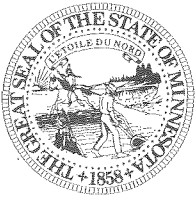


**STATEWIDE AUDIT  
DEPARTMENT OF TRANSPORTATION  
MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 1985**

**FEBRUARY 1986**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Richard P. Braun, Commissioner  
Department of Transportation  
411 Transportation Building  
St. Paul, Minnesota 55155

Dear Commissioner Braun:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements;
- the federal programs included in the Single Audit scope, specifically Airport Improvement (CFDA #20.106), Highway Planning and Construction (CFDA #20.205), and UMTA Section 18 (CFDA #20.509); and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. However, the Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985.

This management letter contains a reiteration of our prior recommendations which have not been implemented. Your internal audit unit was responsible for specific Single Audit compliance requirements. We have evaluated and accepted their work as required by the AICPA Professional Standards. Their audit report is included as Attachment I. Attachment II to this management letter is a summary of the progress on all recommendations developed during our financial audit of Minnesota's fiscal year 1984 statements. The federal government is ultimately responsible for determining appropriate resolution of any Single Audit recommendations. The appropriate federal agency staff will contact your agency to review your efforts toward corrective actions. They will also notify you of their final resolution.

The recommendations included in this letter are presented to assist you in improving accounting procedures and control. Progress on implementing these recommendations will be reviewed during our audit next year.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Procedures need to be developed for recording and reporting retainage from the various agreements entered into by the Minnesota Department of Transportation (Mn/DOT).

Various sections within Mn/DOT enter into agreements with railroads, utilities, cities and counties statewide. For example, the Railway Section has agreements with railroad companies while the Utilities Section has agreements with utility companies. These sections may retain a portion of the invoiced amount, pursuant to the agreements, to be paid once the project has been completed in a satisfactory manner. Currently, there are no standardized accounting procedures for applying retainage to the payments made on these contracts.

We previously recommended that Mn/DOT's General Ledger Unit work with the applicable sections to develop written policies and procedures for applying retainage to agreements, including a method for recording and reporting the retainage amount for financial statement purposes. Mn/DOT has developed a policy which outlines the various factors to consider before applying retainage to an agreement, such as federal and state regulations and the past performance of the contractor. The policy includes the statement that

"Offices administering contracts should be aware that retainage is a significant financial reporting item and that they must maintain records which will allow them to report annually total retainage amounts by Fund to the Office of Financial Management."

The policy defines retainage as "the withholding of part of the contract price pending verification that contracted services have been performed and that all charges under the contract are valid." However, procedures have not been developed that sufficiently explain to the sections how the amounts are to be calculated and reported to the General Ledger Unit at year-end. As a result, we again found errors in retainage calculations and misunderstandings about the amount to be reported and the use of the information. For example, the Transit Section reported some open encumbrances as retainage, thinking that they would otherwise lose access to those funds; the Railroads and Waterways Section calculated retainage using the assumption that 10 percent was retained on all payments made during fiscal year 1985, however, they did not include any amounts retained in previous fiscal years.

The General Ledger Unit personnel feel that it is not their position to regulate how these sections apply retainage. However, the General Ledger Unit has a responsibility to ensure that the figures being reported on the financial statements are properly derived and consistently prepared.

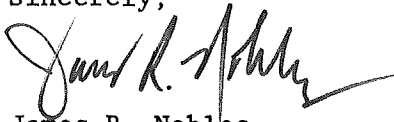
Mr. Richard P. Braun, Commissioner  
Page 3

*RECOMMENDATION:*

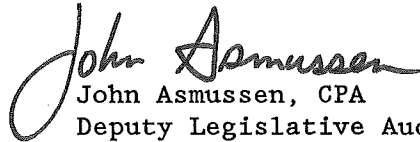
1. *The Office of Financial Management personnel should meet with each section that utilizes retainage, review and if necessary, revise its method of accounting for these retainage amounts to ensure that the proper amounts will be reported on the financial statements.*

Thank you for the cooperation extended our staff during this audit.

Sincerely,



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

Attachments

February 12, 1986



DEPARTMENT Mn/DOT - Audit Section  
Room 419

# Office Memorandum

TO: Richard P. Braun, Commissioner  
Robert J. McDonald, Deputy Commissioner

DATE: December 5, 1985

FROM: Ronald W. Gipp *plus*  
Audit Director

PHONE: 296-3254

SUBJECT: Audit of OMB Circular A-102, Attachment P Compliance  
Supplement Requirements for Fiscal Year 1985  
Audit Report No. 86-800-34

As agreed upon with the Office of the Legislative Auditor, we have reviewed the procedures and controls followed by Mn/DOT personnel concerning the Attachment P Compliance Supplement requirements for the following programs:

Highway Research, Planning and Construction CFDA 20.205  
Airport Improvement Program (AIP) CFDA 20.106

Mn/DOT received approximately \$265,540,000 in federal funds from the Highway Research, Planning Construction Program, CFDA 20.205, and approximately \$11,800,000 in federal funds from AIP, CFDA 20.106.

We also reviewed the Attachment P Compliance Supplement General Requirements that applied to our areas of audit coverage. The review covered the period from July 1, 1984 through June 30, 1985. The scope of our review was limited to federal project costs and compliance with the applicable federal rules and regulations.

Our audit was conducted in accordance with generally accepted government auditing standards. Accordingly, the audit was designed to provide assurance that financial operations were properly conducted, financial data was presented fairly and all applicable laws, regulations and administrative requirements have been complied with.

We also considered whether the Department was managing or utilizing its resources in an economical and efficient manner and whether the Department was effective in achieving its program objectives.

In our opinion, financial operations were properly conducted, financial data was presented fairly and Department personnel have generally complied with applicable laws, regulations and administrative requirements concerning the Attachment P Compliance Supplement Requirements with the exception of several areas in need of attention. These are detailed in Findings I - VIII attached to this report.

cc: R. B. Keinz  
L. F. McNamara/D. E. Durgin  
E. H. Cohoon  
R. R. Swanson  
J. Nobles, O.L.A.  
D. Pederson, D.O.F.  
R. Borg, F.H.W.A.  
File

Audited by:  
William Brinker  
Daniel Kahnke  
Nand Malhotra  
Gregory Benidt  
Mary Gomez

## FINDINGS

The following findings are considered financial and compliance in nature. Findings are intended to assess if financial operations were properly conducted, if financial data was presented fairly and if all applicable laws, regulations and administrative requirements were complied with.

### FINDING I - NEED FOR FEDERAL GRANT ADVANCES TO BE OBTAINED IN ACCORDANCE WITH FEDERAL POLICY

During our review of the Airport Improvement Program (AIP), CFDA 20.106, we found that federal grant advances for these programs are often requested based on estimated project costs and prior to when the cash is needed.

We reviewed 10 grant agreements from Fiscal Year 1985. We did a comparison of federal funds received in Fiscal Year 1985 to federal funds being paid out. Our comparison indicated that federal funds are retained by Mn/DOT from one week to seven months. A detailed schedule of the interest lost by the Federal Aviation Administration (FAA) on Fiscal Year 1985 funds is \$71,245.91. This schedule is attached as Exhibit A to this finding.

The reason for the delays in disbursing these funds to the municipalities is that the federal funds are advanced to the state based on estimates for a 30 day period developed by the municipality. Mn/DOT will only reimburse the municipality for actual costs incurred during this 30 day period. Therefore, a delay occurs when actual costs incurred during the 30 day period are under the 30 day estimate.

The U.S. Department of the Treasury Circular 1075 prescribes the regulations governing advances to recipient organizations. The circular states that ". . . cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project." It further states that ". . . if a Federal program agency has or expects to have, a continuing relationship with a recipient organization for at least one year, involving annual advances aggregating at least \$120,000, the agency shall use the letter-of-credit method."

A letter of credit drawdown would allow Mn/DOT to receive their funds within 24 hours and would be based on actual costs incurred by the municipalities. Mn/DOT could then immediately disburse the same amount of funds to the municipality.

This finding was reported by the Mn/DOT Audit Section in the Fiscal Year 1984 Attachment P audit report. The response to this finding was that the Aeronautics Division would be discussing the feasibility of using the federal letter of credit method for receiving federal funds.

We have also discussed this finding with personnel of the Aeronautics Division and they have set a target date of February 1, 1986 to begin using the federal letter-of-credit drawdown for requesting federal funds.



We have discussed this matter with a representative of the FAA and he expressed considerable interest in the amount of time Mn/DOT is holding on to federal funds. He agreed that some other method of receiving federal funds must be used.

#### RECOMMENDATION

Mn/DOT utilize a federal letter-of-credit drawdown in requesting federal funds from the FAA on their Airport Improvement Program.

## EXHIBIT A

GRAND MARAIS (DEVILS TRACK)

S.P. 1609-06

F.P. 3-27-0036-01

On 6-5-84 Mn/DOT received \$15,000.00 of federal funds.

This has not been paid out as of 11-5-85. (17 months)

Interest lost is as follows: \$15,000.00 x 10% = \$1,500.00 (1 year)

15,000.00 + 1,500.00 = 16,500.00 x 10% x 5/12 = 687.50 (5 months)

TOTAL INTEREST LOST ON PROJECT \$ 2,187.50ST. CLOUD AIRPORT

S.P. 7301-28

F.P. 3-27-0095-01

<u>DATE OF PMT.</u>	<u>\$ OF PMT</u>	<u>PERIOD HELD</u>	<u>10% INTEREST</u>	<u>FEDERAL INTEREST LOST</u>	
10-11-85	\$312,388.24	2 Months	\$31,238.83	2/12	x \$31,238.83 \$5,206.47
Note 1	495,764.11	1 Month	49,576.41	1/12	x 49,576.41 4,131.37
					TOTAL INTEREST LOST ON PROJECT <u>\$9,337.84</u>

Note 1: A \$495,764.11 balance has been carried on the account from 10-4-85 to our cutoff date of 11-4-85.

CHISHOLM - HIBBING AIRPORT

S.P. 6902-41

F.P. 3-27-0041-01

<u>DATE OF PMT.</u>	<u>\$ OF PMT</u>	<u>PERIOD HELD</u>	<u>10% INTEREST</u>	<u>FEDERAL INTEREST LOST</u>	
10-26-85	\$270,654.60	1 Month	\$27,065.46	1/12	x \$27,065.46 \$ 2,255.46
11-30-84	404,816.57	2 Months	40,481.65	2/12	x 40,481.65 6,746.94
1-25-85	247,830.25	4 Months	24,783.03	4/12	x 24,783.03 8,261.01
3-27-85	120,403.37	13 Days	12,040.39	13/365	x 12,040.39 428.84
6-20-85	104,287.63	3 Months	10,428.76	3/12	x 10,428.76 2,607.19
7-26-85	148,329.97	17 Days	14,833.00	17/365	x 14,833.00 690.85
					TOTAL INTEREST LOST ON PROJECT <u>\$20,990.29</u>

MORA AIRPORT

S.P. 3301-19

F.P. 3-27-0068-02

<u>DATE OF PMT.</u>	<u>\$ OF PMT</u>	<u>PERIOD HELD</u>	<u>10% INTEREST</u>	<u>FEDERAL INTEREST LOST</u>	
1-23-85	\$122,863.50	2 Months	\$12,286.35	2/12	x \$12,286.35 \$2,047.73
5-14-85	8,473.63	1 Month	847.36	1/12	x 847.36 70.61
7-12-85	384,491.41	18 Days	3,849.14	18/365	x 3,849.14 189.82
8-19-85	38,204.07	2 Months	3,820.41	2/12	x 3,820.41 636.74
9-13-85	16,799.44	3 Months	1,679.94	3/12	x 1,679.94 419.99
9-23-85	57,337.42	3 Months	5,733.74	3/12	x 5,733.74 1,433.44
Note 2	285,175.73	1 Month	28,517.57	1/12	x 28,517.57 2,376.46
					TOTAL INTEREST LOST ON PROJECT <u>\$7,174.79</u>

Note 2: Federal funds of \$285,175.73 received on 10-4-85 were not paid as of 11-4-85.

DULUTH INTERNATIONAL AIRPORT

S.P. 6901-57

F.P. 3-27-0024-04

<u>DATE OF PMT.</u>	<u>\$ OF PMT</u>	<u>PERIOD HELD</u>	<u>10% INTEREST</u>	<u>FEDERAL INTEREST LOST</u>
10-12-84	\$225,880.91	16 Days	\$22,588.09	16/365 x \$22,588.09 \$ 990.16
2-20-85	9,135.90	3 Months	913.59	3/12 x 913.59 228.40
2-20-85	3,005.75	3 Months	300.58	3/12 x 300.58 75.15
3-22-85	3,637.44	4 Months	3,637.34	4/12 x 3,637.34 1,212.45
7-2-85	57,896.96	7 Months	5,789.70	7/12 x 5,789.70 3,377.33
7-2-85	66,683.16	7 Months	6,668.32	7/12 x 6,668.32 3,889.85
7-5-85	16,304.10	7 Months	1,630.41	7/12 x 1,630.41 951.07
8-12-85	201,782.37	12 Days	20,178.24	12/365 x 20,178.24 663.39
9-6-85	34,677.04	1 Month	3,467.70	1/12 x 3,467.70 288.98
Note 3	58,000.00	1 Year	5,800.00	5,800.00
Note 4	203,487.87	49 Days	20,348.79	49/365 x 20,348.79 2,731.76
TOTAL INTEREST LOST ON PROJECT				<u>\$20,208.54</u>

Note 3: On this project \$58,000.00 was held for one year.

Note 4: A \$203,487.87 balance was on the books as of 11-4-85. These funds were received on 9-16-85.

BRAINERD - CROW WING

S.P. 1801-33

F.P. 3-27-0014-01

<u>DATE OF PMT.</u>	<u>\$ OF PMT</u>	<u>PERIOD HELD</u>	<u>10% INTEREST</u>	<u>FEDERAL INTEREST LOST</u>
10-22-84	\$337,557.10	1 Month	\$33,755.71	1/12 x \$33,755.71 \$ 2,812.98
11-28-84	340,216.94	2 Months	34,021.70	2/12 x 34,021.70 5,670.28
Note 5	31,240.33	11 Months	3,124.03	11/12 x 3,124.03 2,863.69
TOTAL INTEREST LOST ON PROJECT				<u>\$11,346.95</u>

Note 5: \$31,240.33 was received on 1-3-85. As of 11-4-85, \$31,240.33 had not been paid to the municipality.

RECAP

TOTAL FEDERAL INTEREST LOST BY PROJECT

<u>MUNICIPALITY</u>	<u>S.P. NO.</u>	<u>DOLLAR AMOUNT</u>
Chisholm - Hibbing	6902-41	\$20,990.29
Duluth Intl. Airport	6901-57	20,208.54
Mora Airport	3301-19	7,174.79
Grand Marais	1609-06	2,187.50
St. Cloud Airport	7301-28	9,337.84
Brainerd Crow Wing	1801-33	11,346.95
TOTAL ALL PROJECTS		<u>\$71,245.91</u>

FINDING II - NEED TO COMPLETE THE "FIELDMEN'S CHECK ON COMPLIANCE"  
EACH MONTH DURING THE CONSTRUCTION PROJECT

Our review of the "Fieldmen's Check on Compliance" forms showed that they were not completed each month on eight of ten sampled projects. Completing this form is an important control to assure that the Davis-Bacon Act is complied with. Completing the "Fieldmen's Check on Compliance" form is required by Section 5-591.342 of the Construction Manual. Compliance with this requirement is important to assure continued federal highway funding.

The Davis-Bacon Act is a federal compliance requirement. It covers all laborers and mechanics employed by contractors or subcontractors on construction projects financed by federal assistance. It states that the laborers and mechanics must be paid wages not less than those established by the Secretary of Labor for the locality of the project.

Section 5-591.342 of the Construction Manual calls for the Project Engineer or his staff to interview several employees of the contractor, selected at random, each month and determine:

1. The actual hourly wages being paid and if they are at least equal to the minimum required by the contract.
2. If the payroll position is consistent with the work the employee is doing and is covered by a position in the wage decision or the schedule of wage rates.
3. If the employee is paid fully and at least each week for all hours worked.
4. If the employee has any complaints falling within the Project Engineer's area of responsibility.

This information is recorded on the "Fieldmen's Check on Compliance" form. Any discrepancies should be reported to the contractor promptly.

We reviewed 10 construction projects on this audit. They are as follows:

<u>S.P. No.</u>	<u>Construction Office</u>
3405-27	Willmar
3706-19	Willmar
0215-35	Golden Valley
2781-324	Golden Valley
7380-178	St. Cloud
6211-63	Oakdale
8214-88	Oakdale (North)
2401-28	Owatonna
1480-95	Detroit Lakes
6982-158I	Duluth (Annex)

We compared the months when construction work was done to the months when the fieldmen's check was completed. We found that the fieldmen's check was completed every month on only two projects, S.P. 6982-158I and S.P. 3706-19. The percentage of required fieldmen's checks completed on the other eight projects ranged from 0% to 67%. As a result, an important control assuring compliance with the Davis-Bacon Act was missing.

We have discussed the matter with construction office personnel at the districts affected by this finding and they have agreed that the "Fieldmen's Check on Compliance" forms should be completed each month during the life of the construction project.

During our audit, a memo was written to construction offices statewide by the Operations Division reminding construction personnel to conduct fieldmen's checks each month on projects as required by the Construction Manual.

Recommendation

District Construction Engineers monitor this compliance requirement and verify that personnel of the various construction offices in Mn/DOT complete the "Fieldmen's Check on Compliance" as specified in the Construction Manual 5-591.342.

### FINDING III - NEED TO HAVE THE ITEM RECORD ACCOUNT SUPPORT PAYMENTS TO THE CONTRACTOR

During our review, we noted that the Item Record Account (IRA) is not being used as originally designed, which could result in overpayments to contractors on construction projects.

On each construction project we verify that the quantity paid the contractor is supported by an appropriate IRA entry for sampled bid items. On two projects we noted that payments were made to the contractor on various bid items without proper documentation in the IRA. The projects were S.P. 2781-324 in District 5 (Golden Valley) and S.P. 6211-63 in District 9 (Oakdale).

At District 9 (Oakdale) on S.P. 6211-63 the following examples of improper use of payment procedures were noted.

1. On bid item 0565.602, the quantity paid the contractor was 48 units but only 43 units were posted to the IRA.
2. On bid item 0565.603, the quantity paid the contractor was 1382 Lin.Ft., but the IRA had only 897 Lin. Ft. posted. On this bid item all entries made to the IRA sheet are dated 5-22-85 but payments to the contractor were made on 5-24-85, 6-24-85, 7-24-85 and 8-24-85.
3. On several bid items, payment was made to the contractor but the corresponding IRA sheets were virtually blank. This situation occurred on bid items 0565.602 - Loop Detector 6' X 20', 0565.602 - Loop Detector 6' X 6', 0565.602- p80 pole foundation and 2104.521 Salvage Ic #10.

At District 5 (Golden Valley) on S.P. 2781-324, the project was divided up into three stages; Stage I, Stage II and Stage III. Under each stage, payments were made to the contractor without proper IRA postings. See Exhibit A for detail breakdown of problems noted in each stage.

According to the Construction Manual, quantities of work performed or materials furnished under most of the items in the contract can and should be determined each day the work progresses. These quantities are recorded in the Item Record Account each day and the accumulated totals are entered on the Partial Estimate when it's prepared.

The Item Record Account is a convenient tabulation of each pay item on the project. In certain cases it can also be used as documentation of the contract quantities placed. This form may be maintained by the person responsible for inspection and documentation of the items involved. Quantities of work should be entered on the form each day work is performed, or each week, whichever is consistent with methods of measuring or estimating the quantity of work.

The Documentation Manual states that the Item Record Account is the heart of the quantity documentation process. The proper use of the IRA during the construction season will greatly assist in the efficient preparation and completion of final records. Incorrect use of the IRA will delay the finaling process, and may also result in the withholding of state and federal funds.

We have concluded that the basic instructions for making entries to the IRA are not being followed. The importance of proper IRA entries cannot be ignored because they are utilized to tabulate bid item quantities. Partial Estimate Worksheet quantities are substantiated by daily entries recorded in the IRA and by documentation showing how the quantities were determined.

Without proper IRA entries, questions arise on whether:

1. The contractor has been paid correctly.
2. The work the contractor is being paid for was actually completed.
3. The IRA can be relied upon.
4. The Engineer can be relied upon.
5. Mn/DOT construction personnel are using their time efficiently.

We discussed this non-compliance of regulations with the appropriate personnel in District 5 and 9. Personnel in these districts generally agreed with our findings and will strengthen the procedures as needed to accomplish this. Discussions with personnel of the Office of Contract Administration and Maintenance were also held. They agreed that the IRA is very important and needs to be completed in a timely manner.

#### Recommendations

Appropriate Construction Engineers/Resident Engineers examine procedural weaknesses noted above and make the following necessary improvements as applicable.

1. The IRA be maintained currently and utilized to tabulate bid item quantities.
2. The basic instructions for making entries to the IRA be followed as explained in the Documentation Manual.

## Exhibit A

### Examples of IRA problems noted on S.P. 2781-324

#### Stage I - Excavation and Backfill

Payment for 19,423 lump sum quantity was made through Partial Estimate Voucher No. 5 for the work performed up to 9-20-84, but no entry was made on the IRA.

#### Stage II - Plant Installation

1. Payment for 54,953 lump sum quantity was made through Partial Estimate Voucher No. 5 for the work performed up to 9-20-84, but no entry was made on the IRA.
2. Payment for 89,037 lump sum quantity was made through Partial Estimate Voucher No. 6 for the work performed up to 11-14-84, but no entry was made on the IRA.
3. Payment for 13,979 Lump Sum quantity was made through Partial Estimate Voucher No. 7 for the work performed up to 5-20-85, but no entry was made on the IRA.

#### Stage III - Spring Planting

Payment for 10,700 lump sum quantity was made through Partial Estimate Voucher No. 7 for the work performed up to 5-20-85, but no entry was made on the IRA.



#### FINDING IV - INELIGIBLE EMINENT DOMAIN COSTS CLAIMED

During our review, we noted that ineligible eminent domain costs were claimed on Federal-aid billings. Mn/DOT needs to screen costs to assure that ineligible costs are not claimed. This internal control was not functioning during F.Y. 1985.

Right of way parcels may be acquired by Mn/DOT in several different ways:

Direct Purchase - The property owner agrees to sell at Mn/DOT's appraised value. The purchase is made without judicial intervention.

Quick Take - Mn/DOT acquires property prior to reaching a settlement with the property owner. Subsequently, a monetary settlement is made.

Administrative Settlement - A settlement is negotiated between Mn/DOT and the property owner sometime before the need for a stipulated settlement of appeals.

Commissioners Award - Court appointed commissioners determine the value of the land. Mn/DOT or the property owner may appeal this decision.

Stipulated Settlement of Appeals - A judicial court proceeding which resolves monetary and other considerations with respect to the taking of the land.

Federal reimbursement policies may vary depending on the timing and type of acquisition. During F.Y. 1985, Mn/DOT did not have an adequate cost screening process for determining the federal participation status of some eminent domain costs.

From our random sample of right of way costs, we have found the following Federal-Aid claims to be ineligible for federal participation:

Federal Project Number	State Project Number	Parcel Number	Ineligible Costs Claimed	Relevant FHPM Directive
I035-6(170)	6982-907	58	\$16,921.52	7-1-3 para. 5b(3)
I094-3(304)	8282-904	34G	2,455.00	7-1-3 para. 5b(3)
I094-3(304)	8282-904	34G	4,862.97	7-1-3 para. 5j(4)
Total Ineligible Costs Claimed			<u>\$24,239.49</u>	

The first two ineligible claims are for property owners costs and disbursements relating to court costs. The third claim is for interest costs paid to the property owner beyond the 45 day limit allowed by FHPM 7-1-3 para. 5j(4).

Mn/DOT has not complied with Federal Highway Administration policies, procedures, and directives for claiming eminent domain costs. FHPM 7-1-3 para. 6(d) states: "the SHD should establish an adequate system of operational controls for use in administration of its right-of-way program. The SHD's goal should be to establish a system which will be continually reliable to effect proper right-of-way acquisitions..."

More specifically, Mn/DOT is in violation of FHPM 7-1-3-5b(3): "...whether or not the costs are included in court judgements or awarded as court costs in litigated cases, federal participation will not be permitted in the cost of a property owners attorney fees, appraiser fees, expert witness fees, or similar costs which are paid by the SHD in connection with the acquisition of rights-of-way..." and FHPM 7-1-3-5j(4): "Where a condemnation settlement or award exceeds the amount deposited into court, federal participation may be allowed in interest paid on the amount in excess of the deposit from the date of the original deposit until the date of the settlement or award. Where court procedures prevent the amount from being delivered immediately following settlement or award, federal participation may be allowed in interest paid on the excess amount for a period not to exceed 45 days following such settlement or award. When the SHD appeals an award, federal participation may be allowed in the required interest payment on the excess until 45 days after the final determination."

The responsibilities for screening eminent domain costs were not clearly defined in the Right of Way Funds Unit of the Accounting and Finance Section. Not retaining up-to-date written procedures through the past several years has contributed to the breakdown of the eminent domain cost screening control.

On September 18, 1985, the Federal Highway Administration issued a report which includes a finding on this subject. The FHWA cited \$90,295.01 in ineligible and questioned costs. The \$24,239.49 cited in this report is part of the \$90,295.01 previously cited by the Federal Highway Administration. FHWA recommendations include immediately reinstating eligibility cost screening and reevaluating right of way parcels costs retroactive to January 1, 1979.

Per discussions with Mn/DOT's Right of Way Funds Unit supervisor, the FHWA recommendations discussed above are in the process of being implemented by the Right of Way Funds Unit of the Accounting and Finance Section. Ineligible eminent domain costs previously claimed as participating are being credited to the Federal-aid Highway Program. Additionally, costs previously coded as ineligible are being reviewed for eligibility and possible claim as participating on future FHWA billings.

In conclusion, Mn/DOT has claimed ineligible right of way eminent domain costs in F.Y. 1985. These costs were claimed due to the absence of an internal control system whereby the Mn/DOT screens costs for eligibility for the Federal-aid Highway Program.

#### Recommendations

1. The Right of Way Funds Unit of the Accounting and Finance Section reestablish an internal control system of screening eminent domain costs for eligibility. This process should include a thorough review of the Federal Highway Program Manual, especially Volume 7 Chapter 1 Section 3 on Right of Way Reimbursement Provisions. Also, key provisions of FHPM 7-1-3 should be incorporated into the Right of Way Funds Unit written procedures.
2. Ineligible costs of \$24,239.49 cited in this report should be credited on the federal bill, if not already done.

3. Right of way eminent domain costs be retroactively reevaluated, to the extent practical, using proper eligibility guidelines. Ineligible claims should be credited on the federal bill. Also, any costs previously coded as ineligible, but found to be participating, should be claimed for proper payment on the federal bill.

FINDING V - NEED FOR REVISION OF RIGHT OF WAY PROPERTY OBJECT  
CODE GROUP 510-519

Descriptions of Object Code Group 510-519 (Right of Way Property) need revision. Misunderstandings of present object code descriptions are causing miscodings. Personnel of the Minnesota Department of Transportation (Mn/DOT) have different understandings of the meaning of the object codes than personnel of the Department of Finance (D.O.F.). Also, D.O.F. is concerned with supplying proper information regarding right of way payments to the Internal Revenue Service (IRS). This situation has resulted in inaccurate and inconsistent coding of object code group 510-519 payments during Fiscal Year 1985.

The Department of Finance Accounting Operations Manual defines an object of expenditure/classification code as a number used to identify the type of expenditure made. Expenditures are classified in terms of their service characteristics as distinguished from the functions or activities furthered.

Proper classification of Statewide Accounting (SWA) payments requires correct object code use. According to D.O.F. personnel, they also use object code information for determining what type of information they report to the IRS. To report payments made to individuals or vendors which are classified as taxable income, the D.O.F. is required to send copies of Form 1099 to payees and to the Internal Revenue Service.

During our review, we found several instances where the object of expenditure coding was inconsistent with the transaction documentation. This was discussed with Finance and Accounting personnel. From these discussions, we concluded that the 510-519 object code group was not used consistently during Fiscal Year 1985. Also in our sample, we discovered two transactions that were not properly coded to object code 515-Interest on Right of Way:

<u>Federal Project Number</u>	<u>State Project Number</u>	<u>Parcel Number</u>	<u>Interest Not Coded to 515</u>
1035-6(170)	6982-907	58	\$ 40,472.94
1094-3(304)	8282-904	34G	<u>105,280.43</u>
Total Interest Not Coded To 515			<u>\$145,743.37</u>

Confusion over which settlement costs should be considered acquisition costs and which costs should be separated as interest has caused object code 515-Interest on right of way miscodings on gross (lump sum) settlements. However, the interest costs of \$145,753.37 cited above were stated separately from the court's land acquisition judgment and could have been coded properly.

D.O.F. personnel indicated that they do not currently report object code 515 payments to the IRS. Mn/DOT and D.O.F. personnel need to review these types of interest payments to determine if they need to be reported to the IRS. Consultation with the IRS may be necessary.

One reason for incorrect object code use is inadequate object code descriptions. Conversations with Mn/DOT and D.O.F. personnel indicate that 510-519 object codes were not given adequate descriptions because of differing understandings between Mn/DOT and D.O.F. personnel. Mn/DOT personnel have not fully understood

D.O.F. object code use intentions, especially for reporting information to the IRS. On the other hand, D.O.F. personnel have not understood the various types of costs Mn/DOT codes to the 510-519 object code group.

As a result of inadequate 510-519 object code descriptions and differing understandings between Mn/DOT and the D.O.F., confusion and uncertainty exist among Mn/DOT employees regarding group 510-519 object code use. Coding is done without a complete understanding between the two departments. Therefore, Right of Way payees and the IRS may not receive the proper information.

We discussed these problems with appropriate Mn/DOT and D.O.F. personnel. It was agreed that the 510-519 object code group should be revised and clarified. Proposals discussed included distinguishing between vendor and property owner payments, and simplifying the object code group by reducing the number of third digits used.

In conclusion, the 510-519 object code group needs revision. Inaccurate object code descriptions have resulted in confusion and inaccurate or inconsistent coding. Also, right of way interest payments are not consistently coded to object code 515. These situations may adversely affect D.O.F. reporting responsibilities to the IRS. Mn/DOT and D.O.F. representatives need to work together to reach an agreement on group 510-519 object code usage that is acceptable to both departments.

#### Recommendations

1. Cognizant personnel from Mn/DOT meet with D.O.F. personnel to:
  - a. Discuss the 510-519 object code group to understand the problems and complexities of both departments.
  - b. Revise the 510-519 object code group to meet the needs of both departments.
  - c. Discuss object of expenditure 515-Interest on Right of Way and determine if interest costs coded thereto should be reported to the IRS as ordinary income.
2. Right of Way Funds Unit personnel of the Accounting and Finance Section identify interest costs that are separated from gross (lump sum) settlements. Costs identified as interest in land acquisition settlements should be coded to object code 515 under the present object code definitions.

FINDING VI - NEED FOR RECONCILIATIONS PERFORMED TO CONFORM WITH MN/DOT'S  
MEMORANDUM OF UNDERSTANDING WITH FHWA

During our review, we noted that not all reconciliations required by the Memorandum of Understanding between Mn/DOT and the Federal Highway Administration were performed as called for. This was caused by a misstated description of one reconciliation in the memorandum, and an oversight of the need for another reconciliation to be performed. As a result, Mn/DOT's responsibilities, as described in the memorandum, have not been completely fulfilled.

The Memorandum of Understanding calls for Mn/DOT to perform seven reconciliations related to federal-aid, including one between the agreement amount per the current billing and the Federal-aid Agreements Account in the General Ledger. Presently, the General Ledger figure and the amount of federal monies still to be received per the Schedule of Federal-aid Agreements compiled by the Accounting and Finance Section are reconciled. That figure is not tied into the current billing amount, which the memorandum calls for. Accounting and Finance Section personnel stated that the intent was to reconcile to the Schedule of Federal-aid Agreements Accounts figure, however it was mistakenly written in the memorandum as reconciling to the current bill. It was agreed that either the memorandum or the reconciliation performed should be changed.

Another requirement in the Memorandum of Understanding is to take Agreement Amounts and Federal Share Expended Amounts from FHWA Report 329 and reconcile these figures to the Current Bill. The purpose of this reconciliation is to assure that FHWA and Mn/DOT records concur on the amount of federal monies under agreement and on the amount received by Mn/DOT. This reconciliation was not fully performed during our review period. It should be done quarterly. Federal-aid Billing Section personnel stated that responsibility for this reconciliation would be assigned, and that it would be performed as called for with adequate review.

In the Memorandum of Understanding, Mn/DOT agrees that the correctness of Federal-aid claims are its responsibility. Performance of the reconciliations as called for in the memorandum are part of fulfilling this responsibility.

RECOMMENDATIONS

1. The wording of the reconciliation of General Ledger and Federal-aid Billing Section Agreement Amounts should be changed to reflect the original intent.  
or  
The Federal-aid Agreement Amount presently being used by the Accounting and Finance Section should be tied to the Agreement Amount showing on the Current Bill.
2. The reconciliation of FHWA Report 329 to the current bill be performed quarterly and reviewed appropriately.

## Finding VII - NEED FOR IMMEDIATE STATEWIDE ACCOUNTING/INVENTORY RECONCILIATION

As mentioned in Finding VI, the Memorandum of Understanding between FHWA and Mn/DOT requires the performance of several reconciliations. One of these is a reconciliation between the Cost Accounting System (CAS) and the Statewide Accounting System (SWA). We found that this reconciliation was performed satisfactorily except that inventory payments were not reconciled to CAS. This cannot be done until a SWA/Inventory reconciliation is functioning first. The need for a SWA/Inventory reconciliation was reported in Finding III of Audit Report No. 85-023-33, Purchasing Audit of Non-capital Expenditures. The finding was reported as follows:

During our review, we found that there is no reconciliation between the Statewide Accounting System (SWA) payments and the consumable inventory system. Without this reconciliation, consumable inventory dollar amounts may be misstated. This could result in misstatements in the Cost Accounting System reports and the financial statements.

When the SWA/Consumable Inventory reconciliation is functioning, the amount paid by SWA for goods purchased is reconciled to the amount input into the consumable inventory system for goods received. As part of this review, we examined entries to the consumable inventory system and found several errors. The SWA/Consumable Inventory reconciliation would uncover various inventory input errors including errors in coding, inputting dollar amounts, keypunching, entering discounts, and entering freight charges. When the reconciliation is functioning, these types of errors would be found and corrected.

According to Inventory Management Section personnel in the Office of Systems and Support Services, several attempts have been made since March of 1983 to get the Statewide Accounting/Consumable Inventory reconciliation functioning, but all attempts have been unsuccessful. The main reason cited is a programming error discovered in November of 1984 which has not allowed the receipt portion of a direct purchase to be accepted by the computer. Inventory Management Section personnel have been working with the computer programmers to fix the programming error. Another reason cited is the general lack of time to work on the reconciliation.

In March of 1983 the new Cost Accounting System (CAS) was implemented. The CAS presently interfaces with the consumable inventory system. Thus, inventory amounts are costed through CAS. A CAS/Consumable Inventory reconciliation should also be functioning, but there are irreconcilable differences between the two systems. One such difference is caused by the programming error mentioned above, another is a one cent rounding error for direct purchases. This rounding error may also be corrected by working with the computer programmers. Until the SWA/Consumable Inventory reconciliation is working, the CAS/Consumable Inventory reconciliation is not reliable.

Prudent business practices call for dollar amounts entered into accounting systems to be as accurate as possible. The Statewide Accounting/Consumable Inventory reconciliation is important in this regard because inventory input errors can be found and corrected. When the Statewide Accounting/Consumable Inventory reconciliation is functioning properly, inventory dollar amounts for the financial statements and CAS data will be more accurate. Also, users of the inventory system will have more reliable data for inventory management and control.

Currently, Inventory Management Section personnel receive a monthly reconciliation report listing all transactions, by purchase order number, that do not reconcile and have been in the system for 60 days. They also receive detail listings of SWA and consumable inventory transactions identifying documents needed to determine why a particular transaction cannot be reconciled. Inventory Management Section personnel indicated that transactions made prior to February 1985 have been purged out of the reconciliation process and attempts are now being made to reconcile several cost centers.

In summary, the Statewide Accounting/Consumable Inventory reconciliation is not functioning properly at this time. This is resulting in consumable inventory input errors not being found and corrected. Therefore consumable inventory balance sheet figures for the financial statements may be materially misstated and cost accounting data may be inaccurate and thus unreliable. Also, management may have inaccurate inventory figures for consumable inventory control and planning. This situation has occurred since March of 1983. Thus, it is important that priority be given to getting the Statewide Accounting/Consumable Inventory reconciliation to function properly for all cost centers.

#### RECOMMENDATION

The Office of Systems and Support Services give high priority to getting the Statewide Accounting/Consumable Inventory reconciliation functioning properly for all cost centers. We recommend a target date be set to accomplish this. This reconciliation needs to be functioning as quickly as possible.



## FINDING VIII - IMPROVEMENT OF ADJUSTMENT H\* AUDIT TRAIL NEEDED

During our review, we noted that Adjustment H\* transactions were inadequately documented in the Federal-aid Billing Unit's project files. This results in the lack of an easily accessible and easily followed audit trail.

An audit trail can be defined as accounting control procedures that provide documentary evidence of processing so that records and reports can be traced back to their component source transactions and vice versa. More simply, it could be described as a traceable transaction history.

Adjustment H\* differs from most other Cost Accounting System (CAS) adjustments in that it is manually input rather than computer generated. Accounting and Finance Section representatives have defined Adjustment H\* as an input amount that does not affect total costs, but allows the costs to override Adjustment G and post changes to participating costs, thereby allowing the change to effect net claim. It is used primarily to move costs from one apportionment to another and to ensure that the Federal Bill agrees with the Final Estimate Sheets for a contract payment.

The Adjustment H\* transactions are input into the Cost Accounting System (CAS) via Mn/DOT Form Number TP-00050-01, Federal Project Master File - TC-50. This is an original only form. After the necessary information is entered on the TC-50 by the Federal-aid Billing Unit the form goes to the CAS Control Group for processing into the CAS. After processing it is filed with the other CAS batches, which eventually go to the Records Center.

Another adjustment that is also manually input by use of a TC-50 transaction is Adjustment F. This adjustment is generally supported by an ineligibility notification from the FHWA, or some other form of documentation. Adjustment H\* transactions differ from Adjustment F in that they do not have such externally produced documentation. Providing a copy of the TC-50 with a written explanation of the adjustment in the federal project file would provide such documentation for an Adjustment H\*.

A similar finding was presented as part of Federal-aid Billing Function Audit Report No. 84-025-49. In a June 20, 1984 office memorandum, the Accounting and Finance Section responded by agreeing to place a photocopy of the TC-50 with a written explanation in the federal project file. This procedure has not been implemented.

### Recommendation

Federal-aid Billing personnel document the justification for Adjustment H\* transactions by placing a copy of the TC-50 with a written explanation in the federal project file.

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(1) Systems Auditability and Control Study - Data Processing Control Practices Report (Institute of Internal Auditors, 1977), p. 149.

MINNESOTA DEPARTMENT OF TRANSPORTATION

Attachment II

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND

PROGRESS TOWARD IMPLEMENTATION

Effective management and control over Mn/DOT's consumable inventory has not been exercised.

1. Mn/DOT officials should monitor consumable inventory to ensure that standard practices are adhered to and the desired accuracy levels are attained.

*Recommendation Substantially Implemented. Inventory controls have greatly improved. Districts having annual physical inventories should report the results to the central office.*

Mn/DOT does not review receipts and issues of inventory after year-end to determine their effect on the financial statements.

2. Mn/DOT should review issues and receipts of inventory after year-end to determine their effect on the amount of inventory reported on the financial statements.

*Recommendation Implemented.*

3. Mn/DOT should develop a policy which clearly defines the use of event dates.

*Recommendation Implemented.*

An adequate audit trail for consumable inventory does not exist.

4. Mn/DOT should take the necessary steps to ensure that an adequate audit trail exists.

*RECOMMENDATION WITHDRAWN. Mn/DOT is developing a new computerized inventory system which will have a better audit trail.*

Operations in the Federal Aid Billing Unit need to be revised.

5. Mn/DOT's Federal Aid Billing Unit should review and revise their operating procedures to adequately request, monitor, and deposit federal reimbursements into the Trunk Highway, Transportation, and Federal Funds.

*Recommendation Implemented.*

MINNESOTA DEPARTMENT OF TRANSPORTATION

Attachment II

Page 2

Procedures need to be developed for recording and reporting retainage from the various agreements entered into by Mn/DOT.

6. Mn/DOT's General Ledger Unit should work with the applicable sections to develop written policies and procedures for applying retainage to agreements. The procedures should also include a method of recording retainage so that the liability is easily identifiable by fund for inclusion in the financial statements.

*RECOMMENDATION PARTIALLY IMPLEMENTED. See current recommendation #1.*

Mn/DOT does not report the state and local match amount on the federal financial schedules that they prepare.

7. Mn/DOT should work with the Department of Finance to determine the amount of state and local match on their material federal programs for inclusion in the federal financial schedules.

*Recommendation Implemented. Mn/DOT included the required match in the fiscal year 1985 federal financial schedules in accordance with the instructions developed by the Department of Finance. This implementation has received final acceptance by the federal agency.*

The expenditure classification of traffic signal control boxes needs to be reviewed.

8. Mn/DOT should work with the Department of Finance to determine the proper expenditure classification for the traffic signal control boxes, and other related costs to ensure that these items are properly presented on the financial statements.

*Recommendation Implemented.*

Current detailed written policy and procedures manuals for various accounting activities are needed.

9. Mn/DOT personnel should develop detailed, written policies and procedures for the following accounting activities:

- completing all federal aid billing activities; and
- making adjusting journal entries, closing the accounting records, and preparing year-end financial statements in accordance with GAAP.

*Recommendation Substantially Implemented. The general ledger unit is in the process of compiling procedures.*

MINNESOTA DEPARTMENT OF TRANSPORTATION

Attachment II

Page 3

Mn/DOT does not maintain adequate documentation to determine whether federal grant reimbursements are being prepared on a timely basis for the Local Rail Service Assistance program (CFDA #20.308).

10. Mn/DOT should submit reimbursement requests for the Local Rail Assistance Program on a timely basis and maintain a record of when those requests were submitted for payment. Mn/DOT should also work with the Federal Railroad Administration to obtain more timely federal reimbursements.

*Recommendation Implemented. The Federal Railroad Administration's Local Rail Assistance Program began using the letter-of-credit drawdown in federal fiscal year 1985. We consider the action taken by the Federal Railroad Administration to represent final acceptance of implementation.*

Mn/DOT does not require all employees to submit leave request forms which authorize and document absences.

11. All Mn/DOT offices should require their employees to submit leave slips for all absences. If this is not practical, the Mn/DOT personnel office should obtain approval from the Department of Finance and the Department of Employee Relations to develop an alternative policy.

*RECOMMENDATION IMPLEMENTATION-IN-PROGRESS. The Mn/DOT has submitted an alternative policy to the Departments of Finance and Employee Relations for approval.*

Mn/DOT needs to ensure that statements of account are prepared and sent on a regular monthly basis.

12. Mn/DOT officials should continue to take the necessary steps to ensure that statements of account are prepared and sent on a regular basis.

*Recommendation Implemented.*

Supporting documentation for administrative expenditures is not always complete.

13. Administrative expenditures should not be authorized for payment unless all supporting documentation is properly prepared and complete.

*Recommendation Implemented.*

MINNESOTA DEPARTMENT OF TRANSPORTATION

Attachment II

Page 4

STATUS OF PRIOR AUDIT RECOMMENDATIONS

DEVELOPED BY

Mn/DOT INTERNAL AUDIT UNIT

Need for federal grant advances to be obtained in accordance with federal policy.

1. Mn/DOT utilize a federal letter-of-credit drawdown in requesting federal funds from the F.A.A. on their ADAP program and AIP program.

*RECOMMENDATION NOT IMPLEMENTED. See current finding 1 in Attachment I.*

Need for closer monitoring of payrolls submitted by the contractors and subcontractors at District 5.

2. Personnel at the Garrison Construction office review payrolls submitted by each contractor and subcontractor according to Construction Manual 5-591.342.

*Recommendation Implemented. Personnel at the Garrison Construction office are reviewing the payrolls submitted by contractors and subcontractors to ensure that all employees are being paid wages in compliance with the Davis-Bacon Act. This implementation has received final acceptance by the federal agency.*



Minnesota Department of Transportation  
Transportation Building, St. Paul, MN 55155

Office of Commissioner

612-296-3000

February 12, 1986

Mr. James R. Nobles  
Office of the Legislative Auditor  
Veteran's Service Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We have reviewed the draft management letter dated January 28, 1986, which your staff has prepared concerning Department of Transportation accounting procedures and controls for Fiscal Year 1985. We appreciate the professional and constructive nature of the recommendations. Our responses to your recommendations, as well as those recommendations having to do with OMB Circular A-102, Attachment P, follow for inclusion in your final report.

Recommendation 1: The General Ledger Unit personnel should meet with each section that utilizes retainage, review and if necessary, revise its method of accounting for these retainage amounts to ensure that the proper amounts will be reported on the financial statements.

Response: We are in agreement that some line units do not fully understand the need for the retainage figures on the financial statements. We will contact the various office managers in order to clarify the need for retainage data. We will also review that data which was submitted this year and individually contact those offices which do not appear to be reporting the proper data.

AUDIT OF OMB CIRCULAR A-102, ATTACHMENT P  
Finding I - NEED FOR FEDERAL GRANT ADVANCES TO BE OBTAINED IN  
ACCORDANCE WITH FEDERAL POLICY

Recommendation 1: Mn/DOT utilize a federal letter-of-credit drawdown in requesting federal funds from the FAA on their Airport Improvement Program.

Response: Efforts are currently underway to implement the letter of credit procedures to request and receive Airport Improvement Program funds on behalf of the municipalities receiving federal grants. All paperwork on the part of the Aeronautics Division has been completed. We are currently waiting for some paperwork to be returned by the bank. As soon as that form is received, the package of completed information will be sent to the Federal Aviation Administration (FAA). The FAA will prepare the actual letter of credit based on

the information submitted to them. We anticipate the package of information will be sent to them in approximately a week. However, we have no way of predicting when the letter of credit process will be fully implemented since we do not know the procedure and time requirements on the part of the FAA.

Finding II - NEED TO COMPLETE THE "FIELDMEN'S CHECK ON COMPLIANCE"  
EACH MONTH DURING THE CONSTRUCTION PROJECT

Recommendation 1: District Construction Engineers monitor this compliance requirement and verify that personnel of the various construction offices in Mn/DOT complete the "Fieldmen's Check on Compliance" as specified in the Construction Manual 5-591.342.

Response: In addition to the memo written to construction offices which was referred in to this finding, the following steps have been taken:

1. A memorandum from C. W. Christie, dated 12/31/85, was written to the District Engineers with a copy of this finding calling to their attention the need for monitoring this compliance requirement.
2. A series of district meetings to discuss contract labor provisions have been scheduled, four of which are to be held in February and March. One of the items on the agenda that will be strongly stressed is field interviews. It is expected that such meetings will be held in all nine districts before the construction season begins.

Finding III - NEED TO HAVE THE ITEM RECORD ACCOUNT SUPPORT PAYMENTS  
TO THE CONTRACTOR

Recommendation 1: Appropriate Construction Engineers/Resident Engineers examine procedural weaknesses noted above and make the following necessary improvements as applicable.

1. The IRA be maintained currently and utilized to tabulate bid item quantities.
2. The basic instructions for making entries to the IRA be followed as explained in the Documentation Manual.

Response: A memorandum to Construction Engineers is being prepared, which will cite the findings and questions raised by the audit, and will instruct Engineers to adhere to the Construction Manual, Documentation Manual and Policies when documenting pay quantities.

Finding IV - INELIGIBLE EMINENT DOMAINS COSTS CLAIMED

Recommendation 1: The Right of Way Funds Unit of the Accounting and Finance Section re-establish an internal control system of screening eminent domain costs for eligibility. This process should include a thorough review of the Federal Highway Program Manual, especially Volume 7 Chapter 1 Section 3 on

Right of Way Reimbursement Provisions. Also, key provisions of FHPM 7-1-3 should be incorporated into the Right of Way Funds Unit written procedures.

Response: The appropriate Right of Way Funds personnel in the Accounting and Finance Section have thoroughly reviewed the Federal Highway Program Manual, Volume 7 Chapter 1 Section 3, on Right of Way Reimbursement Provisions. Key provisions of FHPM 7-1-3 are included in written procedures that the Right of Way Funds Unit is developing. An internal control system for screening eminent domain costs for eligibility has been re-established in the Right of Way Funds Unit.

Recommendation 2: Ineligible costs of \$24,239.49 cited in this report should be credited on the federal bill, if not already done.

Response: The ineligible costs cited in the audit report were credited on the federal bill in October of 1985.

Recommendation 3: Right of way eminent domain costs be retroactively re-evaluated, to the extent practical, using proper eligibility guidelines. Ineligible claims should be credited on the federal bill. Also, any costs previously coded as ineligible, but found to be participating, should be claimed for proper payment on the federal bill.

Response: The Right of Way Funds Unit re-evaluated the eminent domain parcels from January 1, 1978 to May 31, 1985. Those claims determined to be ineligible were credited on the current bill in October of 1985. There were also some costs which had previously been coded as ineligible, but were found to be participating. Those costs have been submitted for payment on the federal bill.

Finding V - NEED FOR REVISION OF RIGHT OF WAY PROPERTY  
OBJECT CODE GROUP 510-519.

Recommendation 1: Cognizant personnel from Mn/DOT meet with D.O.F. personnel to:

- A. Discuss the 510-519 object code group to understand the problems and complexities of both departments.
- B. Revise the 510-519 object code group to meet the needs of both departments.
- C. Discuss object of expenditure 515-Interest on Right of Way and determine if interest costs coded thereto should be reported to the IRS as ordinary income.

Response: Preliminary discussions with Department of Finance personnel indicate that it will take some time to refine the object code descriptions to fulfill the needs of both departments. However, this will be resolved, along with determining the need to report interest expenditures to the Internal Revenue Service.



Recommendation 2: Right of Way Funds Unit personnel of the Accounting and Finance Section identify interest costs that are separated from gross (lump sum) settlements. Costs identified as interest in land acquisition settlements should be coded to object code 515 under the present object code definitions.

Response: Right of Way Funds Unit personnel in the Accounting and Finance Section are now coding interest costs that are separated from gross settlements to Object Code 515 - Interest on Right of Way.

Finding VI - NEED FOR RECONCILIATIONS PERFORMED TO CONFORM WITH  
MN/DOT MEMORANDUM OF UNDERSTANDING WITH FHWA.

Recommendation 1: The wording of the reconciliation of General Ledger and Federal-aid Billing Section agreement amounts should be changed to reflect the original intent.

or

The Federal-aid agreement amount presently being used by the Accounting and Finance Section should be tied to the agreement amount showing on the Current Bill.

Response: We concur with the audit recommendation and we will pursue the revision of the Memorandum of Understanding between Mn/DOT and the FHWA. It is our intent to include the reconciliation of the Schedule of Federal Aid Agreements Account to the Federal-Aid Agreements Account in the General Ledger in such a revision. This will replace Item C under Section 3 - Accounting Control of Consolidated Billings.

Recommendation 2: The reconciliation of FHWA Report 329 to the current bill be performed quarterly and reviewed appropriately.

Response: Steps are being taken to ensure that the reconciliation of the FHWA Report 329 to the current bill is accomplished quarterly. Changeovers in personnel and staffing shortages prevented the complete accomplishment of this task during the past fiscal year.

Finding VII - NEED FOR IMMEDIATE STATEWIDE ACCOUNTING/INVENTORY  
RECONCILIATION

Recommendation 1: The Office of Systems and Support Services give high priority to getting the Statewide Accounting/Consumable Inventory reconciliation functioning properly for all cost centers. We recommend a target date be set to accomplish this. This reconciliation needs to be functioning as quickly as possible.

Response: At this time the computerized process appears to be functioning properly. All metro inventory centers (Mn/DOT Stores, Mn/DOT Maps, Electronic Communications, Electrical Service Unit, Golden Valley and Oakdale) are using the reconciliation process to assure that their inventory figures are valid.

In addition, Districts 2A Bemidji, 2B Crookston, 6A Rochester and 6B Owatonna have started checking their reconciliation reports. The balance of the inventory centers have been contacted and we plan to have them doing a reconciliation by June 1.

We find the majority of the errors to be incorrect keying entries of purchase order numbers into the SWA or inventory systems. The first two to three months of the reconciliation are difficult and time consuming, but do enable each inventory center to locate the reasons they are not reconciling and take appropriate corrective measures. After this initiation period, the unreconciled items on the reports diminish considerably.

We feel this reconciliation process will enable each inventory center to maintain accurate inventory figures.

Finding VIII - IMPROVEMENT OF ADJUSTMENT H\* AUDIT TRAIL NEEDED.

Recommendation 1: Federal-aid Billing personnel document the justification for Adjustment H\* transactions by placing a copy of the TC-50 with a written explanation in the federal project file.

Response: We concur with the Audit finding. This recommendation was partially implemented last year. Copies of the TC-50 for Adjustment H\* will be placed in the project file. When an Adjustment H is used for any purpose except at project closing, a detail explanation will be provided. However, when Adjustment H is used in conjunction with the project finaling process, a detail explanation would require documenting and recalculating the entire finaling calculation. Rather than doing that, it is our intent to document the different processes used for all project finaling and identify those processes with a code. When the Adjustment H is used in the finaling process the finaling code would be included. These processes would fall into the following categories:

1. Multiple apportionment for a given project, resulting in a proration of all costs. Finaling requires actual contract costs by apportionment.
2. Projects with an Adjustment E prior to finaling.
3. Maximization of the use of "Dead" fund projects, (Apportionment code no longer used by the FHWA).
4. Overriding of function edits, i.e. Function 03 costs and no contract payments.
5. Redistribution of costs in Adjustment A.

A more detailed explanation of these processes will be provided in the Federal Aid Billing Procedures Manual. It is felt that this should provide sufficient information as to the use of Adjustment H without duplicating the entire finaling calculation.

Mr. James R. Nobles  
February 12, 1986  
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Again, we wish to thank you for the professional, constructive nature of your recommendations. We will make every effort to see that actions specified in these responses are implemented in a timely manner.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. Braun", written in a cursive style.

Richard P. Braun  
Commissioner