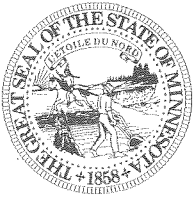


**DEPARTMENT OF TRANSPORTATION
MANAGEMENT LETTER
FISCAL YEAR 1986**

JANUARY 1987

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Leonard W. Levine, Commissioner
Department of Transportation
411 Transportation Building
St. Paul, Minnesota 55155

Dear Commissioner Levine:

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 1986 financial statements and federal programs. The scope of our work was limited to:

- those aspects of your department which have a material impact on any of the state's various funds and account groups shown on the financial statements;
- federal programs as cited in the Catalog of Federal Domestic Assistance (CFDA) included in the single audit scope as follows:

<u>CFDA #</u>	<u>PROGRAM NAME</u>
20.106	Airport Improvement
20.205	Highway Planning and Construction

- 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. The work conducted in your department is a part of our annual statewide financial and federal compliance audit (single audit). 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 1986.

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 II. Attachments I and III to this management letter are summaries of the progress on all recommendations developed during our financial audit of Minnesota's fiscal year 1985 statements. Since the federal government is ultimately responsible for determining the resolution of single audit recommendations, they will notify you of their final acceptance of your corrective actions.

The current recommendation included in this letter is presented to assist you in improving accounting procedures and controls. Progress on implementing this recommendation will be reviewed during our audit next year.

CURRENT FINDING AND RECOMMENDATION

Certificates of compliance are not on file for all Mn/DOT contractors.

Certificates of compliance are issued by the Department of Human Rights to vendors who intend to contract with the State of Minnesota. In order to obtain a certificate, a vendor must submit an affirmative action plan that meets specific civil rights requirements. According to Minn. Stat. Section 363.073:

"No department or agency of the state shall accept any bid or proposal for a contract or execute any contract for goods or services in excess of \$50,000 . . . unless the firm or business has an affirmative action plan . . . approved by the commissioner of Human Rights."

Various divisions in Mn/DOT are responsible for verifying a contractor's certificate of compliance prior to entering into a contract. However, eight out of twenty-eight contractors tested did not have certificates of compliance even though their contracts were in excess of \$50,000. The largest area of noncompliance dealt with railroad contracts for which five of the six contracts tested were found to be missing a certificate of compliance. The remaining three contracts were for highway construction.

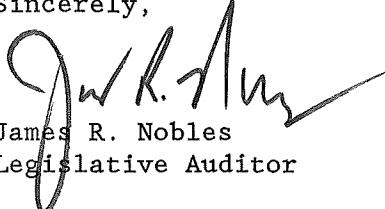
Mn/DOT staff indicated that some railroads have submitted their affirmative action plans directly to Mn/DOT in the past. The plans on file at Mn/DOT were outdated, and therefore, were not in effect. However, this process has changed and all plans are to be submitted to the Department of Human Rights.


RECOMMENDATION:

1. *Mn/DOT should establish functional responsibility in all divisions for reviewing potential contractors compliance certificates.*

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

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

Attachments

January 16, 1987

DEPARTMENT OF TRANSPORTATION

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

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

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.

RECOMMENDATION IMPLEMENTED: Mn/DOT issued a memorandum dated June 16, 1986, that discussed the calculation of retainage. Substantial compliance was noted during fiscal year 1986.

STATE OF MINNESOTA

DEPARTMENT Mn/DOT - Audit Section
Room 419

Office Memorandum

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

DATE: November 26, 1986

FROM: Ronald W. Gipp *RWG*
Audit Director

PHONE: 296-3254

SUBJECT: Audit of OMB Circular A-128, Single Audit Compliance
Supplement Requirements for Fiscal year 1986
Audit Report No. 87-800-17

As agreed upon with the Office of the Legislative Auditor, we have reviewed the procedures and controls followed by Mn/DOT personnel concerning the Single Audit 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 \$277,668,365 in federal funds from the Highway Research, Planning and Construction Program, CFDA 20.205, and approximately \$9,457,129 in federal funds from AIP, CFDA 20.106, in Fiscal Year 1986.

We also reviewed the Single Audit Compliance Supplement General Requirements that applied to our areas of audit coverage. The review covered the period from July 1, 1985 through June 30, 1986. 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 Single Audit Compliance Supplement with the exception of

Richard P. Braun
Robert J. McDonald
November 26, 1986
Page 2

several areas in need of attention. These are detailed in Findings I-III and Observations I-II attached to this report.

This report contains our recommendations developed during this audit. Attachment III to this report is a summary of the progress towards implementation of our recommendations developed during the Fiscal Year 1985 audit.

cc: R. B. Keinz
L. F. McNamara/D. E. Durgin
R. J. Rought
E. E. Ofstead
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:
Charles Theisen
Daniel Kahnke
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 TO PERFORM RECONCILIATIONS IN CONFORMANCE 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 (FHWA) were performed in Fiscal Year 1986. Reasons given for not performing the reconciliations were a lack of sufficient personnel or lack of established procedures. Four of the required seven reconciliations were totally or partially incomplete as follows:

1. Federal Project Master File Update Control Report (111-CG-WK) vs. Current Bill
2. Cost Accounting System vs. Statewide Accounting System
3. Current Billing vs. General Ledger
4. FHWA 329 Report vs. Current Bill

The Federal Project Master File Update Control Report is a weekly report which summarizes the update activity (results of processing operations) on the Federal Project Master File. This file is one of the main reference files of information in the Cost Accounting System. The Federal Project Master File Update Control Report is to be compared to the Federal-Aid Billing Report (Current Bill). This reconciliation was properly performed except that the Adjustment "H" total on the Federal Project Master File Update Control Report included \$446,186.78 that was not included in the corresponding amount on the Current Bill total. Note: Adjustment "H" adjusts participating costs within an apportionment record, within a federal project without affecting total costs or non-participating costs. The adjusting amount is entered manually (H*) or calculated by the system (H). The Cost Accounting Section Manager of the Accounting and Finance Section suggested that the reason for the discrepancy was that the Current Bill does not accumulate summary totals of Adjustment "H*". He has indicated he would investigate the possibility of getting Adjustment "H*" included in the Adjustment "H" total.

The reconciliation of the Cost Accounting System costs upon which the Current Bill is based to the Statewide Accounting System was properly performed except for the inventory aspect. The Cost Accounting System produces weekly inventory transaction information about issues, direct purchases and adjustments. This information is accumulated on a monthly basis and compared to the monthly activity report from the Mn/DOT Inventory System. Differences are noted but not investigated. The total approximate difference over the last two fiscal years was a \$43,000 credit for issues, a \$850,000 credit for direct purchases and a \$1,250 debit for adjustments.

The credit figures indicate that the information from the monthly activity report was greater than the information on the weekly transaction reports. The manager of the Inventory Management Section of the Office of Systems and Support Services suggested that the problem lies in the way transactions are recorded. For example, discounts are recorded as credits into the weekly transaction stream. Then data is reassembled into the monthly activity report and items coded as discounts are automatically credited. Thus, the credit entries are credited producing a debit. The cost accounting system gets the data before it is reassembled. The manager of the Inventory Management Section said she would have one of her staff investigate this problem as soon as they were available.

The monthly reconciliation of the Agreement Amount per Current Billing with the Federal-Aid Agreements Account in the General Ledger was not performed during the fiscal year as required by the Memorandum of Understanding. Instead, the Federal-Aid Billing Section was reconciling the General Ledger with the amount of federal monies still to be received per the Schedule of Federal-Aid Agreements compiled by the Accounting and Finance Section. According to Accounting and Finance Section personnel, procedures are currently being developed to do the reconciliation in accordance with the Memorandum of Understanding.

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. The FHWA 329 Report/Current Bill reconciliation, which is required on a quarterly basis, was completed only for the first fiscal quarter. The reason cited by Accounting and Finance Section personnel was the amount of time necessary to complete the reconciliation--four months. To reduce time requirements, the Department has requested permission to complete this reconciliation on a monthly basis beginning with July, 1986. FHWA granted approval on September 3, 1986.

In the Memorandum of Understanding, Mn/DOT agrees that the correctness of the Federal-Aid claims are its responsibility. Part of this responsibility is to perform the reconciliations called for in the memorandum. Without complete reconciliations, the accuracy of the Current Bill cannot be assured.

RECOMMENDATIONS

1. The Current Bill summary information include totals for Adjustment "H*".
2. No further recommendation. We can only emphasize that procedures are being developed to rectify the problems where they exist.

FINDING II - NEED FOR PROMPT SUBMITTAL OF CONTRACTOR PAYROLLS

Personnel in the Golden Valley and Bemidji Construction Offices are not always requiring contractors to promptly submit contractor payrolls. Control systems requiring timely payroll submittal are lacking in these offices. Payrolls dating back to August of 1985 were not yet submitted when we visited these offices in August of 1986.

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. Receiving and checking contractor payrolls is an important control to assure that the Davis-Bacon Act is complied with. Compliance with this requirement is important to assure continued federal highway funding.

Federal regulations and Section 5-591.342 of the Construction Manual require the weekly submission of payrolls by contractors. Construction Memorandum 85-28-C-2, dated September 5, 1985 states... "Special emphasis must be placed on requiring compliance with this requirement. Partial payment should be withheld until these (late) payrolls are submitted. Final payment must not be made until all payrolls have been submitted."

When payrolls are not submitted in a timely manner several problems may occur which inhibit Mn/DOT's ability to comply with the regulations mentioned above including:

- Impairment of the ability to receive overdue payrolls due to poor contractor payroll records and inadequate payroll record retention by contractors.
- Inability of department personnel to check payrolls for completeness and accuracy, including checking for compliance with prevailing wage rates, in a timely manner (payrolls that are not received cannot be checked).
- Errors and irregularities may be more difficult to resolve due to the length of time between discovery and occurrence.
- Contractors may get the impression that payrolls are not important because Mn/DOT personnel are not requiring payrolls in a timely manner.

In most construction offices throughout the State, a form is used to determine which contractors worked on a project during each week, which payrolls have been submitted, and which payrolls need to be submitted. Although the Bemidji Construction Office has a similar previously developed form, it was not in use when this audit was made. In discussions with Bemidji Construction Office personnel, there was agreement that the use of a form is helpful and necessary, and they agreed to reinstate the use of their form. Use of this form in conjunction with withholding partial estimates when payrolls are late should correct the late submittal problem in Bemidji.

Golden Valley Construction Office personnel have a form in use to determine which weeks of payrolls need submittal but follow-up is inadequate resulting in payrolls not being submitted in a timely manner. Golden Valley Construction Office personnel stated that there are other demands on their time during the construction season and that they catch up on the work required to obtain payrolls in the winter months. Office personnel also stated that even if they withhold partial estimate payments and receive payrolls in a timely manner, they would not have the personnel to check the payrolls in a timely manner.

We also reviewed contractor payroll submittal at six other construction offices this year: Mendota, Windom, Morris, Winona, Hennepin County and Strgar-Roscoe-Fausch Inc. (Minnetonka). We found that contractor payrolls are generally submitted promptly to these construction offices.

RECOMMENDATIONS

1. Bemidji Construction Office personnel reinstate and continue to use a form to determine which weekly payrolls are required to be submitted by contractors. Partial estimate payments should be withheld until late payrolls are submitted.
2. Golden Valley management analyze their office situation and determine what corrective action is necessary in order to receive and check contractor payrolls in a timely manner so that proper compliance with the Davis-Bacon Act is achieved.

FINDING III - 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 five of eleven 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 Engineers area of responsibility.

This information is recorded on the "Fieldmen's Check on Compliance" form. Any discrepancies should be reported to the contractor promptly. This internal control is important because discrepancies may be found which a review of payrolls alone would not reveal.

We reviewed eleven construction projects during this audit. The results of our review with respect to Fieldmen's Checks are as follows:

<u>STATE PROJECT NUMBER</u>	<u>CONSTRUCTION OFFICE</u>	<u>COMPLIANCE % (Monthly checks made + Months worked)</u>
1908-55	MENDOTA	100%
1914-29	MENDOTA	43%
2102-35	MORRIS	100%
2750-26	GOLDEN VALLEY	75%
2789-13	GOLDEN VALLEY	100%
2801-53	WINONA	100%
3205-20	WINDOM	25%
3902-15	BEMIDJI	40%
8308-36	WINDOM	33%
27-666-03	* HENNEPIN CO.	100%
142-010-09	* MINNETONKA	100%

* Monitoring of daily construction work was done by outside consultants.

We compared the months when construction work was done as documented on the weekly diaries, to the months when the fieldmen's check was completed. We found that the fieldmen's check was completed every month on six projects. The percentage of required fieldmen's checks completed on the other projects ranged from 25% to 75%. As a result, an important internal control assuring compliance with the Davis-Bacon Act was insufficient on five projects.

One reason for noncompliance noted by some construction office personnel is that some contractor employees are reluctant to cooperate when fieldmen's checks are made. They feel that their pay rate is their own business, or they don't know their pay rates due to the variety of projects they work on, or they don't want to jeopardize their position with the contractor. However, construction office personnel generally agree that the situations mentioned above are often the exception and that most contractor personnel realize that fieldmen's checks are designed to benefit them and thus they cooperate fully.

This same finding was reported last year. The results of this years review of a sample of projects indicate that there may be improvement since last year with respect to completion of fieldmen's checks. Last year only two of ten projects reviewed had 100% compliance. This year six of eleven projects reviewed had 100% compliance; however, improvement in this area is still necessary.

RECOMMENDATION

District Construction Engineers increase their monitoring of this compliance requirement as needed and verify that personnel of the various construction offices complete the "Fieldmen's Check on Compliance" as specified in the Construction Manual so that proper compliance with the Davis-Bacon Act is achieved.

OBSERVATIONS

The following observations are considered performance/operational in nature. Observations are intended to assess: (1) the economy and efficiency of the audited entity's operations, and (2) program effectiveness - the extent to which program objectives are attained.

OBSERVATION I - OVERDUE "FINALS" PACKAGE SUBMITTAL

In discussions with Construction Contract Administration personnel, it was brought to our attention that "finals" packages are not always submitted promptly as required by the Mn/DOT Procedure Manual for Highway Construction Project Closings.

The manual calls for the project engineer to send the final "...worksheet and finals packet to the Project Activities Supervisor within 60 days after the project completion date or within two-thirds of the time period, as provided in the special provisions, for submittal of final to the contractor, but under no circumstances later than December 31st of the year in which the final is due."

We reviewed the Status of Final Contract Vouchers reports dated 3-20-86, 7-3-86, and 9-2-86 to determine the total number of projects that are overdue using the December 31, 1985 due date. The results of our review are listed below by District:

<u>DISTRICT NUMBER</u>	<u>OVERDUE AS OF 3-20-86</u>	<u>OVERDUE AS OF 7-3-86</u>	<u>OVERDUE AS OF 9-2-86</u>
1	21	7	3
2	8	4	4
3	8	3	2
4	0	0	0
5	14	8	8
6	8	2	2
7	5	3	3
8	8	1	1
9	25	18	18
	—	—	—
TOTALS	97	46	41
	—	—	—

The 9-2-86 report of Status of Final Contract Vouchers listed the following overdue projects:

<u>DISTRICT NUMBER</u>	<u>STATE PROJECT NUMBER</u>	<u>PROJECT ENGINEER</u>
1	0980-108	SEXTON
1	3802-15	SEXTON
1	6901-13	KUJALA
2	4501-32	GJOVIK
2	6002-43	WOTHE
2	63-603-08	ELRING
2	4037	LARSON
3	7305-50	LARSON
3	18-602-16	BLANCK
5	2732-81	THOMPSON
5	2745-24	HOPPENRATH
5	7008-29	FOSTER
5	27-618-31	LEE
5	27-644-01	LEE
5	27-744-01	LEE
5	141-070-03	SMITH
5	163-276-15	KOPPY
6	8501-34	JASZEWSKI
6	8501-41	JASZEWSKI
7	7201-37	MILLER
7	8103-27	MILLER
7	07-613-09	SLEEPER
8	37-599-09	HANSON
9	1301-55	MARTTILA
9	1301-57	MARTTILA
9	1301-60	MARTTILA
9	1902-30	PULK
9	1908-50	SWANSON
9	6205-27	SWANSON
9	6208-28	SWANSON
9	6211-65	MARTTILA
9	6214-40	PULK
9	6224-33	SWANSON
9	6224-35	SWANSON
9	6241-42	SWANSON
9	8211-23	MARTTILA
9	8214-88	MARTTILA
9	8282-48	MARTTILA
9	8282-55	MARTTILA
9	82-614-04	SWANSON
9	3998	PULK

When "finals" are not received in a timely manner the project closing process is delayed. The results of this delay include:

- Slower release of unused federal and state funds from projects with cost underruns back to the construction program.
- Decreased cash flow from not collecting promptly on projects with cost overruns.

- Difficulty in resolving problems due to the length of time since the project was completed, thereby making the process of project justification more difficult.

This observation is included for the purpose of providing management with information regarding the extent to which program objectives are attained. No specific recommendations are included.

OBSERVATION II - NEED FOR COOPERATIVE CONSTRUCTION CONTRACT ADMINISTRATORS
AND THE FEDERAL-AID BILLING SECTION TO COORDINATE PROCEDURES
FOR PRORATING LUMP-SUM ITEMS ON COOPERATIVE AGREEMENTS

During our review of the Federal-Aid Billing procedures, it was revealed that there is a difference between the way lump-sum cost items are prorated on Cooperative Construction Agreements by the Federal-Aid Billing Section and Contract Administrators. This condition creates an inconsistency between the Cost Accounting System and the Statewide Accounting System.

The Federal-Aid Billing Section uses proration percentages developed by John Wheeler, Assistant Chief, State-Aid Plans Section of the Office of State Aid. John prorates the lump-sum items such as mobilization, field office and traffic control to all state project numbers within the project. This proration is based on the estimated cost of the roadway portion of the project. The lump-sum amounts are only prorated to federal-participation cost elements. The Federal-Aid Billing Section then submits the proposed costs under this format to FHWA for approval.

When the cooperative construction agreement is written, it includes a Schedule "I" which displays the proposed cost distribution between the State and the City/County. On Schedule "I", the lump-sum amounts have been prorated to all cost elements including non-participating elements.

The inconsistency exists because of the way the Federal-Aid Billing program records costs into the Current Bill which is the document used to bill FHWA. Since FHWA approves the costs with lump-sum items prorated to only participating costs, this is the way such costs are recorded on the Current Bill and paid by FHWA. The cost and billing information is coded into the SWA System from the final Schedule "I" which has lump sum amounts prorated to all cost elements.

Theoretically, all cost elements of a project should be allocated a proportionate share of lump sum items. But according to John Wheeler of the State-Aid Section, it may not always be equitable to prorate some lump-sum items based on relative cost. The cost of mobilizing roadway equipment, for instance, may not be properly allocable to the traffic signal portion of the project.

With the inconsistent application of proration procedures, the information in the CAS and SWA System will be different. This situation causes much confusion when it comes time to close the records on a project, especially when there are complex funding sources and participation percentages.

RECOMMENDATION

Officials of the Federal-Aid Billing and State-Aid Sections and Cooperative Construction Contract Administrators should meet to develop a consistent application of proration procedures.

Attachment III

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARDS IMPLEMENTATION
From Audit Report No. 86-800-34
(Fiscal Year 1985)

Finding I - Need for Federal Grant Advances to be Obtained
in Accordance with Federal Policy.

Recommendation:

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

RECOMMENDATION IMPLEMENTED

The Aeronautics Division implemented the federal letter-of-credit drawdown on their Airport Improvement Program in May of 1986.

Finding II - Need to Complete the "Fieldmen's Check on Compliance"
each Month During the Construction Project.

Recommendation:

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

RECOMMENDATION PARTIALLY IMPLEMENTED

A memo was written to construction offices statewide by the Operations Division reminding construction personnel to conduct fieldmen's checks each month. During this year's audit, several instances on non-compliance were discovered. See Current Finding No. III.

Finding III - Need to Have the Item Record Account
Support Payments to the Contractor

Recommendation:

Appropriate Construction Engineers/Resident Engineers examine procedural weaknesses noted in this finding 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.

RECOMMENDATIONS NO. 1 AND NO. 2 IMPLEMENTED

During this year's audit no instances of non-compliance were found.

Finding IV - Ineligible Eminent Domain Costs Claimed.

Recommendation #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.

RECOMMENDATION #1 IMPLEMENTED

An internal control point was established whereby the head of the Right-of-Way Funds Unit of the Accounting and Finance Section reviews each cost for eligibility before inputting it into the Cost Accounting System.

Recommendation #2:

Ineligible costs of \$24,239.49 cited should be credited on the federal bill, if not already done.

RECOMMENDATION #2 IMPLEMENTED

The \$24,239.49 of ineligible costs were credited to the current bill in October 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.

RECOMMENDATION #3 IMPLEMENTED

The Right-of-Way Funds Unit re-evaluated the eminent domain parcels from January 1, 1978 to May 31, 1985. Costs which were determined to be ineligible were credited to the current 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 Department of Finance 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 of Right-of-Way and determine if interest costs coded thereto should be reported to the IRS as ordinary income.

RECOMMENDATION #1 IMPLEMENTED

Discussions were held with the Department of Finance to eliminate the misunderstanding in the Object Codes 510-519. In July of 1986, a new object code list was developed and is in use during Fiscal Year 1987. It was also decided to report interest costs coded to Object Code 515 to the IRS as ordinary income.

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.

RECOMMENDATION #2 IMPLEMENTED

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's 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.

RECOMMENDATION #1 NOT IMPLEMENTED

See Current Finding No. I.

Recommendation #2:

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

RECOMMENDATION #2 PARTIALLY IMPLEMENTED

The 329 reconciliation was only partially complete. See Current Finding No. I.

Finding VII - Need for Immediate Statewide Accounting/Inventory Reconciliation.

Recommendation:

The Office of Systems of 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.

RECOMMENDATION PARTIALLY IMPLEMENTED

The reconciliation is being done but any differences noted as a result of the reconciliation are not investigated. Differences of \$850,000.00 were discovered in this year's audit. See Current Finding No. I.

Finding VIII - Improvement of Adjustment H*
Audit Trail Needed.

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.

RECOMMENDATION IMPLEMENTED

Copies of the TC-50 accompanied by a written explanation were found in the Federal project file.



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

Office of Commissioner

(612) 296-3000

January 16, 1987

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 December 28, 1986, which your staff has prepared concerning Department of Transportation accounting procedures and controls for Fiscal Year 1986. We appreciate the professional and constructive nature of the recommendations. Our responses to your recommendations, as well as those having to do with OMB Circular A-128, follow for inclusion in your final report.

Recommendation 1: Mn/DOT should establish functional responsibility in all divisions for reviewing potential contractors compliance certificates.

Response: This issue has been brought to the attention of the Management Analysis Unit of the Office of Systems and Support Service. They are working on a comprehensive study of the administration of agreements in our Department and will be incorporating this finding into their report. Meanwhile, in order to address the recommendation in the short term, the Deputy Commissioner will be issuing a memorandum to the Assistant Commissioners asking them to assign functional responsibility for reviewing potential contractors compliance certificates.

AUDIT OF OMB CIRCULAR A-128

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

Recommendation 1: The Current Bill summary information includes totals for Adjustment "H*".

Response: The Current Bill Summary information (Report 21 WK) does contain both Adjustments "H*" and "H". The amount shown is the sum of all input "H*" amounts and those calculated (Adjustment "H") in the current billing program. This total does not balance to the 111CG-WK Report Adjustment H amount, since the amount reflected is only what is actually input ("H*") and resident on the master file.

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In order to eliminate the confusion we are proposing to modify the summary information on Report 21-WK to detail both Adjustments "H*" and "H". The "H*" will be reconciled back to the Report 111-CG-WK.

Since all information is presently being reported this is not viewed as a critical change. It will be accomplished when the next modifications to our Federal Billing Subsystem takes place.

FINDING II - NEED FOR PROMPT SUBMITTAL OF CONTRACTOR PAYROLLS

Recommendation 1: Bemidji Construction Office personnel reinstate and continue to use a form to determine which weekly payrolls are required to be submitted by contractors. Partial estimate payments should be withheld until late payrolls are submitted.

Recommendation 2: Golden Valley management analyze their office situation and determine what corrective action is necessary in order to receive and check contractor payrolls in a timely manner so that proper compliance with the Davis-Bacon Act is achieved.

Response: The Operations Division has reviewed and taken action on this finding through writing memos to the involved districts. Both memos require response to Assistant Commissioner L. F. McNamara by February 2, 1987.

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

Recommendation 1: District Construction Engineers increase their monitoring of this compliance requirement as needed and verify that personnel of the various construction offices complete the "Fieldmen's Check on Compliance" as specified in the Construction Manual so that proper compliance with the Davis-Bacon Act is achieved.

Response: Assistant Commissioner L. F. McNamara has responded to this recommendation by issuing Construction Memorandum No. 87-1-C-1 entitled 'Contract Labor Provisions - Enforcement' which speaks to recommendations in both Findings II and III.

OBSERVATION II - NEED FOR COOPERATIVE CONSTRUCTION CONTRACT ADMINISTRATORS AND THE FEDERAL-AID BILLING SECTION TO COORDINATE PROCEDURES FOR PRORATING LUMP-SUM ITEMS ON COOPERATIVE AGREEMENTS

Recommendation 1: Officials of the Federal-Aid Billing and State-Aid Sections and Cooperative Construction Contract Administrators should meet to develop a consistent application of proration procedures.

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Response: We agree that consistency in application of proration procedures is needed and the Director of the Accounting and Finance Section will be meeting with appropriate personnel in order to attain that consistency.

Again we wish to thank you for the professional, constructive nature of your recommendations. We will make an effort to ensure that the actions specified in these responses are implemented in a timely manner.

Sincerely,

A handwritten signature in dark ink, appearing to read "Leonard W. Levine", with a large, stylized flourish at the end.

LEONARD W. LEVINE
Commissioner