



FINANCIAL AUDIT DIVISION REPORT

Department of Transportation
Federal Compliance Audit
Year Ended June 30, 2008

March 26, 2009

Report 09-13

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 26, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Thomas Sorel, Commissioner
Department of Transportation

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Transportation during fiscal year 2008. We conducted the audit in coordination with the department's Office of Audit, and our report should be read in conjunction with their report dated January 23, 2009 (Office of Audit Report 09-800-71). We emphasize that this has not been a comprehensive audit of the Department of Transportation.

We discussed the results of our audit with department staff at an exit conference on March 13, 2009. This audit was conducted by Jim Riebe, CPA, (Audit Manager) and John Hakes, CPA, (Auditor-in-Charge).

This report is intended for the information and use 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 26, 2009.

We received the full cooperation of department staff and appreciate the work performed by the Office of Audit in completing the audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

	<u>Page</u>
Report Summary	1
Federal Program Overview	3
Objective, Scope, and Methodology	3
Conclusions.....	4
Finding and Recommendation	7
1. The Department of Transportation did not reconcile expenditures reported to the federal government for the Highway Planning and Construction Program (CFDA 20.205) to the expenditures recorded in the state's accounting system.	7
Department of Transportation's Response.....	9

Report Summary

Conclusions

The Department of Transportation generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2008. However, the department had a control deficiency over the preparation of its Schedule of Expenditures of Federal Awards.

The department's Office of Audit reported additional findings in its separately issued report dated January 23, 2009, and our report should be read in conjunction with their report. (The Department of Transportation Office of Audit Report 09-800-71 can be found at:

<http://www.dot.state.mn.us/const/tools/documents/2008SingleAuditReportResponsesFinalA.pdf>

Finding

The Department of Transportation did not reconcile expenditures reported to the federal government for the Highway Planning and Construction Program (CFDA 20.205) to the expenditures recorded in the state's accounting system. ([Finding 1, page 7](#))

Other Program Findings

The Department of Transportation's Office of Audit separately reported other federal program findings and questioned costs in Report 09-800-71 dated January 23, 2009. Findings included weaknesses in materials control and cash management procedures and noncompliance with environmental requirements.

Audit Objective and Scope

To determine whether the Department of Transportation complied with program requirements in its administration of the following federal programs for fiscal year 2008:

<u>CFDA</u>	<u>Program</u>
20.106	Airport Improvement
20.205	Highway Planning and Construction
20.500	Federal Transit- Capital Investment Grants

Department of Transportation

Federal Program Overview

The Department of Transportation administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.¹ Table 1 identifies these major federal programs.

Table 1
Major Federal Programs
Administered by the Department of Transportation
Fiscal Year 2008

<u>CFDA¹</u>	<u>Program Name</u>	<u>Expenditures</u>
20.106	Airport Improvement	\$ 58,345,478
20.205	Highway Planning and Construction	\$763,198,237
	<u>Federal Transit Cluster:²</u>	
20.500	Capital Investment Grants	58,933,599
20.507	Formula Grants	417,213
	Total Federal Transit Cluster	<u>\$ 59,350,812</u>
	Total Major Programs	<u>\$880,477,314</u>

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

²A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

Source: Minnesota Accounting and Procurement System.

Objective, Scope, and Methodology

The objective of the audit was to determine whether the Department of Transportation complied with federal program requirements in its administration of these federal programs for fiscal year 2008. This review is part of our broader

¹ A major federal program for the State of Minnesota is defined in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2008 exceeded \$23.8 million.

federal single audit 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 federal programs.²

In addition to specific program requirements, the audit scope included a review of the department's general compliance requirements related to federal assistance, including its cash management practices.

The audit was conducted its work in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

We conducted our work in coordination with the Department of Transportation's Office of Audit.

Conclusions

The Department of Transportation generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2008. However, the department had a control deficiency over the preparation of its Schedule of Expenditures of Federal Awards as noted in the following *Finding and Recommendation* section.

The Department of Transportation's Office of Audit reported additional findings in its separately issued report dated January 23, 2009, and our report should be read in conjunction with their report (The Department of Transportation Office of Audit Report 09-800-71 can be found at:

<http://www.dot.state.mn.us/constools/documents/2008SingleAuditReportRestponsesFinalA.pdf>

² The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 9, 2008, on the State of Minnesota's basic financial statements for the year ended June 30, 2008. In accordance with *Government Auditing Standards*, we also issued our report, dated December 9, 2008, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division [Report 09-03, Report on Internal Control Over Financial Reporting](#), issued February 13, 2009.) This report included control deficiencies related to the Department of Transportation.

We have reported these weaknesses to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Finance.³ This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

³ Effective June 2008 the Legislature reorganized the Department of Finance to include the duties of the Department of Employee Relations. Although still identified in statute as the Department of Finance, in October 2008, the department changed its name to Minnesota Management and Budget. The department will seek legislative approval for the name change in the 2009 legislative session.

Finding and Recommendation

The Department of Transportation did not reconcile expenditures reported to the federal government for the Highway Planning and Construction Program (CFDA 20.205) to the expenditures recorded in the state's accounting system.

Finding 1

The Department of Transportation did not have an effective process to ensure expenditures for the Highway Planning and Construction Program (CFDA 20.205) reported on the Schedule of Expenditures of Federal Awards agreed to the expenditures recorded in the state's accounting system. Consistent with state statutes,⁴ the department accounts for much of its federal Highway Planning and Construction Program funds in the Trunk Highway Fund which also includes state funds, although it also accounted for a portion of the federal program's funds in the state's Federal Fund. In preparing the Schedule of Expenditures of Federal Awards, the department had difficulty identifying the specific federal expenditures within the Trunk Highway Fund. Consistent with past practice, the department reported federal expenditures based on reimbursements received from the federal government. However, the department did not reconcile the reported amount to its supporting expenditure data. Our testing validated the reported amount.

Recommendation

- *The Department of Transportation should reconcile the expenditures reported on the Schedule of Expenditures of Federal Awards to expenditures recorded in the state's accounting system.*

⁴ [Minnesota Statutes](#) 2008, 161.04 subd.1.



Minnesota Department of Transportation

Transportation Building

395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

March 20, 2009

James R. Nobles
Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to discuss your audit finding regarding accounting for and reporting of federal financial assistance. Mn/DOT places a high value on its financial reporting information and is eager to take steps to further enhance its financial reporting.

Audit Finding: The Department of Transportation did not reconcile expenditures reported to the federal government for the Highway Planning and Construction Program (CFDA 20.205) to the expenditures recorded in the state's accounting system.

Following is our response to your finding and recommendation.

We concur with the recommendation that expenditures reported on the Schedule of Expenditures of Federal Awards should reconcile to expenditures recorded in the state's accounting system and we will take steps to ensure that this reconciliation occurs in future reporting.

Responsible People: Kevin Z. Gray, Chief Financial Officer; Norman Foster, Director of Budget & Resource Management

Implementation Date: 06/30/2009

Thank you for the opportunity to respond to this finding. We are committed to satisfactory resolution of audit findings. If you have additional questions or require more information, please contact Terry Lemke at 651-366-4876.

Sincerely,

/s/ Thomas K. Sorel

Thomas K. Sorel
Commissioner of Transportation