

DEPARTMENT OF THE TREASURY

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED NOVEMBER 29, 2017

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of the Treasury



Audit Control # 80170066

November 2017

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, 2017, 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 the Treasury's internal controls over financial reporting and compliance; and determine whether the Treasury complied with applicable laws and regulations.

The Treasury is responsible for the custody and disbursement of State funds, accounting, depository control, and investment of State funds. The Treasury also handles functions relating to the management, analysis, and control of State debt, including the issuance of bonds. The mission of the Treasury is to manage State funds by promoting prudent cash management and investment strategies, as well as monitoring, regulating, and coordinating State and local debt obligations as mandated by the Constitution and the laws of the State of Louisiana.

Results of Our Procedures

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 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.

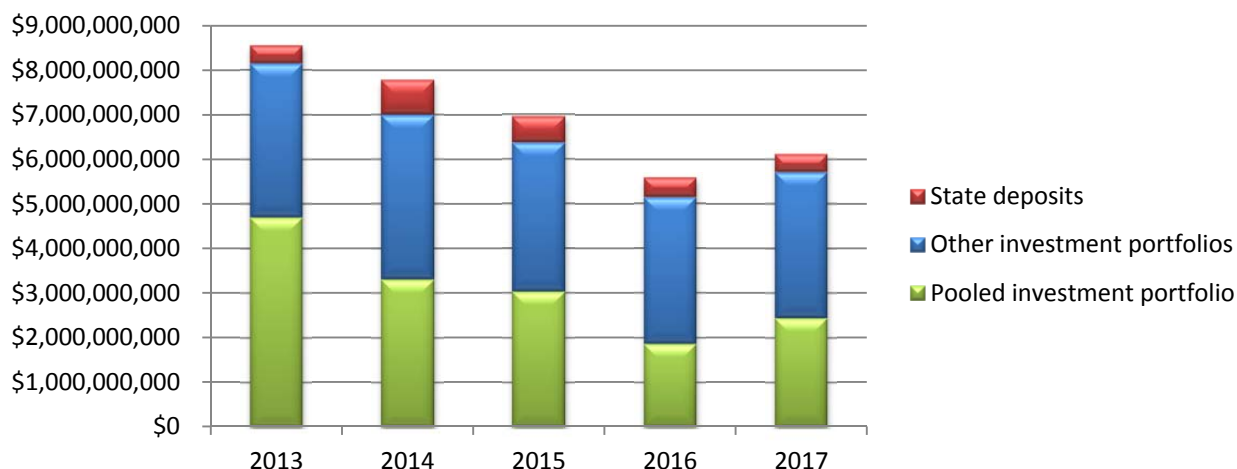
Trend Analysis

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 ending on June 30, 2017.

The net \$2.4 billion reduction in the State’s assets managed by the Treasury from fiscal year 2013 to 2017, as shown in Exhibit 1, was primarily due to decreases in the State’s pooled investment portfolio, which had a net \$2.2 billion decrease. 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 State’s pooled investment portfolio, which made up \$4.7 billion of the State’s total assets managed by the Treasury in fiscal year 2013. By the end of fiscal year 2016, the pooled investment portfolio decreased to its lowest point of \$1.9 billion but has since increased by \$600 million to \$2.5 billion in fiscal year 2017. The decreases between fiscal years 2013 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 \$600 million increase in fiscal year 2017 resulted primarily from increases in tax collections.

Exhibit 1
Treasury-Managed State Assets at Year-End,
Fiscal Years 2013-2017



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

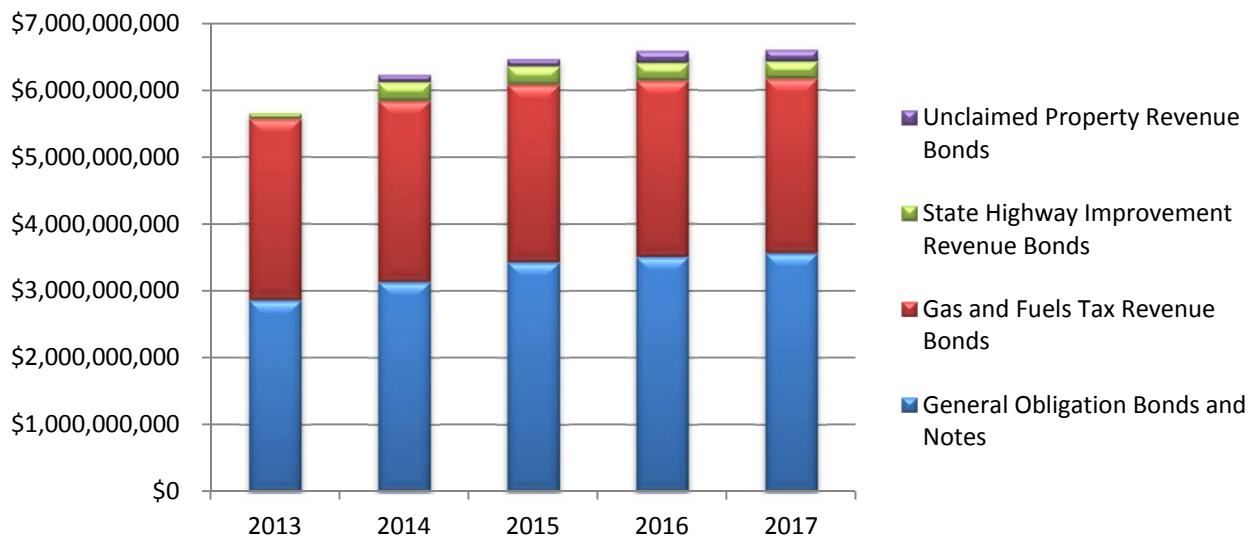
The \$1 billion increase in the State’s debt managed by the Treasury from fiscal year 2013 to 2017, as shown in Exhibit 2, was due to the following:

- The debt on general obligation bonds and notes used to fund capital outlay projects was \$2.8 billion in fiscal year 2013, increased to \$3.5 billion in fiscal years 2015, and has remained at that level through fiscal year 2017. Although debt service payments were made annually on the principal, new general obligation bonds or notes were issued every year from fiscal year 2013 to fiscal year 2017.
- State highway improvement revenue bonds totaling \$200 million were issued in fiscal year 2014 to finance the construction costs of certain roads that are part of

the state highway system but not part of the federal highway system. Future motor vehicle taxes and fees collected by the Department of Public Safety and Corrections – Public Safety Services have been pledged to repay the bonds.


- Unclaimed property revenue bonds totaling \$200 million were issued in fiscal years 2014 and 2016 to match federal funds for the construction of the I-49 north and south projects. Future unclaimed property held by the state has been pledged to repay the bonds.
- The debts on gasoline and fuels tax revenue bonds decreased \$100 million between fiscal years 2013 and 2017. Substantially all of the debt service payments for fiscal years 2013 to 2016 were on interest. Future taxes on gasoline and fuels have been pledged to repay the bonds.

Exhibit 2
Treasury-Managed State Debt at Year-End,
Fiscal Years 2013-2017



Source: CAFR and Treasury’s amortization schedules

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

JM:BF:BQD:EFS:aa

TREASURY 2017

APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of the Treasury (Treasury) 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 for the year ended June 30, 2017.

- 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.

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.