

DEPARTMENT OF THE TREASURY

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 10, 2018

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of the Treasury



December 2018

Audit Control # 80180066

Introduction

As a part of our audit of the state of Louisiana's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018, we performed procedures at the Department of the Treasury (Treasury) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of Treasury's internal controls over financial reporting and compliance; and determine whether the Treasury complied with applicable laws and regulations.

Results of Our Procedures

Current-year Finding

Noncompliance with State Travel Regulations

The Louisiana Department of the Treasury (Treasury) did not comply with the Louisiana Travel Guide (PPM 49) for meal reimbursements. Based on our review of travel related expenditures during the fiscal year ended June 30, 2018, we identified 21 meal reimbursements totaling \$1,424 that exceeded the applicable standard meal allowance by \$799, but were not supported by itemized receipts as required by PPM 49. As a result, we were unable to determine whether the reimbursement included additional costs for others attending the meal or prohibited items.

State officers may claim reimbursement for actual meal costs, but when the actual meal costs exceed the standard allowable rate provided in PPM 49, an itemized receipt is required. Management did not perform an adequate compliance review of meal reimbursements associated with travel reimbursement claims, which increases the risk that excessive or unnecessary expenditures are paid by the Treasury. Management should require an itemized receipt when meals are reimbursed above the standard allowable rate. Management did not concur with our interpretation of PPM 49, but is in agreement that itemized receipts will be available for future audits (see Appendix A).

Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2018, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions relating to cash, investments, and bonds.

Based on the results of these procedures, we did not report any internal control deficiencies or noncompliance with laws or regulations. In addition, the account balances and classes of transactions tested are materially correct.

Other Procedures

In addition to the CAFR procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing Treasury's internal control and compliance with related laws and regulations over the Treasury's non-payroll operating expenditures.

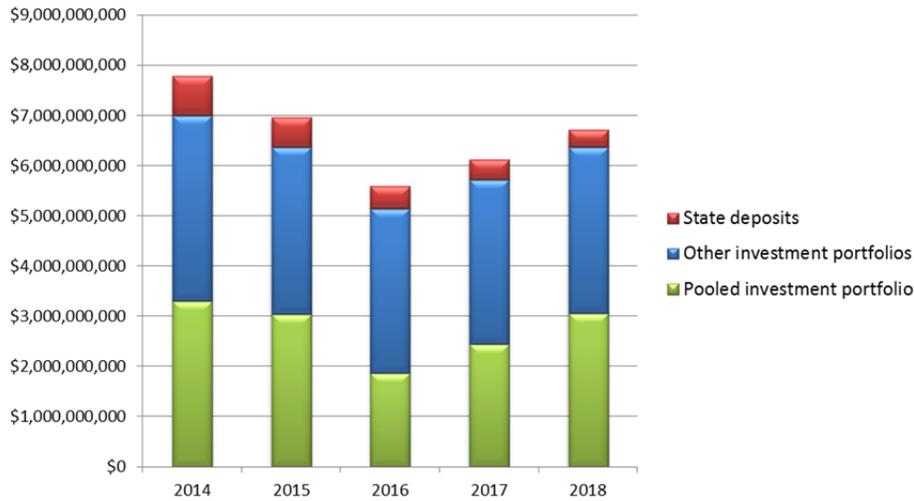
Based on the results of these procedures, we reported a finding related to Noncompliance with State Travel Regulations, as described previously.

Trend Analysis

We compared the most current and prior-year financial activity using the Treasury's Annual Fiscal Reports and/or system-generated reports and obtained explanations from Treasury management for any significant variances. We also prepared an analysis of the state's assets and debt that is managed by the Treasury during the five-year period ended on June 30, 2018.

The state's assets managed by the Treasury totaling \$6.7 billion for fiscal year 2018 have increased \$1.1 billion since fiscal year 2016, as shown in Exhibit 1, but still remain \$1.1 billion less than fiscal year 2014. This variance in total assets is mostly attributed to the pooled investment portfolio. Cash in the General Fund, Capital Outlay Escrow Fund, and various dedicated funds that is not needed in the short-term is invested in the pooled investment portfolio. The decreases in the pooled investment portfolio between fiscal years 2014 and 2016 resulted from a reduction in revenues and multiple fund sweeps from dedicated funds requiring the liquidation of investments to fund legislative appropriations. The increases in the pooled investment portfolio since 2016 are largely due to increases in tax collections. The Treasury manages approximately 20 other investment portfolios, which have remained around \$3.3 billion since fiscal year 2015, as shown in Exhibit 1. The funds managed in these other investment portfolios are either nonspendable (e.g., corpus of permanent funds) or the use is restricted to purposes specified in state law.

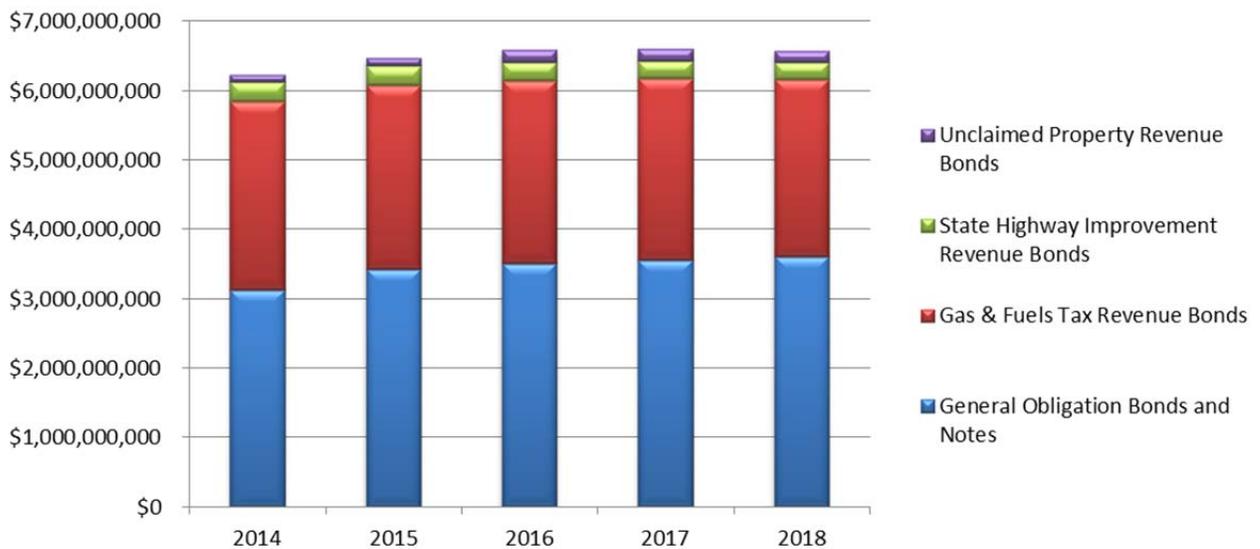
**Exhibit 1
Treasury-Managed State Assets at Year-End,
Fiscal Years 2014-2018**



Source: Treasury’s Annual GASB 40 Cash and Investment Letter

The state’s debt managed by the Treasury has remained between \$6.2 and \$6.6 billion from fiscal year 2014 to fiscal year 2018, as shown in Exhibit 2. Although debt service payments were made annually on the principal, new debt has been issued every year from fiscal year 2014 to fiscal year 2018.

**Exhibit 2
Treasury-Managed State Debt at Year End,
Fiscal Years 2014-2018**



Source: CAFR and Treasury’s amortization schedules

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of the Treasury. The nature of the recommendation, its implementation costs, and its potential impact on the operations of the Treasury should be considered in reaching decisions on courses of action. The finding related to the Treasury'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,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JM:BF:BQD:EFS:ch

STO 2018

APPENDIX A: MANAGEMENT'S RESPONSE



TREASURER OF THE STATE OF LOUISIANA

John M. Schroder, Sr.
State Treasurer

P. O. Box 44154
Baton Rouge, LA 70804
(225) 342-0010
www.latreasury.com

November 29, 2018

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Department of the Treasury Audit related to the Comprehensive Annual Financial Report CAFR; finding related to Noncompliance with State Travel Regulations

Dear Mr. Purpera:

The Department of the Treasury (Department) appreciates the professionalism and courtesy extended by your staff during this annual audit of the Department's duties related to producing the State of Louisiana's Comprehensive Annual Financial Report (CAFR). The staff of the Legislative Auditor provide an important check and balance in validating that the Department, and other state agencies and public entities, provide reliable information and have effective controls in place that result in an annual CAFR that reflects the accurate financial condition of the State of Louisiana.

In addition to your staff's annual review of the Department's role in contributing to the annual CAFR, this year your staff also examined the operating expenses of the Department, which included nonpayroll, travel and training, for the fiscal year ending on June 30, 2018. A finding titled "Noncompliance with State Travel Regulations" was reported as a result from this examination.

After productive discussions with your staff on this issue, the Department is in agreement that – going forward – it will ensure that itemized receipts will be available for any future audit of travel expenses. However, the Department remains in respectful disagreement over the interpretation of the PPM 49 provision cited in the finding and therefore cannot concur that the Department did not perform an adequate compliance review of meal reimbursements. In all cases, the Department relied upon Section 1506.B.2 to require itemized receipts or other supporting documents prior to reimbursing the actual cost of each reimbursed meal.

The specific basis of our disagreement centers on the singular use of the phrase "state official" (in the Note following PPM 49, Section 1506.C) to also refer to the defined term

“State Officer.” The importance of this distinction is that “State Officer” is defined in Section 1502 (Definitions) and makes no mention of “state official.” And, Section 1506.B.2 clearly authorizes State Officers to submit “itemized receipts or other supporting documents” for the reimbursement of actual expenses. The last sentence of the Note following Section 1506.C.1 itself makes no mention of State Officers and instead requires itemized receipts for reimbursing meal expenses of “...state officials receiving actual expenses...” and concludes with “See Section 1506.B.2.” As this is the only occurrence of the phrase “state official” in the entire PPM 49, the Department fairly concluded that it had no “state official” in its employ and conscientiously followed each of the ten references to “State Officer” within PPM 49.

The Department reiterates the respectful nature of this difference of interpreting the words themselves, appreciates the perspective offered by the Legislative Auditor’s staff, and does accept the rationale on which the finding is based. The Department remains strongly committed to transparency and accountability of state government at all levels and therefore is in the process of amending its Travel Policy so that itemized receipts are required for all such expenses going forward.

Thank you for the opportunity to submit a management response in this matter. If you have any questions regarding the actions taken to resolve these items, please contact Laura Lapeze, Chief Financial Officer, at (225) 342-0051 or via e-mail at LLapeze@treasury.state.la.us.

Sincerely,



Ron J. Henson
First Assistant State Treasurer

RJH:lel

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Treasury (Treasury) for the period from July 1, 2017, through June 30, 2018, 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. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2018.

- We evaluated the Treasury'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 the Treasury.
- Based on the documentation of the Treasury'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 compared the most current and prior-year financial activity using the Treasury's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from Treasury's management for significant variances.

In addition, we performed procedures on non-payroll operating expenditures. 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 the Treasury and not to provide an opinion on the effectiveness of the Treasury'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 the Treasury's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. The Treasury's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.