



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Transportation
Fiscal Year Ended June 30, 2000



MARCH 15, 2001

01-13

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Transportation

Table of Contents

	Page
Report Summary	1
Management Letter	2
Status of Prior Audit Issues	6
Department of Transportation Response	7

Audit Participation

The following staff of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
George Deden, CPA	Auditor
Kathy Fisher	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Transportation at an exit conference held on February 28, 2001:

Kevin Gray	Chief Financial Officer
Dick Swanson	Financial Management Director
Bonnie Kollman	Director of Financial Operations
Denny Herzog	Financial Reporting Supervisor
Ron Gipp	Internal Audit Director
Larry Kienitz	Internal Audit Manager
Dave Christenson	Internal Auditor

Department of Transportation

Report Summary

Key Findings and Recommendations:

- The Department of Transportation did not comply with certain federal and state requirements, such as the Davis Bacon Act and environmental regulations, for the Highway Planning and Construction Program (CFDA 20.205). The department should improve internal controls to ensure compliance with federal and state requirements. Four of the seven findings are prior audit report issues. We recommend that the department determine corrective action for these findings to resolve these issues. (Finding 1, page 4)

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally-funded programs. The scope of work in individual agencies is limited. During the fiscal year 2000 audit, our work at the Department of Transportation focused on selected components of the state's financial statements, including state highway construction expenditures, grants for airport improvement, and grants to local governments for road construction and maintenance. We also reviewed local bridge and transit project disbursements, rail service improvement loan balances, and highway user tax transfers. Finally, we reviewed three federally funded programs administered by the department to determine whether the department complied with certain federal requirements. The department's response is included in the report.



OFFICE OF THE LEGISLATIVE AUDITOR
 State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
 Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Elwyn Tinklenberg, Commissioner
 Department of Transportation

We have performed certain audit procedures at the Department of Transportation (MnDOT) as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 2000. We also have audited certain federal financial assistance programs administered by MnDOT as part of our audit of the state’s compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*. We emphasize that this has not been a comprehensive audit of the Department of Transportation.

Table 1 and 2 identify the financial activities within MnDOT that were material to the state’s financial statements. We performed certain audit procedures on these MnDOT programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota’s financial statements for the year ended June 30, 2000, were free of material misstatement.

Table 1
Expenditures Material to the State’s Financial Statements
Fiscal Year 2000

<u>Fund</u>	<u>Area</u>	<u>Amount</u>
Trunk Highway	Capital Outlay	\$525,226,000
County State-Aid Highway	Grants to Counties	\$400,629,000
Municipal State-Aid Street	Grants to Municipalities	\$90,350,000
Transportation Fund	County and Municipality Bridge Projects	\$19,568,000
Federal Fund	Federal/County Road and Bridge Grants	\$72,609,000
	Airport Improvement Grants	\$42,138,000

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

The Departments of Revenue and Public Safety deposit fuel tax receipts and motor vehicle registration tax receipts into the Highway User Tax Distribution Fund. Funds are transferred from the Highway User Tax Distribution Fund mainly to the Trunk Highway Fund, the County State-Aid Highway Fund, and the Municipal State-Aid Street Fund. Distributions from the Highway User Tax Distribution Fund to MnDOT are identified in Table 2.

Department of Transportation

Table 2
Highway User Tax Fund Distributions
Fiscal Year 2000

<u>Fund</u>	<u>Amount</u>
Trunk Highway	\$693,372,000
County State-Aid Highway	\$384,567,000
Municipal State-Aid Street	\$104,830,000

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

Table 3 identifies the State of Minnesota's major federal programs administered by the Department of Transportation. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs. Our work was performed in conjunction with the MnDOT Internal Audit Section.

Table 3
Major Federal Programs Administered by the Department of Transportation
Fiscal Year 2000

<u>Program Name</u>	<u>Expenditures</u>
Highway Planning and Construction – CFDA 20.205	\$372,972,000
Public Transportation-Non-Urbanized – CFDA 20.509	\$6,040,000

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

Our December 1, 2000, report included an unqualified opinion of the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2000. In accordance with *Government Auditing Standards*, we issued our report, dated December 1, 2000, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB *Circular A-133*.

Department of Transportation

As a result of our audit procedures and the result of the Federal Compliance Review performed by the MnDOT Internal Audit Section, we identified the following weaknesses in internal control at the Department of Transportation.

1. The Department of Transportation did not comply with certain federal and state requirements for the Highway Planning and Construction Program as cited in the Internal Auditors' report.

The Department of Transportation did not have adequate controls to ensure compliance with certain federal and state regulations, such as Davis Bacon Act and environmental regulations. The MnDOT Internal Audit Section issued the Single Audit Compliance Requirements report (No. 01-800-47) to MnDOT management. The report describes reportable conditions in internal controls over compliance related to the Highway Planning and Construction Program (CFDA 20.205). The Internal Audit Section reviewed 17 construction projects for compliance with state and federal regulations. The following is a summary of the internal auditors' recommendations.

- The department should verify that the federal Davis Bacon Act minimum wage requirements are met. The report cited three state projects where payroll records were missing for some of the subcontractors. The audit report recommended that MnDOT obtain the missing payroll records and review the records for compliance with the minimum wage requirements.
- The department should improve controls over bridge paint blasting residue shipment. The internal auditors found that, for a state project with several bridges, MnDOT did not follow Minn. Rule Chapter 7045 when handling bridge paint blasting residue shipment. This finding was also reported in the last three MnDOT audit reports.
- The department should improve controls to ensure compliance with certain environmental regulations found in Minn. Rule 7001.0150 and the federal Clean Water Act. The report cited improper disposal of materials on one state project. The internal auditors recommended that the department ensure that appropriate inspections are made and appropriate documentation is kept on the disposal of materials.
- The department should revise its policies to ensure compliance with Minn. Stat. Section 16C.05 regarding contractual payments. The report cited payments that were made on two state projects prior to the execution of supplemental agreements. This finding was also reported in the two previous audit reports.
- The department should review its policies to ensure compliance with Minn. Stat. Section 16A.124 regarding prompt payment. The report cited two state projects where incentive payments were not made within 30 days. This finding was also reported in the two previous audit reports.
- The department should improve controls over concrete production reports and clarify concrete aggregate quality assurance testing requirements. The audit report cited three state projects with missing or incomplete weekly concrete reports.

Department of Transportation

- The department should provide additional controls over bituminous production testing for state aid projects. The audit report cited one city project where testing was not done and recommended the department provide more supervision.

Recommendation

- *The Department of Transportation should improve its internal controls to ensure compliance with federal and state requirements. The department should also consider procedures to resolve prior recommendations in a timely manner.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Transportation. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 15, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 22, 2001

Report Signed On: March 7, 2001

Department of Transportation

Status of Prior Audit Issues As of January 22, 2001

March 14, 2000, Legislative Audit Report 00-06 examined MnDOT's activities and programs material to the State of Minnesota's Comprehensive Annual Financial Report and the Single Audit for the year ended June 30, 1999. The audit covered the Highway Planning and Construction Program (CFDA 20.205), the Airport Improvement Program (CFDA 20.106), Aviation Education Program (CFDA 20.100), Trunk Highway Fund expenditures, County State-Aid Highway Fund grants, Municipal State-Aid Street Fund grants, and Highway User Tax Distributions. This report included two findings. One finding was implemented. The second finding describing various concerns related to internal control over compliance related to the Highway Planning and Construction Program. Some of these concerns were carried forward to this report. These concerns, including some new issues, are discussed in Finding 1.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



Minnesota Department of Transportation

Transportation Building

395 John Ireland Boulevard
St. Paul, Minnesota 55155-1899

March 2, 2000

James Nobles, Legislative Auditor
First Floor – Centennial Office Building

Dear Mr. Nobles:

Thank you for your letter of February 26, 2001 and the attached report. We certainly appreciate all of the time and effort that went into your financial audit review for Fiscal Year 2000.

Regarding Finding 1 “The Department of Transportation did not comply with certain federal and state requirements for the Highway Planning Construction Program” (which is a summation of seven findings contained in our internal audit’s single audit report), Division Group Directors addressed and responded to the various findings and recommendations. The Deputy Commissioner reviews those responses and makes a determination whether any further action is required. The detailed responses are contained in Mn/DOT’s Internal Audit Report No. 01-800-47 dated December 21, 2000.

Progress towards implementation of specific recommendations will be monitored. The contact person for information on that follow-up activity will be Dennis Herzog. He can be reached at (651) 297-1481.

Sincerely,

/s/ Elwyn Tinklenberg

Elwyn Tinklenberg
Commissioner