

DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 18, 2017

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Department of Transportation
and Development

December 2017

Audit Control #80170065

Introduction

As part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2017, 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. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

DOTD is the state agency responsible for overseeing the transportation and water resource needs of Louisiana residents, businesses, and government partners. DOTD's mission is to deliver transportation and public works systems that enhance the quality of life and facilitate economic growth.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the DOTD management letter dated December 28, 2016. We determined that management has resolved the prior-year findings related to Noncompliance with Subrecipient Monitoring Requirements and Inadequate Controls over Wage Rate Requirements.

Current-year Findings

Inadequate Controls over National Transit Database Reporting

DOTD did not have adequate internal controls in place to ensure the National Transit Database (NTD) annual report submitted on behalf of the state and its subrecipients was accurate and complete for the Formula Grants for Rural Areas program (CFDA 20.509). Auditors selected a sample of four subrecipients' Reduced-Reporting (RR-20) Forms out of the 35 required to be submitted during fiscal year 2017 resulting from activity that occurred from July 1, 2015, to

June 30, 2016. For two (50%) of the four reports tested, there were discrepancies identified between the operational information originally reported on the RR-20 Form and data from DOTD's Statewide Transit Tracking and Reporting System (STTARS).

The NTD, as required by Title 49 U.S.C §5335(a) and (b), is the primary source for information and statistics on U.S. transit systems and subjects any applicant receiving funds under Title 49 U.S.C. §5311 to the NTD reporting requirements. Title 49 U.S.C. §5311(b)(4) states that recipients of grants under the Formula Grants for Rural Areas program are required to submit an annual report to the Secretary of the U.S. Department of Transportation containing data specified in this section. In addition, 2 CFR §200.303 requires non-Federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the federal award.

There was no evidence of review by DOTD of the 2016 NTD report package prior to submission to the Federal grantor. Failure to implement adequate controls over NTD reporting could result in inaccurate financial and operational data being reported and noncompliance with reporting requirements.

DOTD should implement and maintain documentation of an adequate review process of the NTD report to ensure financial and operational information is accurate, complete, and properly supported, which includes validating the subrecipient data recorded in STTARS, prior to submission to the Federal grantor. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Controls over the Statewide Transit Tracking and Reporting System

DOTD does not have adequate controls relating to user access and monitoring of activity in STTARS. STTARS is a web-based application used by DOTD and subrecipients, or transit providers, of the Formula Grants for Rural Areas program (CFDA 20.509) to track and report data relating to the program, such as monthly expenditures and transit information including trips, hours, and mileage. The expenditure information in STTARS is used by DOTD to reimburse subrecipients, while the operational data is used by DOTD to prepare the NTD report. The following weaknesses were noted:

- As of October 2017, there were 15 DOTD employees with access to STTARS, all of which had full administrative access. As administrators, these employees had full access to a listing of all active users that displays each user's ID and password information. Good internal controls require that user access is limited to true business need and prevents unauthorized access with the use of individual, unique passwords that are kept confidential.
- DOTD is not adequately monitoring system activity within STTARS to determine if any modifications are made to data by subrecipients or other users. In addition, logs are not available to provide an adequate trail of changes made to data. Good internal controls require that systems are effectively monitored and any changes to data are logged to ensure the validity of data to detect unauthorized changes.

Failure to establish effective system controls related to STTARS could lead to inaccurate and incomplete data being reported to the Federal grantor regarding the operating effectiveness of the program. Because there are a variety of users with administrative access to STTARS, there is a potential for unauthorized changes to the system's data. In addition, administrators have the ability to login as a subrecipient and change data relating to operations. Furthermore, because there is no activity monitoring or system logs within STTARS, changes can easily be made at the subrecipient level without notice or prior authorization from DOTD.

Management should limit full administrative access to STTARS to only those DOTD employees with a true business need. In addition, to prevent unauthorized access, administrators should not have access to the login credentials of all users within the system. DOTD should also implement an activity log for STTARS, so that any changes to data can be tracked and monitored, as well as linked to a specific user. Lastly, all changes to data made by the subrecipient should be communicated to and approved by DOTD before the change is made. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

Noncompliance with Indirect Cost Rate Reimbursements

DOTD reimbursed two subrecipients under the Formula Grants for Rural Areas program (CFDA 20.509) for indirect costs without an approved indirect cost rate, resulting in noncompliance with federal regulations and questioned costs. The indirect cost rates claimed each month varied from 32% to 62% for one subrecipient and from 9.24% to 13.7% for the other subrecipient. The total indirect cost amount reimbursed by DOTD to these two subrecipients from July 1, 2016, through June 30, 2017, was \$106,181. These were the only subrecipients to receive indirect costs during this time period.

2 CFR §200.331(a)(4) requires that a pass-through entity identify to the subrecipient an approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient, or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f). Because of the absence of an approved indirect cost rate, these indirect costs reimbursed are unallowable in accordance with Office of Management and Budget Circular A-87 (2 CFR §225) and Uniform Guidance (2 CFR §200.414).

Providing reimbursement of indirect costs to a subrecipient without a properly negotiated and approved indirect cost rate results in noncompliance with Federal requirements in addition to questioned costs that could require repayment to the federal grantor.

DOTD should ensure all subrecipients requesting reimbursement for indirect costs under the Formula Grants for Rural Areas program have a properly approved indirect cost rate. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

Comprehensive Annual Financial Report (CAFR) - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2017, 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)

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, as adjusted, 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, 2017, 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, as follows:

- Formula Grants for Rural Areas (CFDA 20.509)

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) and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Inadequate Controls over National Transit Database Reporting, Inadequate Controls over the Statewide Transit Tracking and Reporting System, and Noncompliance with Indirect Cost Rate Reimbursements. These findings will also be included in the Single Audit for the year ended June 30, 2017. In addition, DOTD's information submitted for the preparation of the state's SEFA and the state's Summary Schedule of Prior Audit Findings, as adjusted, are 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 FuelTrac at the DOTD Districts where exceptions were noted in the prior year.

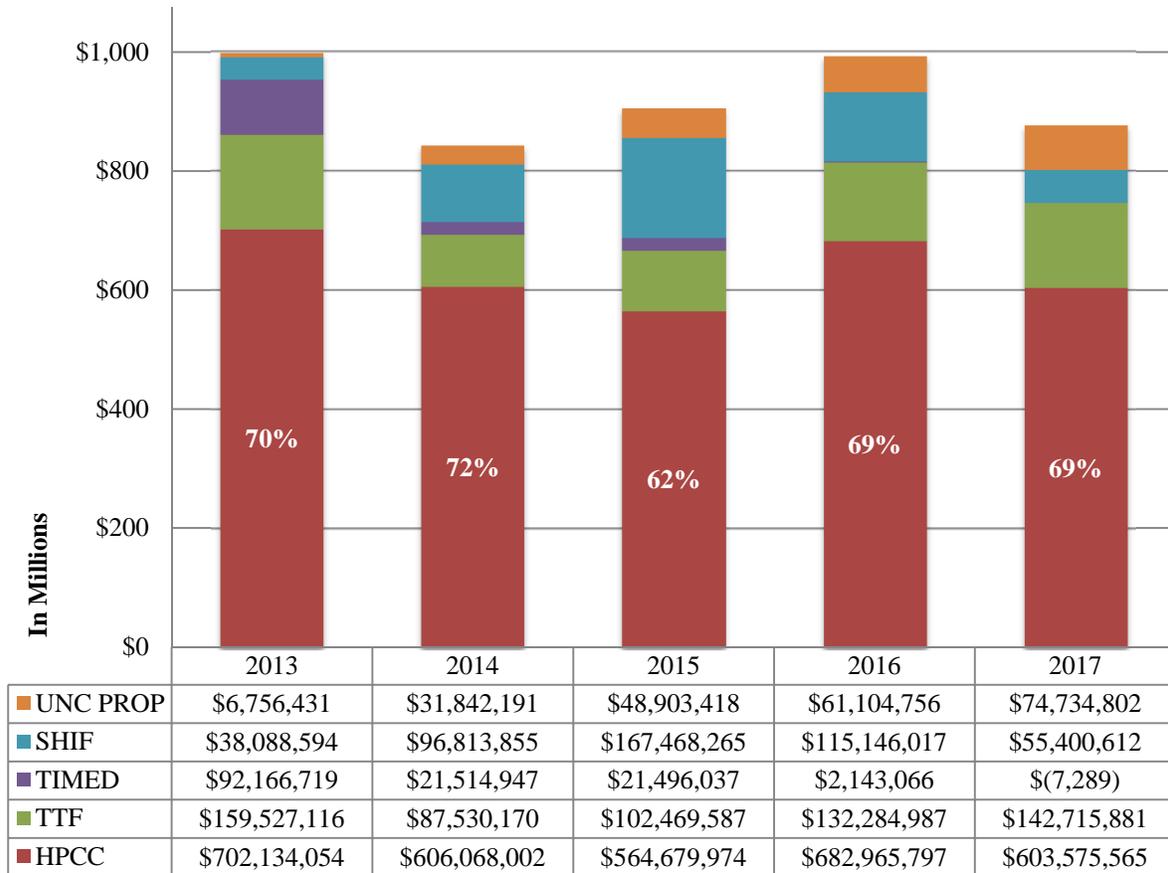
Based on the results of the procedures performed, we found no issues or weaknesses that were required to be reported.

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 \$603,575,565 (69%) of the significant funding sources for the capital outlay program in fiscal year 2017. Although the proportion of federal funding remained consistent with the prior year, there was a \$79,390,232 decrease in federal funds mostly due to the halting of projects during fiscal year 2017 due to emergencies such as the August 2016 flooding and due to projects funded with bonds nearing completion. The Transportation Trust Fund increased (\$10 million) in fiscal year 2017 due to emergency activities performed by DOTD in response to the August 2016 flooding. The State Highway Improvement Fund (SHIF) includes recurring SHIF funds and one-time bond proceeds. The fiscal year 2017 decrease (\$60 million) in SHIF and (\$2 million) in the Transportation Infrastructure Model for Economic Development Fund is due to the projects associated with this funding being mostly completed. Finally, the Unclaimed Property Leverage Fund has continually increased over the past five years, which is due to the funds being used on the I-49 projects.

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



Source: FY 2013-2017 DOTD Capital Outlay AFRs

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) is a special fund established for the collection of 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 Infrastructure Model for Economic Development (TIMED) program is funded by a 4 cents gasoline tax and composed of 16 projects approved by the legislature in 1989. Bonds were issued to accelerate the completion of the TIMED program.

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, traffic control, 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.

Source: LA Constitution Article 7, Section 27; RS 47:820.1 and 47:820.2; www.whitehouse.gov; RS 48:196; RS 9:165

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 findings 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

LMN:RR:BQD:EFS:aa

DOTD 2017

APPENDIX A: MANAGEMENT'S RESPONSES



Office of the Secretary
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ph: 225-379-1200 | fx: 225-379-1851

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

December 5, 2017

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

**RE: Department of Transportation and Development
Audit Finding – Inadequate Controls over National Transit Database Reporting**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding entitled “Inadequate Controls over National Transit Database Reporting.” 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. The Statewide Transit Tracking and Reporting System (STTARS) has been updated to generate a report that will provide the required data for National Transit Database (NTD) reporting. This will eliminate multiple steps that were used to compile and enter the annual reporting during the audited period. The Department will also ensure appropriate documentation is maintained to support the NTD submittal, including review and approval of a final reconciliation between NTD and the STTARS source data. **DOTD Owner – Michelle Horne, Program Director**

Thank you for the opportunity to respond to this audit finding and to have this Management Response Letter included in the final audit report. Please feel free to contact me at (225) 379-1200 or Barry Keeling, Undersecretary, at (225) 379-1270 should you have any questions.

Sincerely,

Shawn D. Wilson, Ph.D.
Secretary

SDW/MWS/ch

- c: Mr. Ricky Rodriguez, CPA, LLA
- Mr. Barry Keeling, DOTD Undersecretary
- Dr. Eric Kalivoda, PE, DOTD Deputy Secretary
- Mr. Dan Magri, DOTD Deputy Assistant Secretary, Office of Planning
- Mr. Don Johnson, DOTD Deputy Undersecretary
- Ms. Lesha Woods, CGFM, DOTD Financial Services Administrator
- Ms. Michelle Horne, DOTD Program Director
- Ms. Linda McNeil, DOTD Internal Auditor
- Mr. Mark St Cyr, DOTD Audit Director
- Ms. Jamie Ainsworth, DOTD Program Supervisor



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Post Office Box 94397
Baton Rouge, Louisiana 70804

**RE: Department of Transportation and Development
Audit Finding – Inadequate Controls over the Statewide Transit Tracking and Reporting System**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding entitled “Inadequate Controls over the Statewide Transit Tracking and Reporting System.” I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

The Department concurs with the finding. The number of users who have the ability to access user account information has been reduced from fifteen (15) to five (5). Furthermore, the ability to unlock submitted reports has been limited to these same five employees. Finally, department policies are being amended to provide guidance for report modifications and approvals and will be completed by January 31, 2018. A request has also been issued to the STTARS software developer to generate a system activity log report no later than March 31, 2018. **DOTD Owner – Michelle Horne, Program Director.**

Thank you for the opportunity to respond to the audit finding and to have this Management Response Letter included in the final audit report. Please feel free to contact me at (225) 379-1200 or Barry Keeling, Undersecretary, at (225) 379-1270 should you have any questions.

Sincerely,

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December 5, 2017

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Post Office Box 94397
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**RE: Department of Transportation and Development
Audit Finding – Noncompliance with Indirect Cost Rate Requirements**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding entitled “Noncompliance with Indirect Cost Rate 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. Contracts have been executed with both Livingston and Terrebonne Parish Councils on Aging (COA) documenting the agreement to use the 10% de minimus rate outlined in Code of Federal Regulations (CFR). Additionally, this language has been added to contract template for future agreements. The Department considers this issue closed. **DOTD Owner – Michelle Horne, Program Director.**

Thank you for the opportunity to respond to this audit finding and to have this Management Response Letter included in the final audit report. Please feel free to contact me at (225) 379-1200 or Barry Keeling, Undersecretary, at (225) 379-1270 should you have any questions.

Sincerely,

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Ms. Linda McNeil, DOTD Internal Auditor
Mr. Mark St Cyr, DOTD Audit Director
Ms. Jamie Ainsworth, DOTD Program Supervisor

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Transportation and Development (DOTD) for the period from July 1, 2016, through June 30, 2017, 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 and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2017.

- We evaluated DOTD's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of 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 Formula Grants for Rural Areas (CFDA 20.509) program for the year ended June 30, 2017, as a part of the 2017 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2017, as a part of the 2017 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 management for significant variances.

In addition, we performed procedures on internal controls and compliance with related laws and regulations over FuelTrac at certain DOTD Districts. 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.