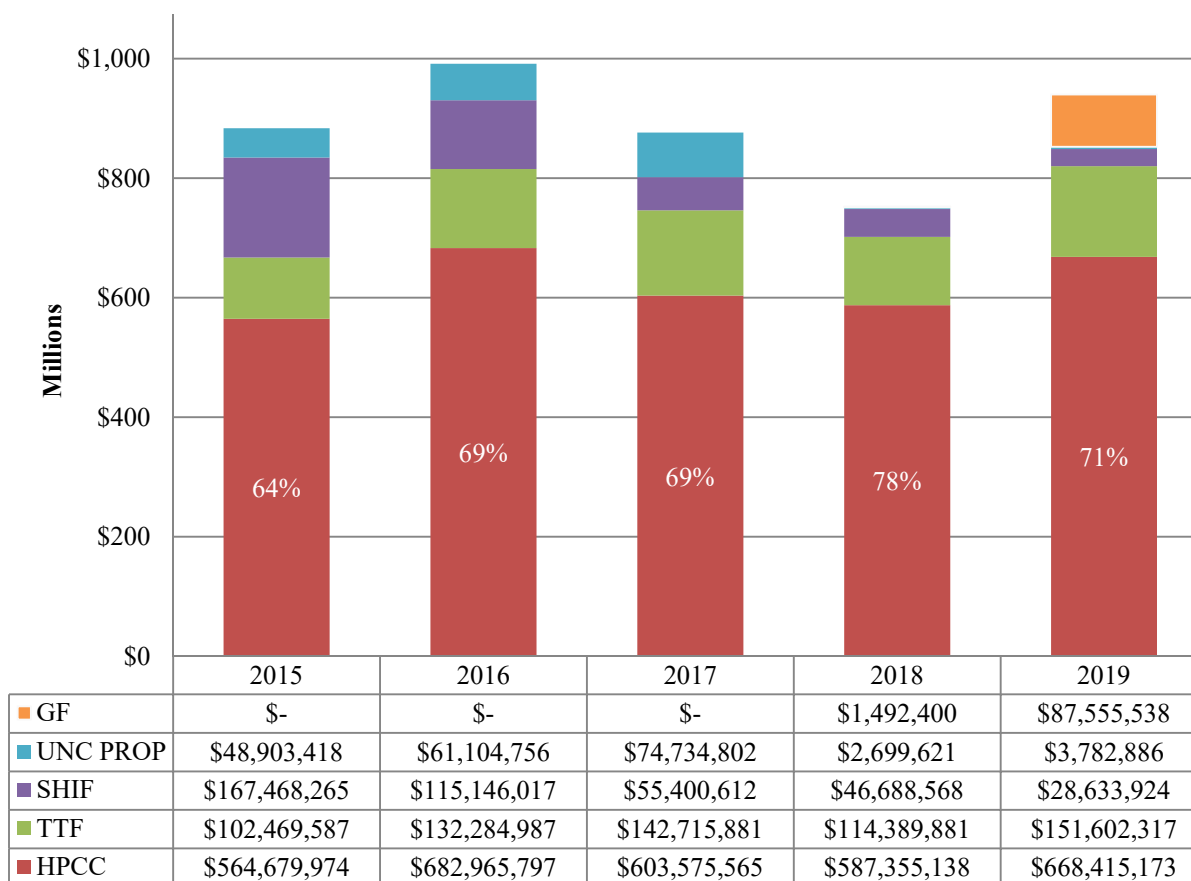
Based on the results of these procedures performed, we did not report any findings.

Trend Analysis

We compared the most current and prior-year financial activity using DOTD's Annual Fiscal Reports and/or system-generated reports and obtained explanations from DOTD's management for any significant variances. We also prepared an analysis of the significant funding sources of the capital outlay program over the last five fiscal years.

In analyzing financial trends of DOTD over the past five fiscal years, federal funds provided \$668,415,173 (71%) of the significant fund sources for the capital outlay program in fiscal year 2019. There was an \$81 million increase (14%) in federal funds and a \$37 million increase (33%) in the Transportation Trust Fund for fiscal year 2019. These increases were primarily caused by increased project expenditures relating to new road construction, bridge rehabilitation, and planning costs. In addition, there was an \$86 million increase in general fund non-recurring revenues for fiscal year 2019 due to appropriations in the capital outlay budget. Finally, the projects funded by the State Highway Improvement Fund are nearing completion, resulting in a decrease of \$18 million in fiscal year 2019.

Exhibit 1
Five-Year Trend of DOTD Capital Outlay
Significant Fund Sources, by Fiscal Year (FY)



Source: FY 2015-2019 DOTD Capital Outlay AFRs

General Fund (GF) is the principal operating fund of the state and was established administratively to provide for the distribution of funds appropriated by the state legislature for the ordinary expenses of state government.

Unclaimed Property Leverage Fund (UNC PROP) is a special fund that is funded by a portion of unclaimed property collected by the state. It contains two separate accounts, I-49 North and I-49 South, which can only be used to match federal funds for the costs associated with each respective project.

State Highway Improvement Fund (SHIF) collects registration and license fees and taxes to be used exclusively for funding projects that are part of the state highway system but not part of the federal system, and thus, is ineligible for federal highway funding assistance.

Transportation Trust Fund (TTF) is funded by a 16 cents gasoline tax, which is used exclusively for the construction and maintenance of the state and federal highway systems, the Statewide Flood-Control program, ports, airports, transit, and the Parish Transportation Fund.

Highway Planning and Construction Cluster (HPCC) provides federal grants to states to assist in the construction, rehabilitation, and preservation of the National Highway System; to provide aid for the repair of federal-aid highways following disasters; to foster safe highway design and improve bridge conditions; to support community-level transportation infrastructure; and to provide for other special purposes.

Sources: LA Constitution Article 7, Section 9; RS 9:165; RS 48:196; LA Constitution Article 7, Section 27; www.whitehouse.gov

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

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

RJD:LMN:RR:EFS:aa

DOTD2019

APPENDIX A: MANAGEMENT'S RESPONSES



Office of the Secretary
PO Box 94245 | Baton Rouge, LA 70804-9245
ph: 225-379-1200 | fx: 225-379-1851

John Bel Edwards, Governor
Shawn D. Wilson, Ph.D., Secretary

January 24, 2020

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

**RE: Department of Transportation and Development
Audit Finding – Inadequate Controls Related to Highway Planning and Construction
Cluster Quality Assurance Requirements**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “**Inadequate Controls Related to Highway Planning and Construction Cluster Quality Assurance 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.

The Department concurs with the finding. To properly address this issue, the Department plans to implement a short term and long term solution. Initially, Mr. Michael Vosburg, DOTD Chief of Construction, will issue an internal communication to the Department Project Engineer’s (PE’s) in which the results of this finding are discussed, and the expectation of performance within the required timeline is reiterated. Additionally, the PE’s will be requested to document the issues which exist in the close-out process which has precluded this process from being completed timely. The long term solution will be finalized after the completion of an internal study and formal discussion at the Department Project Engineer/Area Engineer/Headquarters Construction meeting in the Fall of 2020 regarding this issue. At the conclusion of this meeting, further guidance and future requirements will be documented and disseminated.

Please feel free to contact me, or Barry Keeling, Undersecretary, at (225) 379-1270 should you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Shawn D. Wilson", with a long horizontal flourish extending to the right.

Shawn D. Wilson, Ph.D.
Secretary

SDW:MS:ch

Mr. Daryl G. Purpera, CPA, CFE

January 24, 2020

Page 2

cc: Mr. Chris Knotts, DOTD Chief Engineer
Ms. Lesha Woods, DOTD Financial Services Administrator
Mr. Barry Keeling, DOTD Undersecretary
Mr. Don Johnson, DOTD Deputy Undersecretary
Mr. Mark St. Cyr, DOTD Audit Director
Mr. Michael Vosburg, DOTD Chief of Construction
Mr. Vince Latino, DOTD Assistant Secretary of Operations



Office of the Secretary
PO Box 94245 | Baton Rouge, LA 70804-9245
ph: 225-379-1200 | fx: 225-379-1851

John Bel Edwards, Governor
Shawn D. Wilson, Ph.D., Secretary

January 21, 2020

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

**RE: Department of Transportation and Development
Audit Finding – Noncompliance and Inadequate Controls related to Highway
Planning and Construction Cluster Sub-Recipient Monitoring**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “**Noncompliance and Inadequate Controls related to Highway Planning and Construction Cluster Sub-Recipient Monitoring**”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

While the Department concurs with the finding, it should be noted that we have implemented many controls and have received positive feedback from our Federal partners over our business processes and practices in this area. However, based upon the results of your review, the Department has assembled a cross-disciplinary team tasked to continue to improve the processes and controls surrounding our FAHP sub-recipients in connection with 2 CFR 200. This team will focus in particular on creating greater ownership and front end controls over the sub-recipient awards, including the specific pre-award requirements and responsibilities, identification of entities and monitoring plans, and develop additional training plans. Finally, we will develop more robust controls over the proof of payment requirements for cost disbursement awards. We expect to complete our team and implement these changes fully by May 31, 2020. The team will be led by Mr. Geoffrey Rodriguez, DOTD QCIP Director and we will internally track responsible parties and implementation dates for the requirements documented by the team.

Please feel free to contact me or Barry Keeling, Undersecretary, at (225) 379-1270 should you have any questions.

Sincerely,

Shawn D. Wilson, Ph.D.
Secretary

SDW:MS:ch

Mr. Daryl G. Purpera, CPA, CFE

January 21, 2020

Page 2

cc:

Mr. Chris Knotts, DOTD Chief Engineer

Ms. Lesha Woods, DOTD Financial Services Administrator

Mr. Barry Keeling, DOTD Undersecretary

Mr. Geoffrey Rodriguez, DOTD QCIP Director

Mr. Don Johnson, DOTD Deputy Undersecretary

Mr. Mark St. Cyr, DOTD Audit Director

Mr. Michael Vosburg, DOTD Chief of Construction

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Transportation and Development (DOTD) for the period from July 1, 2018, through June 30, 2019, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the CAFR and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2019.

- We evaluated DOTD's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DOTD.
- Based on the documentation of DOTD's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the CAFR.
- We performed procedures on the Highway Planning and Construction Cluster (CFDA 20.205, 20.219) for the year ended June 30, 2019, as a part of the 2019 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards for the year ended June 30, 2019, as a part of the 2019 Single Audit.
- We compared the most current and prior-year financial activity using DOTD's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from DOTD's management for significant variances.

In addition, we performed procedures on statutory dedications relating to the Transportation and Training Education Center Fund for fiscal years 2017 and 2018. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at DOTD and not to provide an opinion on the effectiveness of DOTD's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review DOTD's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. DOTD's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.