



FINANCIAL AUDIT DIVISION REPORT

Department of Transportation
Federal Compliance Audit
Fiscal Year 2010

April 22, 2011

Report 11-11

FINANCIAL AUDIT DIVISION
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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

April 22, 2011

Representative Michael Beard, 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 2010. 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 March 2, 2011 (Office of Audit Report 11-800-51). 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 February 24, 2011. This audit was conducted by Jim Riebe, CPA, (Audit Manager) and Thom Derus, (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 April 22, 2011.

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Transportation generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the major federal programs we audited for fiscal year 2010. However, the department had a weakness in reporting expenditures on the Schedule of Expenditures of Federal Awards included in this report and other program findings included in a separate report issued by the Department of Transportation's Office of Audit.

Finding

- The Department of Transportation overstated Highway Planning and Construction Program (CFDA 20.205) expenditures by \$18.9 million and understated Highway Research and Program Development Program (CFDA 20.200) expenditures by the same amount on the Schedule of Expenditures of Federal Awards submitted for audit. ([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 11-800-51, dated March 2, 2011, and our report should be read in conjunction with their report.¹ Their report included three repeat findings on weaknesses in materials control procedures.

Audit Scope

Our scope included the following programs material to the State of Minnesota's federal program compliance for fiscal year 2010: Airport Improvement (CFDA 20.106), Highway Planning and Construction Cluster (CFDA 20.205), and Federal Transit Cluster (CFDA 20.500).

¹ The Department of Transportation Office of Audit Report 11-800-51 can be found at: http://www.dot.state.mn.us/const/tools/docs/2010SingleAuditRpt_Responses_Final.pdf.

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.² Table 1 identifies these major federal programs.

Table 1
Major Federal Programs
Department of Transportation
Fiscal Year 2010
(in thousands)

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Expenditures</u>	<u>Federal ARRA</u> ² <u>Expenditures</u>	<u>Total Federal Expenditures</u>
20.106	Airport Improvement	<u>\$ 65,430</u>	<u>\$ 15,863</u>	<u>\$ 81,293</u>
	<u>Highway Planning and Construction Cluster</u>			
20.205	Highway Planning and Construction	\$447,132	\$293,547	\$740,679
20.205	Highway Planning and Construction ³	44	0	44
20.219	Recreational Trails Program ⁴	1,303	0	1,303
	Total Highway Planning and Construction Cluster	<u>\$448,479</u>	<u>\$293,547</u>	<u>\$742,026</u>
	<u>Federal Transit Cluster</u>			
20.500	Federal Transit – Capital Investment Grants	\$ 40,533	\$ 0	\$ 40,533
20.507	Federal Transit – Formula Grants	255	0	255
	Total Federal Transit Cluster	<u>\$ 40,788</u>	<u>\$ 0</u>	<u>\$ 40,788</u>

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. Some federal programs are clustered if they have similar compliance requirements. Although the programs within a cluster are administered as separate programs, they are treated as a single program for the purpose of meeting the audit requirements of the U.S. Office of Management and Budget's Circular A-133.

² American Recovery and Reinvestment Act.

³ Administered by Explore Minnesota Tourism.

⁴ Administered by the Department of Natural Resources.

Source: Minnesota Accounting and Procurement System.

² We defined a major federal program for the State of Minnesota 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 2010 exceeded \$30 million.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Transportation complied with federal program requirements in its administration of these federal programs for fiscal year 2010. This audit is part of our broader 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.³ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit 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. The Office of Audit followed up on findings and recommendations reported to department management in fiscal year 2009.

Conclusion

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 2010. However, the department had a weakness in reporting federal program expenditures, 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 March 2, 2011, and our report should be read in conjunction with their report.⁴ The report contained three repeat findings on weaknesses in materials control procedures.

³ The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2010, on the State of Minnesota's basic financial statements for the year ended June 30, 2010. In accordance with Government Auditing Standards, we also issued our report 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 11-02, [Report on Internal Control Over Statewide Financial Reporting](#), issued February 18, 2011.) This report included control deficiencies related to the Department of Transportation.

⁴ The Department of Transportation Office of Audit Report 11-800-51, issued March 2, 2011, can be found at: http://www.dot.state.mn.us/const/tools/docs/2010SingleAuditRpt_Responses_Final.pdf.

We will report the weakness to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs* for the year ended June 30, 2010, prepared by the Department of Management and Budget. 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.

Finding and Recommendation

Finding 1

The Department of Transportation overstated Highway Planning and Construction Program (CFDA 20.205) expenditures by \$18.9 million and understated Highway Research and Program Development Program (CFDA 20.200) expenditures by the same amount on the Schedule of Expenditures of Federal Awards submitted for audit.

The department erroneously overstated Highway Planning and Construction Program expenditures (CFDA 20.205) by \$18.9 million and understated Highway Research and Development Program expenditures (CFDA 20.200⁵) by the same amount on its draft Schedule of Expenditures of Federal Awards. The department identified a discrepancy in amounts when it performed a year-end reconciliation of federal program revenues to expenditures; however, it failed to detect that the project expenditures pertained to a different federal program and did not correct the schedule until the audit brought the error to management's attention.

Recommendation

- *The department should improve internal controls over the preparation of its Schedule of Expenditures of Federal Awards by reviewing source documentation, which includes the CFDA number, for the projects with material variances identified through its reconciliation of federal revenues to program expenditures.*

⁵ The expenditures pertained to federal grant award number DTFH61-08-H-00020.



Transportation Building

395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

April 13, 2011

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 review and respond to the audit of the Department of Transportation's Schedule of Expenditures of Federal Awards for the year ended June 30, 2010. This letter is the Minnesota Department of Transportation (Mn/DOT) response to the draft report issued by the Office of the Legislative Auditor.

Finding 1 – The Department of Transportation overstated Highway Planning and Construction Program (CFDA 20.205) expenditures by \$18.9 million and understated Highway Research and Program Development Program (CFDA 20.200) expenditures by the same amount on the Schedule of Expenditures of Federal Awards submitted for audit.

Recommendation: The department should improve internal controls over the preparation of its Schedule of Expenditures of Federal Awards by reviewing source documentation, which includes the CFDA number, for the projects with material variances identified through its reconciliation of federal revenues to program expenditures.

Response: Mn/DOT believes strongly in financial integrity and concurs with this finding. Mn/DOT is addressing this issue in the following manner:

1. Mn/DOT finance staff will add additional oversight controls and has updated its' written procedure for analyzing federal expenditures to ensure federal awards are reported under the correct CFDA number.
2. With the implementation of SWIFT, all appropriations with federal participation are set up with a CFDA number.

Responsible Staff: Tracy Hatch, Chief Financial Officer; Gerald Wood, Accounting Director

Implementation Date: September, 2011

Thank you for the opportunity to respond to your findings and recommendations. Mn/DOT will monitor the implementation to the successful resolution of these findings. Please contact Gerald Wood, Accounting Director, at 651-366-4904 with any follow-up questions or information.

Sincerely,

Thomas K. Sorel
Commissioner of Transportation