



**OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA**

FINANCIAL AUDIT DIVISION REPORT

Department of Transportation

Federal Compliance Audit

Year Ended June 30, 2012

July 18, 2013

Report 13-17

FINANCIAL AUDIT DIVISION
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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 18, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Charles Zelle, Commissioner
Minnesota 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 2012. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Transportation.

We discussed the results of the audit with the department's staff at an exit conference on July 10, 2013. This audit was conducted by Jim Riebe, CPA (Audit Manager) and Tracia Polden (Senior Auditor).

We received the full cooperation of the department's staff while performing this audit.

A handwritten signature in black ink that reads 'James R. Nobles'.

James R. Nobles
Legislative Auditor

A handwritten signature in black ink that reads 'Cecile M. Ferkul'.

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 finance-related legal requirements applicable to its major federal programs for fiscal year 2012. However, the department had one instance of noncompliance with federal regulations, as noted below. In addition, the department had other program findings included in a separate report issued by the Department of Transportation's Office of Audit.¹

The department resolved one of three prior audit findings.²

Finding

- Prior Audit Finding Not Resolved: The Department of Transportation did not comply with federal requirements to review the results of subrecipients' audits and monitor corrective actions within certain timeframes. ([Finding 1, page 7](#))

Audit Scope

Our scope included the following programs that were material to the State of Minnesota's federal program compliance for fiscal year 2012: Airport Improvement (CFDA 20.106) and Highway Planning and Construction Cluster (CFDA 20.205).

¹ The Department of Transportation, Office of Audit, Report 13-800-79, issued March 21, 2013, is at: http://www.dot.state.mn.us/const/tools/docs/2012SingleAuditRpt_Resp-Final.pdf.

² Office of the Legislative Auditor's Financial Audit Division Report 12-08, *Federal Compliance Audit*, issued March 27, 2012. The department resolved one finding by accurately reporting the status of prior audit findings in the federal Summary of Prior Audit Findings. Although the department addressed another finding by issuing written management decisions on subrecipient single audit findings for calendar year 2010, it continued to have deficiencies in monitoring subrecipients' single audit reports for calendar year 2011, as explained in Finding 1. We could not determine whether the department resolved the third finding related to the accuracy of its Schedule of Expenditures of Federal Awards because, as of June 2013, the state had not finalized the fiscal year 2012 schedule.

Department of Transportation

Federal Program Overview

The Department of Transportation administered federal programs that we considered major federal programs for the State of Minnesota and, therefore, subject to audit under the federal Single Audit Act.³ Table 1 identifies these major federal programs.

Table 1
Major Federal Programs
Department of Transportation
Fiscal Year 2012
(in thousands)

<u>CFDA¹</u>	<u>Program Name</u>	<u>Federal Expenditures</u>
20.106	Airport Improvement	<u>\$ 49,431</u>
	Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction	\$638,572
20.205	Highway Planning and Construction Research and Development	13,904
20.219	Recreational Trails Program ²	<u>1,455</u>
	Total Highway Planning and Construction Cluster	<u>\$653,931</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 This program is administered by the Department of Natural Resources.

Source: Minnesota Department of Transportation, Office of Finance.

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 major federal programs for fiscal year 2012. This audit is part of our broader federal single audit designed to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are

³ 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 2012 exceeded \$30 million.

applicable to each of its federal programs.⁴ 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, including the follow up on findings and recommendations reported in fiscal year 2011.

Conclusion

The Department of Transportation generally complied with and had controls to ensure compliance with finance-related legal requirements applicable to its major federal programs for fiscal year 2012. However, the department had one instance of noncompliance with federal regulations, as noted below. In addition, the department had other program findings included in a separate report issued by the Department of Transportation's Office of Audit.⁵

The department resolved one of three prior audit findings.⁶

⁴ 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 March 20, 2013, on the State of Minnesota's basic financial statements for the year ended June 30, 2012. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal controls 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 13-06, *Report on Internal Control Over Statewide Financial Reporting*, issued May 17, 2013).

⁵ The Department of Transportation, Office of Audit, Report 13-800-79, issued March 21, 2013, is at: http://www.dot.state.mn.us/const/tools/docs/2012SingleAuditRpt_Resp-Final.pdf.

⁶ Office of the Legislative Auditor's Financial Audit Division Report 12-08, *Federal Compliance Audit*, issued March 27, 2012. The department resolved one finding by accurately reporting the status of prior audit findings in the federal Summary of Prior Audit Findings. Although the department addressed another finding by issuing written management decisions on subrecipient single audit findings for calendar year 2010, it continued to have deficiencies in monitoring subrecipients' single audit reports for calendar year 2011. We could not determine whether the department resolved the third finding related to the accuracy of its Schedule of Expenditures of Federal Awards because, as of June 2013, the state had not finalized the fiscal year 2012 schedule.

We will report the weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs* for the year ended June 30, 2012, 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

Prior Audit Finding Not Resolved: The Department of Transportation did not comply with federal requirements to review the results of subrecipients' audits and monitor corrective actions within certain timeframes.⁷

As of May 2013, the Department of Transportation had not reviewed the findings in nine subrecipient audit reports or provided the subrecipients with its written management decisions about the effectiveness of the subrecipients' proposed corrective action plans to resolve findings, or to follow up on instances of repeated noncompliance. Federal requirements established that subrecipients should have submitted their audit reports for calendar year 2011 by September 30, 2012, and that the department should have completed its subrecipient monitoring responsibilities by March 31, 2013.⁸ The federal government established these deadlines to help ensure that subrecipients take timely corrective action to resolve findings that strengthen accountability over federal funds.

The department is a “pass through” entity, responsible to ensure that subrecipients use federal money in accordance with federal program requirements. The department must monitor that any subrecipient with federal grant expenditures exceeding \$500,000 obtains an audit of its financial statements and compliance with federal program requirements and submits the audit report to the department. Federal regulations require pass-through entities to monitor subrecipients’ compliance with federal program requirements by reviewing, following up, and issuing management decisions on findings included in subrecipients’ single audit reports.⁹

Department staff told us that they had not completed the subrecipient monitoring responsibilities during fiscal year 2012 because they had not received, from the Department of Management and Budget, the calendar year 2011 report of grants

Finding 1

⁷ Office of the Legislative Auditor's Financial Audit Division Report 12-08, *Federal Compliance Audit*, issued March 27, 2012, included a finding that the department had not issued written management decisions on findings included in calendar year 2010 subrecipient audit reports. Although the department addressed that finding by issuing written management decisions on subrecipient single audit findings for calendar year 2010, it continued to have deficiencies in monitoring subrecipients' single audit reports for calendar year 2011, as explained in Finding 1 above.

⁸ Office of Management and Budget Circular A-133, Part 3, Section M, Subrecipient Monitoring.

⁹ Office of Management and Budget Circular A-133.105 provides definitions of pass-through entity, subrecipient, and management decision.

to subrecipients.¹⁰ The department also had difficulty generating its own expenditure reports because calendar year 2011 spanned two different state fiscal years where the state used different accounting systems. Finally, the department did not effectively coordinate between its Office of Financial Management and Office of Audit to oversee subrecipient monitoring responsibilities.

Recommendation

- *The department should strengthen its internal controls to ensure that it complies with federal subrecipient monitoring requirements.*

¹⁰ The Department of Management and Budget typically distributes reports to state agencies semi-annually to help determine which subrecipients received more than \$500,000 from the state and required monitoring. The reports, one by fiscal year and one by calendar year, showed the total federal subgrants received by each subrecipient from all state agencies combined. The Department of Management and Budget was delayed in providing the information during fiscal year 2012 because of complications with the implementation of the state's new accounting system.



Minnesota Department of Transportation

Transportation Building
395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

July 10, 2013

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 Minnesota Department of Transportation Federal Compliance Audit for the year ended June 30, 2012. This letter is the Department of Transportation response to the draft report issued by the Office of the Legislative Auditor.

Finding 1 – Prior Audit Finding Not Resolved: The Department of Transportation did not comply with federal requirements to review the results of subrecipients' audits and monitor corrective actions within certain timeframes.

Recommendation

- *The department should strengthen its internal controls to ensure that it complies with federal subrecipient monitoring requirements.*

Response: The Department of Transportation believes strongly in internal controls and concurs with this finding. The department is addressing this issue in the following manner:

- *The Department of Transportation has strengthened internal control over its subrecipient monitoring process by updating the current procedure to include additional monitoring and communication between the Office of Finance and the Office of Internal Audit to ensure the timely issuance of management decision letters as specified in OMB Circular A-133. Three management decision letters were required and issued on June 24, 2013 for calendar year 2011. Because these subrecipients have satisfactory corrective action plans in place to mitigate their findings, management decision letters did not recommend other actions or suspension of federal awards.*

Responsible Staff: Tracy Hatch, Chief Financial Officer, Duane Leurquin, Office of Financial Management Director, and Daniel Kahnke, Director, Office of Audit.

Implementation Date: June, 2013.

Sincerely,

A handwritten signature in blue ink that reads "Charles Zelle".

Charles Zelle
Commissioner of Transportation