DEPARTMENT OF TRANSPORTATION
MANAGEMENT LETTER
FISCAL YEAR 1987

MARCH 1988

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

88-25

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

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 1987 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:

CFDA #	PROGRAM NAME
12.106	Flood Control Projects
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 1987.

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 1986 statements. Since the federal government is ultimately responsible for determining the resolution of single audit findings, 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 resolving the audit finding and improving accounting procedures and controls. Progress on resolving this finding will be reviewed during our audit next year.

1. A subrecipient audit resolution process has not been fully established.

Mn/DOT has not established a sufficient audit resolution process to monitor the single audit coverage of its subrecipients. The Single Audit Act of 1984 requires, in Section 7502 (e) (1) that:

> "Each State and local government subject to the audit requirements of this chapter, which receives Federal financial assistance and provides $25,000 or more of such assistance in any fiscal year to a subrecipient, shall--
>
> (A) if the subrecipient conducts an audit in accordance with the requirements of this chapter, review such audit and ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government; or
>
> (B) if the subrecipient does not conduct an audit in accordance with the requirements of this chapter--
>
> (i) determine whether the expenditures of Federal financial assistance provided to the subrecipient by the State or local government are in accordance with laws and regulations; and
>
> (ii) ensure that prompt and appropriate corrective action is taken on instances of material noncompliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipients by the State or local government."

The Office of the State Auditor reviews the single audit reports of state subrecipients and issues an annual report which summarizes the results of their review. The State Auditor's report indicates: (1) which subrecipients had single audits, (2) whether the single audits were of an acceptable quality, and (3) the audit findings and questioned costs reported by the audits. Thus, the State Auditor's report serves as a primary reference for state agencies to monitor the compliance of their subrecipients with the Single Audit Act.

The Department of Finance coordinates the monitoring activities of state agencies to ensure that state subrecipients receive sufficient single audit coverage. Finance has directed state agencies to perform various tasks, such as:

- identifying subrecipients required to have single audits;
- including an audit requirement in the grant agreements negotiated with subrecipients; and
- ensuring that subrecipients take appropriate corrective action to resolve any audit findings and questioned costs specifically concerned with the programs administered by the state agency.

Finance has also delegated to certain state agencies the responsibility to follow-up on "cross-cutting" issues for a particular category of subrecipients. "Cross-cutting" issues are items which would affect several programs, for example cash management practices. Mn/DOT has been delegated the responsibility to resolve any "cross-cutting" issues identified for eight Minnesota cities.

Mn/DOT has failed to establish a satisfactory subrecipient audit resolution process in several respects:

-- Mn/DOT has not identified all of its subrecipients for purposes of the Single Audit Act. The process is complicated because in certain instances Mn/DOT makes payments on behalf of subrecipients (e.g., to construction contractors), rather than directly to the subrecipients. Such payments qualify as providing federal financial assistance to the subrecipients and thus, must be scrutinized pursuant to the Single Audit Act. Without identifying its subrecipients, Mn/DOT is unable to establish a basis for conducting a complete and thorough audit resolution process.

-- Mn/DOT has not contacted subrecipients to evalutate the resolution of audit findings. Mn/DOT staff are aware of single audit reports containing audit findings for several of their subrecipients. However, the subrecipients have not been contacted to request a corrective action plan relative to the audit findings. OMB Circular A-128 requires that the state, "ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations."

RECOMMENDATION

- Mn/DOT should establish an appropriate audit resolution process for its subrecipients. Specifically, the process should ensure that:

  A) all subrecipients are identified, and if appropriate, required to have Single Audits; and

  B) appropriate corrective action is taken by subrecipients to resolve any single audit findings, questioned costs, and cross-cutting issues.

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

Sincerely,

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

Attachments

March 3, 1988

Attachment I

DEPARTMENT OF TRANSPORTATION

STATUS OF PRIOR AUDIT RECOMMENDATION
AND
PROGRESS TOWARD IMPLEMENTATION

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

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

RECOMMENDATION IMPLEMENTED. Highway construction and airport improvement contracts tested for fiscal year 1987 complied with the federal civil rights requirements. There were no railroad contracts with railroads having over 50 employees.

SF-00006-05 (4/86)

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT : Mn/DOT - Audit
1959 Sloan Place

DATE : December 11, 1987

TO : Leonard W. Levine, Commissioner
Douglas H. Differt, Deputy Commissioner

FROM : Ronald W. Gipp
Audit Director

PHONE : 296-3254

SUBJECT : Audit of OMB Circular A-128, Single Audit Compliance Supplement Requirements for Fiscal Year 1987
Audit Report No. 88-800-44

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 $300,500,000 in Federal funds from the Highway Research, Planning and Construction Program, CFDA 20.205, and approximately $13,140,000 in Federal funds from AIP, CFDA 20.106, in Fiscal Year 1987.

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, 1986 through June 30, 1987. The scope of our review was mainly concerned with compliance with applicable Federal rules and regulations, although compliance with applicable State rules and regulations is also considered.

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 several areas in need of attention. These are detailed in Findings I-VI attached to this report.

During the course of our review in the Right of Way area, we reviewed Federal Highway Administration (FHWA) technical reviews. This included relocation program reviews. While reviewing our sample of Right of Way transactions, we found instances of the same type of problems as found in the FHWA reviews. A few items in our sample were the same parcels as detailed in the FHWA reviews. Although some are repeats, we must report on these as part of our Single Audit compliance review. Therefore, we used this information as a basis for developing some of our recommendations in Findings I, II, and III attached to this report.

This report contains our recommendations developed during this review. We also reviewed the status of the audit recommendations contained in our previous report on the Single Audit Compliance Supplement requirements. Attachment I to this report is a summary of the progress towards implementation of the recommendations we developed during the Fiscal Year 1986 review.

cc: L. F. McNamara
D. E. Durgin
E. E. Ofstead
E. H. Cohoon
R. B. Keinz
W. N. Yoerg
R. J. Dinneen
R. R. Swanson
J. Nobles, O.L.A.
D. Pederson, D.O.F.
C. Foslien, F.H.W.A.
File

Audited by:
Connie Garrahy
Debra Didier
Sharon Ahrens
Gregory Benidt
Charles Theisen

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 MONITOR MOVES AND TO MAINTAIN RECORDS WHEN ESTIMATES CANNOT BE OBTAINED

During our review, we found procedural errors and missing documentation on several relocation assistance moving claims. Displaced business owners did not provide advance written notice of the date of their move. Documentation of the surveillance of business moves was not available. Advance notice and surveillance of business moves are important controls to assure that moving claims reflect actual costs incurred and to verify that all personal property was actually moved. The need for surveillance is especially important for self moves for which estimates cannot be obtained.

Examples of costs we sampled include:

1. S.P. 6982, Federal Project I35-6(188), Parcel 22--This business move was an undocumented self move. Accordingly, moving expense reimbursement was based on the lowest bid. The file contained an inventory of items to be moved, but there was no advance written notice of the approximate move date and there was no record of surveillance of the move in the files. Total Claimed Moving Expense--$26,222.00.

2. S.P. 1707 Parcel JY1--This move was a self move of an auto graveyard. Some of the costs were based on the lower of two bids, but estimates could not be obtained for other moving costs. This move was made under junkyard extinguishment provisions. The provisions require that surveillance must be provided when it is not possible to obtain estimates. The owner did a self move and signed an affidavit which included charges for which estimates could not be obtained as follows:

Loose miscellaneous iron--17 loads @ $550/ld.	$9,350
Moving 110 automobiles	2,500

   There was no further breakdown of costs to move the 110 automobiles. There was no explanation of how the $550 per load rate to remove 17 loads of loose iron was determined. The signed affidavit was the only documentation in the file. There was no written notice of the move date or evidence to indicate that surveillance of the move was performed. Total Moving Expense Claim--$21,026.42.

3. S.P. 2789, Federal Project I394-6(18), Parcel 1--This business move was performed by a commercial mover. Receipts were on file and the file contained an inventory of items to be moved, but there was no advance written notice of the move or any indication that the agency waived advance notification. There was no record of surveillance of the move in the files. Total Moving Expense Claim--$916.23.

The Code of Federal Regulations, Title 49 Part 25.303b (49 CFR 25.303b) states that "the displaced business owner must provide the Agency reasonable notice of the approximate date of the move and a list of items to be moved.

The Agency may waive this notice requirement after documenting its files accordingly." We observed that business claims often amount to substantial amounts. In the case of undocumented self moves with substantial inventories, it is a good practice to monitor and observe the move.

Federal regulations (49 CFR 25.207) state that "claims for relocation payments shall be supported by documentation as may reasonably be required to support expenses incurred such as bills, certified prices, appraisals or other evidence of such expenses. The Right of Way Manual (5-491.306.43) goes into the specific requirements for junkyard relocation as follows:

* The actual cost of relocation will be paid when, due to the type of material to be relocated, it is impossible to obtain realistic estimates.

* Surveillance of the move must be provided. District personnel will be required to maintain a record of hours worked, equipment used, and rates.

The relocation advisors should require the notice be in writing. This would give the relocation advisor enough notice to monitor the move. There should be documentation that the personal property considered in the moving estimates was actually moved. The relocation files should include a copy of the displaced owner's written notice of the move and records of the surveillance of the move. If the advance notice requirement is waived, then that should also be documented in the file.

We discussed the junkyard move with the relocation advisor involved. He felt that the move was documented as well as could be, under the circumstances. He said he discussed the matter with FHWA authorities and the relocation manager at the central office and it was decided that it would require too much time to monitor the move. This move would have been difficult to monitor because different types of material went to different locations. Also, the relocation advisor was located in a different district than the displacement property was located in.

A recent Relocation Program Review conducted by the FHWA found that business moves were not properly monitored. They recommended that relocation advisors be encouraged to emphasize the need to receive reasonable advance notice of the date of the move so they can monitor the move and verify the inventories.

The Right of Way Unit responded to the Federal review by stating that "Most relocation advisors are requiring notice of the proposed moving dates and an inventory list of items to be moved. Monitoring of the moves will be intensified."

RECOMMENDATIONS

1. The relocation advisor discuss the need to receive advance notice of the move date with displaced business owners.

2. The relocation files include a copy of the advance notice, an inventory of items to be moved, and documentation that items claimed were moved. If surveillance is provided, the file should contain the results.

3. The Relocation Manager notify all relocation personnel of the requirements for monitoring a move when an estimate of moving costs cannot be obtained.

FINDING II--NEED FOR FORMAL TRAINING OF RELOCATION STAFF TO UPDATE THEMSELVES ON RECENT CHANGES IN REGULATIONS

During the review we discovered two instances in our Fiscal Year 1987 sample where relocation personnel applied outdated procedures to current situations. The procedures used to be acceptable under regulations, but were not current by the time they were used.

On S.P. 7005 Parcel 24, there was a replacement housing supplement payment which included an adjustment to the value of the acquired home for central air conditioning. Adjustments for interior attributes have not been allowable since 49 CFR Part 25 went into effect on July 3, 1985. Also, the same homeowner was asked to document actual costs of his self move, such as hours worked and hourly rates. A follow-up letter was sent to correct the self move requirement and allow for the option of an undocumented self move. Undocumented self moves are allowed under Appendix A, Subpart C Section .207 of the Federal Register Volume 51, No. 39 dated February 27, 1986.

Relocation personnel are not always aware of recent changes in Federal regulations. They need to be informed of any changes and provided information so they can comply with new regulations. This is especially important because of recent changes in relocation regulations enacted April 1987.

A recent Federal review also found the use of outdated procedures and recommended scheduling relocation training programs for relocation advisors emphasizing recent changes in Federal relocation requirements. The relocation manager responded to the Federal relocation review by identifying problem areas and clarifying procedures to applicable relocation personnel. He indicated that training concerning changes in relocation regulations will be offered by scheduling a seminar.

RECOMMENDATION

Training sessions should be offered to relocation personnel when there are changes in regulations that affect them. The training should be formal in order to reach all appropriate personnel and to give them sufficient information to carry out the new regulations.

FINDING III--NEED TO CREDIT FEDERALLY FUNDED PROJECTS FOR RETAINED BID DEPOSITS AND LIQUIDATED DAMAGES

During our review of sales and removals of structures on acquired land, we discovered that Federally funded projects were not being credited for retained bid deposits. This retained bid amount should be credited to Federally funded projects at the applicable pro rata share.

The Property Management Unit of the Office of Right of Way is responsible for disposal of structures on acquired property. This is usually done by putting the structures up for sale to the highest bidder. Successful bidders are required to deposit an amount as a bid security. This security is held pending further action required of the successful bidder. The intent of this practice is to ensure timely payment of the purchase price and performance bonds.

The bidder is required to deposit the balance of the purchase price and the performance bond within 20 days of the opening of bids. Failure to do so constitutes a forfeiture of the terms of the awarded bid. The bidder forfeits 10% of the bid security as a result of forfeiting or abandoning the bid. Our sample contained one instance of this. The successful bidder on S.P. 2789-906 Parcel 13K, Federal Project I394-6(18), forfeited the awarded bid. Federal funds were not credited for the 10% bid deposit retained. Further investigation in the matter revealed that neither bid deposits retained nor liquidated damages collected on late removals are being credited to Federal funds.

The Code of Federal Regulations Title 23 Part 710.304 (23 CFR 710.304) discusses Federal reimbursement. It states that Federal funds may participate in the net cost incurred by the State in the leasing, rental, maintenance, disposal of improvements, protection, rodent control, and clearance of real property acquired for right of way purposes.

Per discussion with the property management supervisor, the policy of requiring security deposits has proven effective in obtaining timely payments of purchase price and performance bonds. At the time the policy was developed, the payments were not considered as income or reduction of acquisition costs. Instead, the policy was viewed as a means of securing timely payments on sales that would probably not generate many funds. After discussing the matter, it was agreed that bid deposits should be credited to Federal funds.

A recent FHWA review also found that Federal funds were not being credited for retained bid deposits. As a result, FHWA requested that Mn/DOT identify all cases of Federally funded Right of Way projects where retained bid deposits or liquidated damages were collected. This review was recently completed and an amount of $47,747.87 has been reported to FHWA. Our sample did not contain an example of liquidated damages. These are collected when removals are not performed within the prescribed time per the purchase agreement.

RECOMMENDATION

Procedures be developed to have future bid deposits retained and liquidated damages collected credited to Federally funded projects.

FINDING IV--NEED TO ATTEMPT TO CONTACT THE SIGN SITE OWNER PRIOR TO INSPECTION OF THE SITE

The appraisers assigned to sign valuations aren't always contacting site owners to verify lease information. This practice resulted in a check issued to a party with no leasehold interest in the site of a sign (Permit # 9AD0932) that was to be removed. They returned the check with an explanation that they did not own the property on which this sign was located. Apparently, the sign owner gave incorrect lease information to the State. Ownership of the site could have been established before the issuance of the check if procedures outlined in the Right of Way Manual had been followed.

Sign removal projects are unique in that there are sometimes two owners involved; the sign owner and the site owner. An attorney's certificate of title is usually not required to establish ownership of the site for outdoor advertising. However, the Right of Way Manual (5-491.304.4) states that a reasonable attempt may be made to contact the site owner, either by phone or in person, to inform him of valuation and to determine if there is a valid lease and what amount of rent is paid.

There was no documentation in the file regarding efforts to contact the site owner. Had the site owner been contacted earlier, they could have disclaimed interest in the property prior to issuance of the check. This information would have prevented unnecessary time spent to correct the situation and to compensate the proper site owner. Also, the error may have gone unnoticed if the check had not been returned. This could have resulted in funds being improperly expended.

RECOMMENDATION

Staff appraisers be encouraged to contact site owners of sign relocation projects to verify lease information and to inform the owner of the valuation. Also, these contacts and/or attempts to make contact should be documented.

FINDING V--NEED FOR COMPLIANCE WITH PROCEDURES ON REPLACEMENT HOUSING SUPPLEMENT DOCUMENTATION

During our review, we found a replacement housing supplement claim paid without sufficient support. On S.P. 7104-901 Parcel 3, the displacee constructed a new home for which a replacement housing supplement of $12,600.00 was determined. The new home was constructed on her remaining property. There was no evidence of costs incurred and no cost records were submitted with the claim. Instead, the relocation advisor and an appraiser inspected the new home and concluded that its value made the displacee eligible for the entire amount of the calculated supplement. The relocation advisor sent a memo to the relocation manager recommending payment of the claim based on the inspection. He approved the claim and paid it without requesting any other documentation. Apparently, this was the only departure from required procedures as other claims that we reviewed has proper cost documentation submitted with the claim.

Standard procedures do not provide for valuation procedures as a means of approving replacement housing supplements. Claims must be supported by evidence of purchase. Most replacement housing supplements are accompanied by a purchase agreement or earnest money contract to verify the actual cost and to provide evidence of purchase. Construction of a new home does not always result in a purchase agreement with one party. Instead, costs are incurred from various contractors, material suppliers and for other miscellaneous items. Costs records must then be obtained and submitted with the claim for payment per the Right of Way Manual [5-491.405.2A(1)(1) and (n)].

Procedures outlined in the Right of Way Manual need to be followed. If Central Office receives claims without sufficient documentation, they should hold the claim until they receive evidence of purchase and/or verification that costs claimed were incurred.

RECOMMENDATION

All replacement housing supplement claims have documentation supporting replacement housing purchase costs prior to payment.

FINDING VI--NEED TO COMPLETE FIELDMEN'S CHECKS ON COMPLIANCE

Our review of "Fieldmen's Checks on Compliance" forms revealed that less than 100% were completed for 7 of 13 projects sampled. Completing this form is required by Section 5-591.342 of the Construction Manual, to help ensure that the Davis-Bacon Act is being complied with.

Federal law requires compliance with the Davis-Bacon Act on all construction projects receiving federal assistance. It requires that employees of contractors and subcontractors working on the project be paid not less than the minimum wage determined by the Secretary of Labor for the geographic area of the project. One method of checking compliance is with the "Fieldmen's Check on Compliance" form.

The Construction Manual includes as a requirement for all projects, that "the Project Engineer or his staff will interview several employees of the contractor, selected at random, each month." The Fieldmen's Check is an important internal control in that it helps detect whether the employers are actually paying their employees the wages stated on the payrolls. The information on the "Fieldmen's Check on Compliance" is to be compared with the job classifications and wage rates reported on the payrolls, and against the minimum wages stated in the contract. If it is not completed, simply checking payrolls may not reveal all underpaid employees or incorrect job classifications.

The following summarizes our review of the Fieldmen's Checks:

State Project No.	District	Compliance %
3604-48	2	100%
54-598-11	2	25%
04-608-03	2	80%
16-612-39	1	100%
13-609-15	9	100%
62-619-04	9	75%
6215-58	9	33%
1985-103	9	100%
8282-72	9	17%
2780-37	5	0%
2781-27792	5	100%
8580-120	6	100%
5508-59	6	67%

We arrived at the compliance percentages by comparing the months the Fieldmen's Checks were completed to the months the project was worked on. We did not include partial months of activity. There was 100% compliance for 6 of the 13 projects. The remaining projects ranged from 0-80%. Therefore, a majority of the projects were lacking an important control for checking compliance with the Davis-Bacon Act, a requirement for continued Federal highway funding.

Several reasons were given by district construction office personnel for not doing the checks:

1. Employees don't know how much their wage is for that particular project.

2. Employees are reluctant to give this information.

If contractors' employees will not state their wage rate, this could be noted on the form, rather than not filling it out at all.

This finding was also reported for two prior years. The number of projects with 100% compliance from Fiscal Years 1985 through 1987 are as follows:

Fiscal Year	100% Compliance
1985	2 of 10
1986	6 of 11
1987	6 of 13

As a result of our finding in Fiscal Year 1986, L. F. McNamara, Assistant Commissioner, Operations Division, issued Construction Memorandum No. 87-1-C-1 on January 2, 1987. This memo stressed the requirement that employees of contractors be interviewed at random each month.

Using our sample, we compared the rate of compliance for the period July 1, 1986-January 31, 1987 to the rate of compliance for the period February 1, 1987-June 30, 1987, to see if there was any noticeable improvement after the memo was issued. Overall, there was 73% compliance for the first period of the year, and 71% compliance for the latter period.

We feel further improvement is needed in this area, since the proportion of sampled projects with 100% compliance actually decreased, and it does not appear that our prior year's recommendation has been fully implemented.

RECOMMENDATION

District Construction Engineers more closely monitor that the "Fieldmen's Checks on Compliance" are being completed monthly by construction personnel.

Attachment I

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION
From Audit Report No. 87-800-17
(Fiscal Year 1986)

Finding I - Need to perform reconciliations in conformance with Mn/DOT's Memorandum of Understanding with FHWA.

Recommendation:

The Current Bill summary information include totals for Adjustment "H*."

RECOMMENDATION RESPONDED TO

A January 16, 1987 letter from Commissioner Leonard W. Levine to James R. Nobles states in part that the Current Bill Summary information does contain both Adjustments "H*" and "H." While this is true, the Current Bill does not show separate totals for each of these two adjustments. Per discussion with Mn/DOT Finance and Accounting personnel, without separate totals, it is more difficult but still possible to perform the reconciliation for Adjustment "H" between the Federal Project Master File Update Control Report and the Current Bill. They are currently doing this and are satisfied that a proper reconciliation is done. No further follow up is needed.

Finding II - Need for prompt submittal of contractor payrolls.

Recommendation No. 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 IMPLEMENTED

On January 22, 1987, Bemidji Assistant District Engineer L. N. Follmann issued a memo to L. F. McNamara. This memo says use of payroll compliance form has been reinstated. Also, partial payments will only be made if the payroll forms are received.

Recommendation No. 2:

Golden Valley management analyze their office situation and determine what corrective action is necessary to receive and check contractor payrolls promptly so that proper compliance with the Davis-Bacon Act is achieved.

RECOMMENDATION IMPLEMENTED

On January 15, 1987, R. W. Hathaway, Golden Valley Assistant District Engineer issued a memo to L. F. McNamara, Assistant Commissioner. This memo outlines the steps being taken to correct the problem.

Finding III - Need to complete the "Fieldmen's Check on Compliance" each month during the construction project.

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.

RECOMMENDATION PARTIALLY IMPLEMENTED

Assistant Commissioner L. F. McNamara has issued Construction Memorandum No. 87-1-C-1 entitled "Contract Labor Provisions - Enforcement" which reiterates the provisions of Construction Manual Section 5-591.342. This section outlines pertinent responsibilites of the Project Engineer. The memo emphasizes that this procedure is mandatory. Our current review indicates improvement in this area is still needed. See Finding VI in this report.

Observation I - Overdue "Finals" package submittal.

Recommendation: None. (This was informational only.)

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:

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.

RECOMMENDATION IMPLEMENTATION IN PROGRESS

Commissioner Leonard W. Levine indicated in a January 16, 1987 letter to James R. Nobles that the Director of Accounting and Finance Section will be meeting with appropriate personnel to discuss developing appropriate procedures. Currently, a subgroup from the Uniform Agreement Policy Procedures Task Force is working on this problem. This subgroup is studying the issue of consistent application of contract cost-sharing provisions between the offices involved in the agreement process.

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

Office of Commissioner (612) 296-3000

March 3, 1988

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 which your staff has prepared concerning Department of Transportation accounting procedures and controls for Fiscal Year 1987. 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 an appropriate audit resolution process for its subrecipients. Specifically, the process should ensure that:

A) all subrecipients are identified, and if appropriate, required to have Single Audits; and

B) appropriate corrective action is taken by subrecipients to resolve any single audit findings, questioned costs, and cross-cutting issues.

Response: A) Mn/DOT has identified all of its subrecipients with the exception of those instances where Mn/DOT pays a contractor on behalf of a local government. Mn/DOT and the Department of Finance are requesting the opinion of the U.S. Office of the Inspector General on whether or not those instances should be considered subgrants.

If such payments need to be considered when identifying our subrecipients, the department will need to modify the method of accounting for this activity, because it is difficult to obtain information needed for single audit purposes, as it is not readily available in the statewide accounting or cost accounting systems.

B) We agree with the finding and recommendation. We will request that all subrecipients required to have an audit submit a report. Program managers will follow-up on findings that specifically affect their programs. Financial Operations will request and review the subrecipient's corrective action plan for the cross-cutting issues.

AUDIT OF OMB CIRCULAR A-128

FINDING I - NEED TO MONITOR MOVES AND TO MAINTAIN RECORDS WHEN ESTIMATES CANNOT BE OBTAINED.

Recommendation 1: The relocation advisor discuss the need to receive advance notice of the move date with displaced business owners.

Recommendation 2: The relocation files include a copy of the advance notice, an inventory of items to be moved, and documentation that items claimed were moved. If surveillance is provided the file should contain the results.

Recommendation 3: The Relocation Manager notify all relocation personnel of the requirements for monitoring a move when an estimate of moving costs cannot be obtained.

Response: The Director, Office of Right of Way and Surveys, issued a memo dated October 14, 1987, to District Right of Way Engineers and District Relocation Advisors which addressed Recommendations 1, 2 and 3. The memo, among other things, served as a reminder to maintain a full narrative chronological detail of all contacts with displacees, and reiterated that we are required to be permitted to make reasonable and timely inspections at both sites in order to monitor the move.

FINDING II - NEED FOR FORMAL TRAINING OF RELOCATION STAFF TO UPDATE THEMSELVES ON RECENT CHANGES IN REGULATIONS

Recommendation 1: Training sessions should be offered to relocation personnel when there are changes in regulations that affect them. The training should be formal in order to reach all appropriate personnel and to give them sufficient information to carry out the new regulations.

Response: The memo referred to in the response to Finding I also discussed holding a seminar after new Federal Relocation Regulations are made available.

FINDING III - NEED TO CREDIT FEDERALLY FUNDED PROJECTS FOR RETAINED BID DEPOSITS AND LIQUIDATED DAMAGES

Recommendation 1: Procedures be developed to have future bid deposits retained and liquidated damages collected credited to Federally funded projects.

Response: Written procedures being developed will help ensure that, where applicable, bid deposits retained and liquidated damages assessed will be credited to federally funded projects. The proper credits have already been made to past projects.

FINDING IV - NEED TO ATTEMPT TO CONTACT THE SIGN SITE OWNER PRIOR TO INSPECTION OF THE SITE

Recommendation 1: Staff appraisers be encouraged to contact site owners of sign relocation projects to verify lease information and to inform the owner of the valuation. Also, these contacts and/or attempts to make contact should be documented.

Response: This finding resulted from an oversight by the staff of the Attorney General's Office. A more experienced attorney is handling the few remaining sign condemnations and we feel this mistake will not be repeated.

FINDING V - NEED FOR COMPLIANCE WITH PROCEDURES ON REPLACEMENT HOUSING SUPPLEMENT DOCUMENTATION

Recommendation 1: All replacement housing supplement claims have documentation supporting replacement housing purchase costs prior to payment.

Response: We agree that documentation supporting these costs should have been presented and we will require such documentation in the future.

FINDING VI - NEED TO COMPLETE FIELDMEN'S CHECKS ON COMPLIANCE

Recommendation 1: District Construction Engineers more closely monitor that the "Fieldmen's Checks on Compliance" are being completed monthly by construction personnel.

Response: A memo has been sent from the Construction Engineer to the Construction Standards Engineer requesting that, in addition to the usual amount of attention given to checking for monthly field interviews, special emphasis be placed on these checks in Districts 2, 5, 6 and 9.

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,

LEONARD W. LEVINE
Commissioner