

DEPARTMENT OF TRANSPORTATION
MANAGEMENT LETTER
FISCAL YEAR 1989

MARCH 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

DEPARTMENT OF TRANSPORTATION

STATEWIDE AUDIT FISCAL YEAR 1989

Public Release Date: March 30, 1990

No. 90-19

OBJECTIVES:

The audit scope was limited to the Department of Transportation (Mn/DOT) programs necessary for us to complete our annual Statewide Audit. Our audit testing focused on the following two objectives:

- **FINANCIAL ACTIVITIES MATERIAL TO THE STATE'S FINANCIAL STATEMENTS.** The specific Mn/DOT programs include federal county road and bridge construction, federal aid receivables, highway construction, transit assistance grants, bridge grants, county and municipal grants, and service charges.
- **MAJOR FEDERAL PROGRAMS.** Mn/DOT manages two major federal programs: Airport Improvement and Highway Planning and Construction. We reviewed and relied upon the work of the Mn/DOT internal auditors for auditing these programs.

CONCLUSIONS:

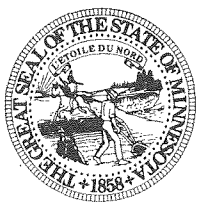
We found two areas where the internal control structure needed improvement:

- The federal county road and bridge account did not have sufficient funds encumbered for the payment of contractors.
- Federal county road and bridge contracts were finalized before materials certifications were completed.

There were five areas where the department had not complied with finance-related legal provisions:

- Five findings reported by the Mn/DOT internal auditors for Single Audit compliance requirements.

Contact the Financial Audit Division for additional information.
(612) 296-1730



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 1989 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 during fiscal year 1989.

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. Finding 1 from our fiscal year 1988 audit has been resolved.

The current recommendations included in this letter are presented to assist you in resolving the audit findings and improving accounting procedures and controls. Progress on resolving these findings will be reviewed during our audit next year.

1. Mn/DOT did not have sufficient funds encumbered in the federal county road and bridge account for the payment of contractors.

In about 80 instances during fiscal year 1989, Mn/DOT accounting staff had to request increases in project encumbrances when insufficient funds were available to pay bills. The shortage occurred because the project engineer had failed to ensure that sufficient funds were available.

Mn/DOT encumbers the estimated amount of the contract when the contractor is selected. The contracts have flexible terms which allow for varying the amounts, depending upon the quantity of materials needed. The project engineer authorizes adjustments to the quantities of materials or work and minor plan changes during the construction phase. The project engineer maintains a record of these changes; however, the engineer does not verify that sufficient funds will be available for the project after adjusting for the changes. This subjects Mn/DOT to the risk of incurring obligations without having funds available to finance the entire project.

The project engineer should not approve these increases without ensuring that sufficient funds are available for the total project costs. The Mn/DOT Construction Manual establishes procedures for the additional encumbrance of funds. It states that when work equal to 80 percent of the total project encumbrance has been completed the project engineer should review all adjustments made and estimate the final amount of the contract. The project engineer should then request approval for an additional encumbrance from the contract administration engineer, if necessary. Following these procedures will ensure that sufficient funds are available from the counties and other sources when the work is completed.

RECOMMENDATION

- Mn/DOT should follow the established procedures to ensure that sufficient funds are available for the completion of construction projects.

2. Federal county road and bridge contracts are finalized before materials certifications are completed.

Mn/DOT makes final payments to contractors before the materials engineer certifies that project materials conform with specification requirements. As of January 23, 1990 Mn/DOT had made final payments on 18 projects that did not have completed materials certifications. Materials certification letters are necessary to determine the final contract price. Final costs may decrease if the contractor used materials which do not conform to bid specifications.

The Mn/DOT Highway Construction Project Closings Procedure manual describes the procedures for finalizing highway projects. The manual states that the contract closeout package must include a certification of materials letter before final payments are made and the contract closed. In one case, the project engineer prepared and signed the final contract

Mr. Leonard W. Levine, Commissioner
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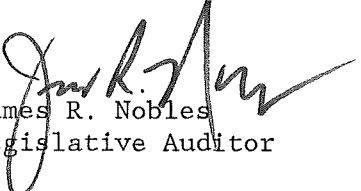
voucher on June 14, 1988. The materials engineer did not sign the materials certification until over a year later on June 27, 1989.

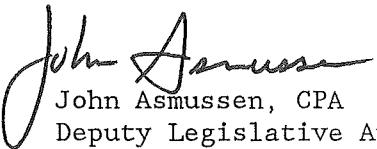
Although the state makes final payments to contractors before receiving materials certification letters, the federal government will not reimburse the state for the final contract payments without materials certifications. If Mn/DOT decreases the contract costs based on the certification, the state will receive federal reimbursement only for the reduced costs.

RECOMMENDATION

- Mn/DOT should not make final payments to contractors until the certification of materials letter is prepared.

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

Attachment

END OF FIELDWORK: February 2, 1990

REPORT SIGNED ON: March 27, 1990

DEPARTMENT : Mn/DOT - Audit
1959 Sloan Place

STATE OF MINNESOTA

Office Memorandum

DATE : January 31, 1990

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

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 1989
Audit Report No. 90-800-52

As agreed upon with the Office of the Legislative Auditor, we have reviewed the procedures and controls followed by Minnesota Department of Transportation (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 \$299,600,000.00 in Federal funds for the Highway Research, Planning and Construction Program, CFDA 20.205 and approximately \$9,260,000.00 in Federal funds for the Airport Improvement Program (AIP), CFDA 20.106 in Fiscal Year 1989.

Our audit was conducted in accordance with generally accepted government auditing standards. We reviewed the Single Audit Compliance Supplement Requirements for Highway Research, Planning and Construction and for Airport Improvement as outlined in the OMB Compliance Supplement for Single Audits of State and Local Governments and assigned to us by the Office of the Legislative Auditor. This included a review for compliance with the Memorandum of Understanding between the Federal Highway Administration and Mn/DOT.

We also reviewed the General Requirements of the OMB Compliance Supplement assigned to us by the Office of the Legislative Auditor that apply to our areas of audit coverage. This included Davis-Bacon Act requirements, Relocation Assistance and Real Property Acquisition requirements, and applicable Federal Financial Report requirements.

The review covered the period from July 1, 1988 through June 30, 1989. 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.

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.

Leonard W. Levine, Commissioner
Douglas H. Differt, Deputy Commissioner
January 31, 1990
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The results of our tests indicate that, except for the issues discussed in Findings I-V, with respect to the items tested, Mn/DOT complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Mn/DOT had not complied, in all material respects, with those provisions.

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 1988 review.

cc: L. F. McNamara
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Audited by:
David Wolvert
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Elaine Wiechmann
Nettie Bergmann

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.

We did field reviews on the 17 construction projects which are listed in Exhibit I. Included in the 17 projects were 9 city/county projects and 1 Corps of Engineers project in Mankato. Findings I, II, III, and IV pertain to these projects.

FINDING I - NEED TO MONITOR SUBMISSION OF CONTRACTORS' PAYROLLS

Construction office personnel are not adequately monitoring contractors' payrolls to ensure the timely submission of all required payrolls. Our payroll review included 16 of the 17 construction projects which are listed in Exhibit I. (State project number 02-601-33 was not reviewed for payroll compliance because this had recently been done by the MN/DOT Construction and Contract Administration Section's Labor Investigation Unit.) Of the 16 projects we reviewed, 14 projects had unaccounted for contractors' payrolls. This is 87.5% of the construction projects reviewed for payroll. On two construction projects all payrolls were accounted for, but there was no formal system in place to assure that all required payrolls had been received.

Attached is a schedule of unaccounted for payrolls by project number (Exhibit II). Payrolls required (Column C) were determined by reviewing the contractors listed in the weekly construction diary as working. See Finding III for questions regarding the accuracy of the construction diaries. The difference between payrolls required and payrolls received equals payrolls unaccounted for (Column D). Not all of these payrolls were actually missing. Sometimes the contractor had been subsequently contacted by construction office personnel and had stated that they did not work that week. Another possible explanation would be that only a foreman worked so no payroll would be required. Since the review, some of these unaccounted for payrolls were resolved (Column E). Either a payroll was submitted (Column G) or a satisfactory explanation was provided. Prior to our audit, the percentages of unaccounted for payrolls to total payrolls required ranged from 0% to 18% (Column H).

The Davis-Bacon Act is a federal compliance requirement which states that contractors and subcontractors' employees working on federally-assisted construction projects be paid wages not less than the minimum established by the Secretary of Labor for the locality of that project. Checking contractor and subcontractor payrolls is one method of helping to determine if the Davis-Bacon Act is being complied with.

29 CFR 5.5(a)(3) requires that the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls. Section

5-591.342 of the MN/DOT Construction Manual requires the prime contractor and each subcontractor to submit a copy of their weekly payroll. This was emphasized in Construction Memorandum 84-14-c-1 which stated that pre-construction conferences call to the contractors' attention that contracts do not require submission of weekly payrolls; rather, they require the submission of payrolls weekly and this requirement must be met.

Compliance with labor regulations varied to some extent because of the assignment of personnel responsible for keeping construction records. Typically MN/DOT Construction Office personnel are responsible for maintenance of complete and accurate project records for Trunk Highway/Federal Aid Projects. County personnel keep the records for County State Aid Projects. City personnel keep the records for Municipal State Aid Projects. Our review found that all of the Trunk Highway/Federal Aid Projects had in place a monitoring system for the submission of contractors' payrolls. However, the monitoring system was ineffective because there was no documentation of whether or not those payrolls not accounted for were resolved.

For the majority of County State Aid and Municipal State Aid Projects there was no formal written system to monitor the contractors' payrolls. Exceptions were the City of Duluth and one of the Hennepin County projects. These had monitoring systems in place but no record of subsequent contact with the contractor on questions of unaccounted for payrolls. Some county and municipal employees were not even aware of the need to monitor the payrolls for timely submission.

The MN/DOT Construction Manual Section 5-591.191 states that a pre-construction meeting should be arranged by the Project Engineer with all project personnel, to discuss in part, documentation procedures, quality and quantity control and record accounting procedures. This would be the correct time to adequately inform counties and municipalities of payroll monitoring system and procedure requirements.

During our review, we encountered statements to the effect that the unaccounted for payrolls were most likely due to the fact that none was required because of various reasons such as only the foreman worked, etc. This belief was not reflective of the actual results of contacting the contractors regarding the payrolls in question. Many of the resolved unaccounted for payrolls turned out to be actually missing and have since been submitted (See Column G of Exhibit II).

Another common statement made to us during our review was that when all construction work is completed, contractors will be contacted regarding any questions on payrolls. Section 5-591.342 of the MN/DOT Construction Manual states that when all construction and maintenance work has been completed, the Project Engineer is required to submit a final certification of wages paid and classification of labor. This certificate verifies that all payrolls and statements of compliance are on file. This should not be interpreted to mean that follow up on unaccounted for payrolls can wait until the end of the project. It is important that follow up be done immediately to

comply with 29 CFR 5.5(a)(3) which requires weekly submittal of weekly payrolls.

If contractors are not required to submit payrolls in a timely manner, the following problems may occur:

1. Payrolls may not be available after a long period of time, due to poor record retention or lack of records.
2. The contractor may subsequently go out of business and the records are no longer available.
3. Errors may be difficult to resolve due to the length of time between the date they occurred and the date of discovery.
4. The wage rates cannot be appropriately monitored as required by 29 CFR 5.5(a)(1). (See Finding II.)

The offices we reviewed either sent out letters or made telephone calls to the appropriate contractors after our review. Many of these unaccounted for payrolls were resolved. Exhibit III is a current listing of the contractors that still need to respond to the inquiries made. We recognize that it is not always easy to obtain a timely response from contractors, and sometimes three or more letters from the office are required. Contractors often place low priority on weekly submittal of payrolls, making it difficult to obtain compliance. We also recognize that progress has been made on monitoring submittal of payrolls. A few years ago many offices had no formal monitoring system in place during the construction work. However, the monitoring systems are not fully effective unless timely follow-up on payroll questions is documented.

RECOMMENDATION NO. 1:

District Engineers for each district ensure that their construction office personnel maintain documentation on inquiries made on unaccounted for payrolls and on how discrepancies found during the contractor and subcontractor payroll reviews are resolved. The resolution of discrepancies needs to be done on a timely basis and not wait until a project is nearing completion.

RECOMMENDATION NO. 2:

For City and County projects, the District State Aid Engineers in each district provide guidance to ensure that project personnel responsible for verifying compliance with labor regulations have a monitoring system for tracking the submission of contractor payrolls to determine which weeks each contractor and subcontractor worked and whether a payroll was submitted. Also project personnel need to maintain documentation on how discrepancies found during the payroll reviews are resolved. This needs to be done on a timely basis and not wait until a project is nearing completion.

RECOMMENDATION NO. 3:

The District Engineers for the Eden Prairie, Brooklyn Park, and Mankato projects listed on Exhibit III have appropriate construction office personnel provide information on how the unaccounted for payrolls listed in the exhibit are finally resolved.

RECOMMENDATION NO. 4:

For the Hennepin County and the City of Duluth projects listed in Exhibit III, the appropriate State Aid Engineers contact the responsible county or city personnel and have them provide information on how the unaccounted for payrolls listed in the exhibit are finally resolved.

EXHIBIT I
CONSTRUCTION PROJECTS REVIEWED
F.Y. 1989

State Project Number	District	Construction Office or City or County	Current Project Engineer	Total Contract Amount	Work Done F.Y. 1989
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Trunk Highway Projects

2724-97	9	Mendota Heights	Orgeman	\$8,349,938	\$3,582,123
2758-46	5	Eden Prairie	Bottemiller	30,557,701	10,362,020
2787-15	5	Golden Valley	D. Miller	9,281,339	6,554,114
2789-27	5	Golden Valley	R. Olds	32,956,852	12,366,260
6280-251	9	Mendota Heights	Miner	9,260,865	5,998,116
6982-215	1	Duluth	Davidson	21,310,264	10,789,147
7910-08	6	Winona	Jaszewski	7,473,320	1,599,124

County/City Projects

02-601-33	5	Anoka	Ruud	791,105	802,984
08-629-08	7	Brown	Wegner	638,730	354,138
16-598-02	1	Cook	Tardy	490,192	455,758
27-652-10	5	Hennepin	Holmquist	2,690,829	1,199,205
27-652-12	5	Hennepin	Holmquist	25,853,605	16,695,861
118-118-02	1	City of Duluth	French	854,200	793,895
118-142-06	1	City of Duluth	Beaman	3,200,689	2,745,355
144-123-03	4	City of Moorhead	Reimer	2,291,563	1,414,896
164-010-36	9	City of St Paul	Nygaard	268,399	248,721

Corps of Engineers Project

0713-62	7	Mankato	Keenen	9,261,560	<u>3,128,871</u>
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Total Work Done in F.Y. 1989 on Projects Reviewed	\$79,090,588
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NOTE: The records for S.P. 144-123-03 are at BRW, Inc. in Minneapolis

EXHIBIT II

SCHEDULE OF UNACCOUNTED FOR PAYROLLS

A	B	C	D	E	F	G	H
State Project Number	Location	Payrolls Required	Payrolls Unaccounted For	Payrolls Resolved	Payrolls to be Resolved	Payrolls Actually Missing	Percent Missing Prior to Audit
2724-97	Mendota Heights	77	1	1	0	1	1.30%
2758-46	Eden Prairie	168	9	6	3	4	5.36%
2787-15	Brooklyn Park	139	2	1	1	1	1.44%
2789-27	Brooklyn Park	1051	39	19	20	9	3.71%
6280-251	Mendota Heights	171	8	8	0	0	4.68%
6982-215	Duluth	282	27	27	0	14	9.57%
7910-08	Winona	218	6	6	0	1	2.75%
08-629-08	Brown County*	30	0	0	0	0	0.00%
16-598-02	Cook County*	28	2	2	0	2	7.14%
27-652-10	Hennepin County	192	9	9	0	2	4.69%
27-652-12	Hennepin County*	270	24	0	24	n/a	8.89%
118-118-02	Duluth @	40	3	3	0	2	7.50%
118-142-06	Duluth	117	4	3	1	1	3.42%
144-123-03	Moorhead*	85	4	4	0	2	4.71%
164-010-36	St. Paul*	12	0	0	0	0	0.00%
0713-62	Mankato @	100	18	0	18	n/a	18.00%

Legend:

* = Project includes FY90 data

@ = Project was audited in FY88 and only FY89 data included

n/a = No payrolls were resolved

EXHIBIT III

PAYROLLS STILL REQUIRING A RESPONSE

State Project Number	Location	Contractor	Pay Period Ending
2758-46	Eden Prairie	AAA Tree Service	2-25-89
		EJM Pipe Service, Inc.	5-27-89
		EJM Pipe Service, Inc.	6-10-89
2787-15	Brooklyn Park	Collins Electric	5-13-89
2789-27	Brooklyn Park	Viking Fence & Constr. Co.	10-10-87
		Thomas and Sons	12-13-86
		Thomas and Sons	7-04-87
		Thomas and Sons	8-15-87
		Thomas and Sons	8-22-87
		Thomas and Sons	8-29-87
		Thomas and Sons	10-17-87
		Thomas and Sons	11-07-87
		Thomas and Sons	5-13-89
		Oxford Sheet Metal & Roofing	6-03-89
		Oxford Sheet Metal & Roofing	6-10-89
		Oxford Sheet Metal & Roofing	6-17-89
		Oxford Sheet Metal & Roofing	6-24-89
		Montgomery Elevator Co.	6-24-89
		E-Con Placer	3-26-87
		E-Con Placer	6-20-87
		E-Con Placer	4-20-88
		E-Con Placer	4-30-88
		Kremer and Davis, Inc.	7-11-87
		K&K Door Systems	12-17-87
27-652-12	Hennepin County	Minnetonka Painting	7-15-89
		Applied Surfaces	6-24-89
		PCI	7-29-89
		PCI	8-05-89
		Thompson Lighting	10-07-89
		Barbarossa Blasting	10-07-89
		Shaeffer	12-03-88
		Shaeffer	10-28-89
		Morrow Construction	8-20-88
		Morrow Construction	10-07-89
		Morrow Construction	10-14-89
		Morrow Construction	10-21-89
		Morrow Construction	10-28-89
		Kirkman Foundations	7-16-88
		Kirkman Foundations	7-23-88

EXHIBIT III
(cont.)

PAYROLLS STILL REQUIRING A RESPONSE

State Project Number	Location	Contractor	Pay Period Ending
		Kirkman Foundations	7-30-88
		Kirkman Foundations	8-06-88
		Kirkman Foundations	8-20-88
		Kirkman Foundations	8-27-88
		American Drilling & Blasting	7-16-88
		American Drilling & Blasting	7-23-88
		American Drilling & Blasting	9-16-89
		American Drilling & Blasting	9-23-89
		Electric Services	2-11-89
118-142-06	City of Duluth	AAA Striping	9-03-88
0713-62	Mankato	Edward Kraemer and Sons	5-06-89
		Shafer Contracting	5-27-89
		Shafer Contracting	6-03-89
		Mankato Electric	11-12-88
		Mankato Electric	5-27-89
		Marcus Construction	6-10-89
		Alliance Steel	12-10-88
		Steinbach Sodding	8-27-88
		Steinbach Sodding	6-17-89
		Steinbach Sodding	6-24-89
		Crawley Fence	6-10-89
		Crawley Fence	6-17-89
		MN Valley Landscaping	4-29-89
		MN Valley Landscaping	5-06-89
		MN Valley Landscaping	5-13-89
		MN Valley Landscaping	5-20-89
		MN Valley Landscaping	6-03-89
		MN Valley Landscaping	6-10-89

FINDING II - NEED TO MONITOR WAGE RATES PAID BY CONTRACTORS

The prime contractor and subcontractors each must submit a copy of their weekly payroll to the Project Engineer with a statement of compliance attached to each payroll indicating that the payroll is correct and complete. We found numerous instances of incomplete payrolls submitted by contractors.

The Davis-Bacon Act is a federal compliance requirement which states that contractors and subcontractors' employees working on federally-assisted construction projects be paid wages not less than the minimum established by the Secretary of Labor for the locality of that project. Checking contractor and subcontractor payrolls is one method of helping to determine if the Davis-Bacon Act is being complied with.

29 CFR 5.5(a)(1) requires that all laborers will be paid the full amount of wages and bona fide fringe benefits due at the time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor. Section 5.5(a)(3)(ii)(A) states that the payrolls submitted shall set out accurately and completely all the information required to be maintained under Section 5.5(a)(3)(i). The payrolls and basic records shall contain the name, address and social security number of each worker, his or her correct classification, hourly rate of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefit or cash equivalents paid), daily and weekly number of hours worked, deductions made and actual wages paid.

The Mn/DOT Construction Manual 5-591.342 states that the first two payrolls of each contractor and subcontractor should be checked in their entirety. Then, if no underpayments are found, subsequent payrolls may be spot-checked.

For many of the projects, it was difficult to determine the actual pay rates that the employees were receiving. This was because not all of the weekly statements of compliance had the fringe benefit's section completed. In some cases, the project engineer had assumed that it was the same as prior payrolls and did not request the information. In other situations, it appeared that the project engineer had not reviewed the payrolls at all as there were no details of fringe benefit amounts paid included with any of the submitted payrolls. Another factor that made it difficult to determine compliance with the Davis-Bacon Act was that there were numerous instances of incomplete job classification descriptions or coding. Job classifications make it possible to determine the required minimum rate of pay as contained in the wage determination decision of the Secretary of Labor.

While we concluded that the contractors and subcontractors on the projects we reviewed generally were paying the prevailing wage rates, we noted several immaterial wage underpayments on the second payrolls submitted for S.P. 7910-08 (Winona) and S.P. 144-123-03 (City of Moorhead). Underpayments were also noted on subsequent payrolls for S.P. 27-652-12 (Hennepin County), S.P. 144-123-03 (City of Moorhead), and S.P. 164-010-36 (City of St. Paul). Note: Records for S.P. 144-123-03 (Moorhead) are located at the engineering consulting firm BRW, Inc. in Minneapolis.

The fact that underpayments were discovered by us on the second payroll and that payroll information submitted by contractors was incomplete raises the question whether payrolls were adequately checked. If payrolls are not checked for proper wage rates, the contractors and subcontractors may not be complying with the Davis-Bacon Act, a requirement for federally-assisted construction projects. If payrolls are not checked promptly (See Finding I), employees who are underpaid may not be able to receive proper compensation. Either some contractors may not still be in business, or they may not have maintained adequate documentation to determine appropriate wages.

RECOMMENDATION NO. 1:

District Engineers for each district ensure that their construction office personnel responsible for verifying compliance with labor regulations check the first two payrolls from each contractor, and if no underpayments are detected, to randomly select and spot check subsequent payrolls. The importance of verifying that all of the payroll information submitted by each contractor and subcontractor is complete and accurate needs emphasis. Examples of important information includes fringe benefit contribution payments and job code classifications.

RECOMMENDATION NO. 2:

The appropriate District State Aid Engineers provide increased guidance to County and Municipal personnel working on federally-assisted construction projects to enable them to comply with the requirements to check the first two payrolls from each contractor, and if no underpayments are detected, to randomly select and spot check subsequent payrolls. The importance of verifying that all information submitted by each contractor and subcontractor is complete and accurate needs emphasis. Examples of important information includes fringe benefit contribution payments and job code classifications.

RECOMMENDATION NO. 3:

Appropriate District State Aid Engineers contact the responsible personnel handling the City of St. Paul (S.P. 164-010-36), Hennepin County (S.P. 27-652-12), and City of Moorhead (S.P. 144-123-03) projects and communicate directly to them of the need to fully comply with the Davis-Bacon requirements and regulations and of the need to ensure that a monitoring system is in place to catch underpayments.

FINDING III - NEED TO COMPLETE THE CONSTRUCTION DIARIES ACCURATELY

A weekly construction diary and statement of working days is to be submitted each week from the actual starting date or contract starting date, whichever is earlier, through the final completion date. On this form the contractor and subcontractors that worked during the week are recorded. This is the only record of working day charges and of the contractors and subcontractors who worked that week. Many of the weekly construction diaries have errors based on our review of payrolls submitted by contractors and subcontractors working on the project. We noted many instances of extra payrolls submitted (See Exhibit IV) as well as unaccounted for payrolls. (See Finding I).

The Davis-Bacon Act cannot be fully complied with, nor can the contractor payrolls be appropriately monitored without assurance that the construction diary is fairly accurate. The office manager would not be aware of the possibility of missing payrolls if the contractor is not listed on the construction diary.

The Mn/DOT Construction Manual 5-591.412(I) pertains to that portion of the weekly construction diary which lists the contractors and subcontractors who worked that week. It states, "It is the basis on which the certificate of full compliance with the labor provisions is made."

In our reviews, we first noted the weeks in which the diaries indicated the various contractors were on the job (Column C of Exhibit IV), and then noted the weeks for which a payroll report was submitted by each contractor (Column B). In many cases, payroll reports were submitted for weeks in which the diary had not listed that contractor as working. Of the 16 projects reviewed, 15 had more payrolls than were required per the Construction Diary. The percentages of excess payrolls ranged from 14-42%. In other instances, the diary would indicate a contractor as being on the job and no payroll report was submitted for that contractor. When the office managers contacted them, they indicated that they had not actually been on the job.

Many of the office managers rely on the construction diaries, as we do, to determine whether the contractor is required to submit a payroll. The project engineers need to verify the accuracy of these diaries so that the person checking the payrolls can rely on them for determining whether a contractor was on the job for those weeks indicated. Also, Project Engineers need to be notified when there are instances of payrolls being submitted by contractors or subcontractors who are not listed on the construction diary.

RECOMMENDATION NO. 1:

District Engineers for each district ensure that their Project Engineers verify that the construction diaries are filled out accurately, especially that part which lists the contractors and subcontractors who worked that week. District Engineers also have a responsible construction office employee notify the Project Engineers if there are instances of payrolls being submitted by contractors and there is no corresponding listing of the contractor on the construction diary for that week.

RECOMMENDATION NO. 2:

District State Aid Engineers provide guidance to ensure that City and County Project Engineers: 1.) verify that the construction diaries are filled out accurately, especially that part which lists the contractors and subcontractors who worked that week. 2.) are notified by a responsible construction office employee if there are instances of payrolls being submitted by contractors and there is no corresponding listing of the contractor on the construction diary for that week.

EXHIBIT IV

EXCESS PAYROLLS RECEIVED

A	B	C	D	E
State Project Number	FY 1989 Payrolls Received	FY 1989 Payrolls Required	Extra Payrolls	Percent Extra
2724-97	108	77	32	29.63%
2758-46	209	168	50	23.92%
2787-15	175	139	38	21.71%
2789-27	774	543	247	31.91%
6280-251	140	117	28	20.00%
6982-215	245	210	63	25.71%
7910-08	119	99	23	19.33%
08-629-08	14	14	0	00.00%
16-598-02	28	24	4	14.29%
27-652-10	115	90	29	25.22%
27-652-12	207	177	42	20.29%
118-118-02	49	40	12	24.49%
118-142-06	132	117	18	13.64%
144-123-03	53	45	9	16.98%
164-010-36	19	11	8	42.11%
0713-62	125	100	43	34.40%

Column:

- B = The number of payrolls received in FY89.
- C = The number of payrolls required per the construction diary.
- D = The number of payrolls received when the diary did not indicate that the contractor worked.
- E = Column D/Column B

NOTE: The numbers may not foot across due to unaccounted for payrolls.

FINDING IV - NEED TO ASSURE THAT PAYMENTS FOR MATERIAL ON HAND DO NOT
EXCEED CONTRACT NEEDS AND ARE PROPERLY SUPPORTED

Material on hand is defined as acceptable material produced or furnished for incorporation as a permanent part of work yet to be completed, provided acceptable provisions have been made for storage. Typically storage arrangements are delivery of the material to the project site or adjacent thereto.

23 CFR 635.114 and the Mn/DOT Construction Manual 5-591.393 both state that the amount paid for materials on hand may not exceed the appropriate portion of the value of the contract item or items in which such material is to be incorporated. Also Spec 1906 from the Standard Specifications for Construction book states, "Any allowances made for materials on hand will not exceed the delivered cost of the material as verified by invoices furnished by the Contractor, nor will it exceed the contract bid price for the material complete in place."

The following projects contained payments for material on hand which exceeded the contract amount or the invoice amounts: S.P. 2758-46 (Eden Prairie), S.P. 6982-215 (Duluth), and S.P. 144-123-03 (Moorhead). The amount of the overpayments and time they remained on the books is as follows:

State Project	Overpayment Amount	From	To	Number of Days
2758-46	\$174,267.50	2-25-89	7-29-89	154
6982-215	2,218.27	7-15-88	9-11-89	423
144-123-03	14,639.44	3-10-89	4-07-89	28
144-123-03	1,278.00	4-07-89	5-10-89	33

The overpayment on S.P. 2758-46 (Eden Prairie) was due to an error which is assumed to have happened at the central office. The amount on the final copy of the partial estimate was not the same as the amount that the Eden Prairie office had indicated on the draft copy. The office manager did not notice the discrepancy until a few months later. He contacted central office and they are investigating it. The overpayment on S.P. 6982-215 at the Duluth office did not exceed the contract amount; however, it was over the invoice amount. The overpayments on S.P. 144-123-03, the City of Moorhead project (records at BRW, Inc.), were due to the engineer not confirming the contract amount of the bid item and therefore exceeding it.

To support the payment for materials on hand, the project engineer needs to verify the invoices from the Contractor at the time the estimate is being prepared. These invoices should be retained in the construction files for proper documentation. If the invoices are not retained, the project engineers cannot show that they are in compliance with federal regulations.

District offices in Duluth (S.P. 6982-215), Winona (S.P. 7910-08), and Brooklyn Park (S.P. 2789-27) along with the City of Moorhead (S.P. 144-123-03) were missing one or more of the invoices which supported the material on hand payments as follows:

<u>State Project</u>	<u>Location</u>	<u>Amount Not Supported by an Invoice</u>
2789-27	Brooklyn Park	\$ 28,975.00
6982-215	Duluth	226,638.56
7910-08	Winona	9,900.00
144-123-03	Moorhead (BRW, Inc.)	1,181.89

BRW, Inc. had a purchase order to document the quantity ordered, but not the actual cost of the material. The Brooklyn Park office had a shipping invoice in place of the missing invoice, but this also did not show the actual cost. The remaining two offices later mailed our office a copy of those invoices which supported the payments made.

RECOMMENDATION NO. 1:

The appropriate District Engineers verify that the Eden Prairie office is reviewing the partial estimate voucher closely to ensure that there are no payments for amounts which exceed the quantities submitted by them on the progress estimate worksheet and that the Duluth office verifies that payments do not exceed the invoice amount. The State Aid Engineer working with the City of Moorhead on their project provide guidance to them on the requirements that no material on hand payments be made which exceed project needs.

RECOMMENDATION NO. 2:

The appropriate District Engineers verify that the Duluth, Winona, and Brooklyn Park construction offices are requesting and retaining all invoices which support material on hand payments. The District State Aid Engineer working with the City of Moorhead on their project provide guidance to them on the requirements to support material on hand payments with appropriate invoices.

FINDING V - NEED FOR INCREASED SUPERVISORY CONTROL OVER ADJUSTMENT F

The Minnesota Department of Transportation (Mn/DOT) generates the progress billings to the Federal Highway Administration (FHWA) for costs incurred under the Federal-Aid Highway Program through a current billing system. The system produces a weekly billing for costs incurred during the week on each active Federal-Aid project. The costs billed are abstracted from Mn/DOT's Cost Accounting System (CAS) and are summarized on the current billing by Federal appropriation codes by functional classes of work. The current billings are paid by FHWA on the basis of assurances set forth in a current billing Memorandum of Understanding between Mn/DOT and FHWA.

The Memorandum of Understanding provides for accounting controls to be exercised by Mn/DOT over the consolidated billings. Certain required reconciliations are the prime accounting controls to be exercised by Mn/DOT. In addition, the Memorandum of Understanding provides for the elimination of certain costs included in the current billing from the net reimbursement. Adjustment F provides for the elimination of costs pending eligibility determination. This is done by means of a TC50 CAS input document.

The Federal Aid Procedures Manual Section 32 II.5. states that dollar amounts for pending Supplemental Agreements must be entered into the Current Bill and appear as an Adjustment F. Section 37 titled Processing FHWA Ineligibility Notices states, "Ineligibility notices require a timely response. Appropriate action needs to be taken within the week". While the Federal Aid Billing Procedures Manual does not address Adjustment F's relating to Right of Way parcel costs, the same time guidelines should apply.

Exhibit V lists examples of Adjustment F's we reviewed based on our random sampling of final projects reviewed for Adjustment F, and our random and judgemental sampling of Adjustment F's from the CAS 27-MO Projects in Adjustment Report. Our review indicates that the average time to prepare a debit Adjustment F entry after a pending supplemental agreement had been executed or costs had been incurred for a parcel which the extent that it was needed for federally funded construction had not been determined was 82.79 working days. The average total cost of an Adjustment F was \$180,747.76.

We noted that three supplemental agreements in our sample were not date stamped by Financial Operations. In those instances, all of the accumulated working days were charged to Federal Aid Billing when we did our analysis.

The following situations are representative of the problems noted on our review of Adjustment F's. Notes 1, 2, and 3 on Exhibit V pertain to the Situation with the same number discussed below.

SITUATION 1

On I 0094-03-047T a letter of authorization from FHWA dated July 26, 1978, indicated that parcel 20 would only be eligible for Federal reimbursement to the extent that it would be needed for Federally funded construction. Parcel

20 was paid for on May 27, 1988. The Adjustment F was not prepared until May 12, 1989, approximately one year later.

SITUATION 2

On I-IR-IG 0394-06-057T pending supplemental agreement no. 16 was fully executed on October 25, 1988. An Adjustment F for \$250,000.00 was made on November 29, 1988. No date stamp by Financial Operations was noted indicating when they received the supplemental agreement. Ineligibility Notice 89-001 was received on December 23, 1988 by Financial Operations. It stipulated that FHWA would not participate in the increased costs of supplemental agreement no. 16 due to correction of the bridge beam camber errors until Mn/DOT has determined the consultant's liability for the extra costs due to their error.

An additional \$55,770.96 was put in Adjustment F on December 27, 1988, fifteen days after receipt of partial estimate no. 31 on December 12, 1988 and twenty-eight days since the initial Adjustment F was made. We reviewed this project on November 2, 1989. The last partial estimate received was no. 52. This was received on October 16, 1989. It indicated that an additional amount of \$11,193.63 has been incurred applicable to supplemental agreement no. 16 since partial estimate no. 31. No Adjustment F has been made for these ineligible costs for approximately one year.

SITUATION 3

On I 0494-04-197T supplemental agreement no. 21 was fully executed and encumbered by April 24, 1986. The supplemental agreement was not received by Financial Operations until May 24, 1988, approximately twenty-five months after the supplemental agreement was fully executed. The Adjustment F was prepared on May 25, 1988, the next day after the supplemental agreement was received.

A review of the supplemental agreement indicated that the payments to be made to the contractor were to be lump sum payments of \$500,000.00 in May 1986, \$400,000.00 in August 1986, and \$400,000.00 in November 1986. The partial estimate vouchers indicated that the payments were made to the contractor at the specified intervals; therefore, the payments would have been costed and appear on the 21-WK current billing and show up in the net claim column from nineteen to twenty-five months prior to the Adjustment F having been made.

Discussion with Construction and Contract Administration Section personnel indicated that when they receive a fully executed supplemental agreement, it normally is sent to Federal Aid Billing. Federal Aid Billing has the responsibility to ensure that all Adjustment F's applicable to pending supplemental agreements are made on a timely basis. They need to communicate with the Construction and Contract Administration Section when they do not receive supplemental agreements on a timely basis.

A PR-1365 (Record of Authorization to Proceed With Major Contract Revision) is received by the Construction and Contract Administration Section for pending supplemental agreements. This specifies any additional requirements and/or

documentation which needs to be sent to FHWA to justify why costs should be participating. Before costs of a pending supplemental agreement can be listed on a partial estimate voucher, the Construction and Contract Administration Section must have received this PR-1365 from FHWA.

In summary, the effect of the above situations is that costs pending eligibility determination have been incorrectly claimed for federal reimbursement for a period of time prior to a final determination of their eligibility. Even if the three largest situations were adjusted out of Exhibit V, the average would be 14.45 working days at an average of \$106,759.09 per adjustment. Normally, all entries should be able to be made within five working days on average so that it is reflected in the next current billing report. Increased tracking and supervisory review of costs pending eligibility determination would provide greater control to ensure that federal reimbursement does not occur prior to a final determination of eligibility, or that the Adjustment F is not made in advance of when the costs are incurred and/or costed.

Audit Report No. 89-800-57 for Fiscal Year 1988 stated that Adjustment F's were an area of concern because no supervisory review was performed. The CAS TC50 input document for Adjustment F's is only authorized by the preparer and normally no one else reviews it. We recommended that the CAS TC50 input document be signed and dated by both the preparer and the reviewer. The response to the recommendation was that complete and detailed knowledge would be needed by the reviewer to sign and would not be time efficient.

For the period April 1989 to November 1989, an average of 6.43 Adjustment F entries were made per month (both debit and credit entries). For the period April 1989 to June 1989, the average number of Adjustment F entries was 4.67 per month of which an average of 1 per month was a new debit entry.

We discussed our concerns with appropriate Financial Operations personnel. Financial Operations personnel indicated that they will ensure that all supplemental agreement copies will be properly date stamped on the day received.

RECOMMENDATION NO 1:

Procedures be revised so that the Federal Aid Billing Unit Supervisor and the Right of Way Accounting Supervisor review Adjustment F's to ensure that they are made within the same current billing period that costs are incurred and/or costed. The TC50 CAS input document be signed by both the preparer and the reviewer.

RECOMMENDATION NO. 2:

Financial Operations make an Adjustment F entry for \$11,193.63 or the current incremental amount for supplemental agreement no. 16 on project I-IR-IG 0394-06-057.

EXHIBIT V

SUMMARY ANALYSIS OF ADJUSTMENT F

Note	Project	Total Working Days to Make Adjustment F	Debit Entry	Responsible Unit	Dollar Value of Adjustment F
	M 5526-00-001A S.A. 1	6		Contract Administration	\$ 2,012.20
	I 0035-04-020T Parcel 31A	6		Right of Way	500,000.00
1	I 0094-03-047T Parcel 20	240		Right of Way	44,925.00
	I 0094-03-304T Parcel 6B	11		Right of Way	32,411.00
	I 0394-06-057T S.A. 12	63#		Federal Aid Billing	49,533.82
	I 0394-06-057T S.A. 16	22#		Federal Aid Billing	250,000.00
	I 0394-06-057T S.A. 16	19		Federal Aid Billing	55,770.96
2	I 0394-06-057T S.A. 16	226	NP	Federal Aid Billing	11,193.63
	I 0494-04-068T Parcel 252	0		Right of Way	22,914.00
	I 0494-04-068T Parcel 37A	8		Right of Way	92,595.00
	I 0494-04-068T Parcel 37B	8		Right of Way	9,448.00
	I 0494-04-068T Parcel 7C	3		Right of Way	86,165.00
3	I 0494-04-197T S.A. 21	534		Contract Administration	1,300,000.00
	I 0494-04-197T S.A. 37	13#		Federal Aid Billing	73,500.00
Total		1,159		Total	\$2,530,468.61
Average Working Days		82.79		Average Adjustment Amount	\$ 180,747.76
Average Days Excluding Note 1,2,3		14.45		Average Amount Excluding Note 1,2,3	\$ 106,759.09

NP = Debit entry not performed as of the date of our review.

= Not date stamped by Financial Operations.

251 working days = 1 year.

Note 1,2,3 refers to Situations 1,2,3 discussed in the Finding.

ATTACHMENT I

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION
From Audit Report No. 89-800-57
(Fiscal Year 1988)

Finding I - NEED TO MONITOR SUBMITTAL OF CONTRACTORS' PAYROLLS.

Recommendation No. 1:

Duluth district construction office and Ramsey County personnel use a form or other type of system to determine which weeks each contractor or subcontractor worked, and whether a payroll has been submitted. The District State Aid Engineers work with Ramsey County personnel on implementing this.

Recommendation No. 2:

Mankato district construction office personnel follow up on missing payrolls as soon as possible, rather than waiting until the project is complete.

ADDITIONAL ACTIONS NEEDED FOR FULL IMPLEMENTATION

The response to these recommendations was that 1) the Duluth district construction office is now using a form to determine the weeks contractors and subcontractors worked and whether payrolls have been submitted for those weeks. The State Aid Engineer will work with the District State Aid Engineer to assure that Ramsey County personnel monitor the submittal of contractors' payrolls. A suggested sample form will be provided, and 2) the Mankato district construction office will comply with this recommendation. During our review of this year's sample of projects, we noted that improvements in this area are still needed. See Finding I of this report for details.

Finding II - NEED TO CHECK PAYROLLS FOR PROPER WAGE RATES.

Recommendation:

The appropriate District State Aid Engineers provide guidance to Kanabec County and Ramsey County personnel working on federally-assisted construction projects so that they comply with the requirements to check the first two payrolls from each contractor, and, if no underpayments are noted, to spot check subsequent payrolls.

ADDITIONAL ACTIONS NEEDED FOR FULL IMPLEMENTATION

The response to these recommendations was that the State Aid Engineer has issued a memorandum to all District State Aid Engineers which addressed reviewing the first two payrolls of each contractor for proper wage rates, and to spot check subsequent payrolls on a timely basis. During our review of this year's sample of projects, we noted that improvements in this area are still needed. See Finding II of this report for details.

Finding III - NEED TO DETERMINE IF GRANT REIMBURSEMENTS ARE DEPOSITED CORRECTLY.

Recommendation:

Aeronautics personnel work with the budget office to resolve the question of which fund the Litchfield, Chisholm, and any future grant reimbursements of this type should be deposited.

RECOMMENDATION IMPLEMENTATION IN PROGRESS

The Federal funds which remained in the Litchfield project, were appropriately transferred to the State fund account. However, the questioned amount still remains in the Chisholm account as Federal funds. This is in the process of being resolved.

Observation I - NEED TO VERIFY THAT RECOMMENDATIONS HAVE BEEN IMPLEMENTED PRIOR TO RESPONDING TO A FHWA REVIEW

Recommendation:

The Office of Right of Way and Surveys develop a procedure to verify that recommendations have been correctly and fully implemented before responding to FHWA reviews or any type of audit requiring a response.

RECOMMENDATION FULLY IMPLEMENTED

The response to this recommendation was that the Office of Right of Way and Surveys, as well as the Right of Way Accounting Unit within Financial Operations will ensure that future responses to federal process reviews and audits will be coordinated with one another. The misunderstanding that resulted regarding lease of airspace is not indicative of our responses. In the future, Financial Operations will respond in writing to directives from the Office of Right of Way and Surveys, indicating what corrective action was taken. This should eliminate any potential for misunderstanding.

In our review of the 1989 FHWA Reviews, we found no recommendations which required corrective action to be taken by the Right of Way Accounting Unit within Financial Operations. This was verified with the Director of Right of Way who indicated that before a response is made to FHWA reviews or any type of audit, they will double check to make sure that the appropriate action has already been taken.

Observation II - NEED TO MONITOR LEASES OF BUILDINGS TO FORMER OWNERS

Recommendation:

No recommendations were made as the Right of Way Manual was in the process of being revised to address this type of situation. Observation was for informational purposes.

Observation III - TYPES OF ERRORS NOTED WHEN REVIEWING PARTIAL ESTIMATE PAYMENTS

Recommendation:

No recommendation was made as this observation was intended only for informational purposes.

Observation IV - NEED FOR INCREASED SUPERVISORY CONTROLS ON CERTAIN COST ACCOUNTING SYSTEM RECONCILIATIONS AND ADJUSTMENTS

Recommendation No. 1:

Reconciliation B be reviewed each month on a random sample by cost center basis. The review of the reconciliation should include a review of the CAS input documents on a random sample basis. The reconciliation should be signed and dated by both the preparer and the reviewer.

RECOMMENDATION IMPLEMENTATION IN PROGRESS

The response to this recommendation was that Reconciliation B would be initialed and dated by the supervisor. This was not being done at the time of our current review, but the cost accounting supervisor recently indicated that documentation of this supervisory review will begin as of January 1990.

Recommendation No. 2:

Reconciliation D procedures provide for an effective supervisory review. The reconciliation be signed and dated by the preparer and the reviewer.

RECOMMENDATION PARTIALLY IMPLEMENTED

This recommendation was partially implemented. The incompatible responsibilities of the same individual performing the reconciliation and maintaining the subsidiary ledger was corrected by assigning another person to maintain the subsidiary ledger. The response to this recommendation was that Reconciliation D would be initialed and dated by the supervisor. This was not being done at the time of our current review, but the cost accounting supervisor recently indicated that documentation of this supervisory review will begin as of January 1990.

Recommendation No. 3:

Ensure that the CAS TC50 input document for Adjustment F's are signed and dated by both the preparer and the reviewer.

RECOMMENDATION NOT IMPLEMENTED

The response to this recommendation was that the TC50 is prepared by Right of Way accounting and Federal Aid accounting personnel and the preparer is authorized to sign. The response stated that complete and detailed knowledge would be needed by the reviewer to sign and would not be time efficient. Therefore, we performed additional audit work in this area. We still have some concerns. These are discussed in Finding V of this report.

Recommendation No. 4:

Written instructions be updated as needed for the reconciliations and adjustments indicating the level(s) of supervisory review necessary and specifying the completion time frame(s).

RECOMMENDATION IMPLEMENTATION IN PROGRESS

The response to this recommendation was that review and initial functions specifying the completion time frame will be added to the Workbook at the next update. This update has not yet been performed, but will be included and completed in the near future according to the cost accounting supervisor.



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

Office of Commissioner

(612) 296-3000

March 21, 1990

Mr. James R. Nobles
Office of the Legislative Auditor
Veterans' 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 1989. 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: The Minnesota Department of Transportation (Mn/DOT) should follow the established procedures to ensure that sufficient funds are available for the completion of construction projects.

Response: The procedures detailed in the Mn/DOT Construction Manual relating to project review at the 80 percent completion point will be modified for use on federal county road and bridge projects. Procedures will be developed utilizing the same process, with minor changes, and then will be included in the State Aid Manual. These updated procedures will be distributed to all affected local units of government. Any needed increases in encumbrances will be coordinated with the Contract Administration Engineer and the State Aid Accounting Unit.

Recommendation 2: Mn/DOT should not make final payments to contractors until the certification of materials letter is prepared.

Response: We agree with the recommendation. Our internal Management Analysis Unit will begin a management study of this area in the near future. They will be working with the Construction and Contract Administration Section, the Office of Materials, Research and Standards, and district construction personnel. Recommendations for improvements will be made to department management by this fall.

AUDIT OF OMB CIRCULAR A-128

FINDING 1 - NEED TO MONITOR SUBMISSION OF CONTRACTORS' PAYROLLS

Recommendation 1: District Engineers for each district ensure that their construction office personnel maintain documentation on inquiries made on unaccounted for payrolls and on how discrepancies found during the contractor and subcontractor payroll reviews are resolved. The resolution of discrepancies needs to be done on a timely basis and not wait until a project is nearing completion.

Recommendation 2: For City and County projects, the District State Aid Engineers in each district provide guidance to ensure that project personnel responsible for verifying compliance with labor regulations have a monitoring system for tracking the submission of contractor payrolls to determine which weeks each contractor and subcontractor worked and whether a payroll was submitted. Also project personnel need to maintain documentation on how discrepancies found during the payroll reviews are resolved. This needs to be done on a timely basis and not wait until a project is nearing completion.

Recommendation 3: The District Engineers for the Eden Prairie, Brooklyn Park, and Mankato projects listed on Exhibit III have appropriate construction office personnel provide information on how the unaccounted for payrolls listed in the exhibit are finally resolved.

Recommendation 4: For the Hennepin County and the City of Duluth projects listed in Exhibit III, the appropriate State Aid Engineers contact the responsible county or city personnel and have them provide information on how the unaccounted for payrolls listed in the exhibit are finally resolved.

Response: A memorandum will be sent to District and District State Aid Engineers requesting they ensure that payroll check-in systems for payrolls be put in place and that adequate documentation concerning resolution of unaccounted-for payrolls is maintained. The appropriate District and District State Aid Engineers will be asked to respond on individual project findings.

FINDING II - NEED TO MONITOR WAGE RATES PAID BY CONTRACTORS

Recommendation 1: District Engineers for each district ensure that their construction office personnel responsible for verifying compliance with labor regulations check the first two payrolls from each contractor, and if no underpayments are detected, to randomly select and spot check subsequent payrolls. The importance of verifying that all of the payroll information submitted by each contractor and subcontractor is complete and accurate needs emphasis. Examples of important information include fringe benefit contribution payments and job code classifications.

Recommendation 2: The appropriate District State Aid Engineers provide increased guidance to County and Municipal personnel working on federally-assisted construction projects to enable them to comply with the requirements to check the first two payrolls from each contractor, and if no underpayments are detected, to randomly select and spot check subsequent payrolls. The importance of verifying that all information submitted by each contractor and subcontractor is complete and accurate needs emphasis. Examples of important information include fringe benefit contribution payments and job code classifications.

Recommendation 3: Appropriate District State Aid Engineers contact the responsible personnel handling the city of St. Paul (S.P. 164-010-36), Hennepin County (S.P. 27-652-12), and the City of Moorhead (S.P. 144-123-03) projects and communicate directly to them of the need to fully comply with the Davis-Bacon requirements and regulations and of the need to ensure that a monitoring system is in place to catch underpayments.

Response: Included in the memorandum to District and District State Aid Engineers mentioned in the response to Finding 1 will be a request to ensure that required information be kept on the payrolls and the fringe benefit form. The appropriate District and District State Aid Engineers will be asked to respond on individual project findings.

During the 1990 construction season, the Construction Standards Engineer and the Labor Investigation Supervisor and staff will be placing special emphasis on these areas during their project reviews.

FINDING III - NEED TO COMPLETE THE CONSTRUCTION DIARIES ACCURATELY

Recommendation 1: District Engineers for each district ensure that their Project Engineers verify that the construction diaries are filled out accurately, especially that part which lists the contractors and subcontractors who worked that week. District Engineers also have a responsible construction office employee notify the Project Engineers if there are instances of payrolls being submitted by contractors and there is no corresponding listing of the contractor on the construction diary for that week.

Recommendation 2: District State Aid Engineers provide guidance to ensure that City and County Project Engineers: 1.) verify that the construction diaries are filled out accurately, especially that part which lists the contractors and subcontractors who worked that week. 2.) are notified by a responsible construction office employee if there are instances of payrolls being submitted by contractors and there is no corresponding listing of the contractor on the construction diary for that week.

Response: A request that District and District State Aid Engineers ensure that construction diaries are accurately completed will be included in the memorandum mentioned in the response to Finding 1. A memorandum will be sent to all Construction/Resident Engineers citing the importance of accurate data entered

on construction diaries, specifically the subcontractor listings.

District and District State Aid Engineers will be requested to respond to findings concerning individual projects.

FINDING IV - NEED TO ASSURE THAT PAYMENTS FOR MATERIAL ON HAND DO NOT EXCEED CONTRACT NEEDS AND ARE PROPERLY SUPPORTED

Recommendation 1: The appropriate District Engineers verify that the Eden Prairie office is reviewing the partial estimate voucher closely to ensure that there are no payments for amounts which exceed the quantities submitted by them on the progress estimate worksheet and that the Duluth office verifies that payments do not exceed the invoice amount. The State Aid Engineers working with the City of Moorhead on their project provide guidance to them on the requirements that no material on hand payments be made which exceed project needs.

Recommendation 2: The appropriate District Engineers verify that the Duluth, Winona, and Brooklyn Park construction offices are requesting and retaining all invoices which support material on hand payments. The District State Aid Engineer working with the City of Moorhead on their project provides guidance to them on the requirements to support material on hand payments with appropriate invoices.

Response: The overpayment on S.P 2758-46 was the result of human error and the appropriate personnel were notified. The payment on S.P. 6982-215 exceeded the invoice amount. The engineer was informed of the error. Invoices for materials on hand will be verified in the future so that overpayments do not occur. The payments on S.P. 144-123-03 exceeded the contract amount. The engineer was notified and instructed to verify all material on hand payments in the future.

FINDING V - NEED FOR INCREASED SUPERVISORY CONTROL OVER ADJUSTMENT F

Recommendation 1: Procedures be revised so that the Federal Aid Billing Unit Supervisor and the Right of Way Accounting Supervisor review Adjustment F's to ensure that they are made within the same current billing period that costs are incurred and/or posted. The TC50 CAS input document be signed by both the preparer and the reviewer.

Recommendation 2: Financial Operations make an Adjustment F entry for \$11,193.63 or the current incremental amount for supplemental agreement no. 16 on project I-IR-IG 0394-06-057.

Responses:

Recommendation 1: Presently the Right of Way Accounting Supervisor prepares the TC50 CAS input document for right of way transactions; therefore, its preparation has sufficient supervisory control. If the authorization letter indicates stipulations as it relates to the acquiring of right of way, or the ineligibility notice is received prior to the incurring of any expenses relating to the noted parcels, then right of way ledger cards are flagged. When the flagged right of way parcel is acquired, an Adjustment F is prepared the same week the parcel payment is made.

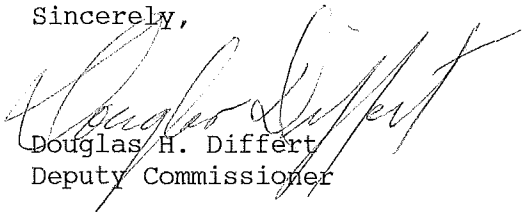
In those situations where an ineligibility notice is received after costs have been incurred, an Adjustment F will be prepared within five working days of receipt of the notice, not the date of issue or the same week in which the costs are incurred. Existing procedures within the Right of Way Accounting Unit are sufficient to ensure compliance. The new Right of Way Procedures Manual will document this procedure.

The Federal Aid unit prepares the Adjustment F entry as quickly as they are aware that federal participation is questionable due either to a supplemental agreement or ineligibility notice. In most cases construction costs are incurred and/or costed before the Federal Aid Unit is aware of questionable federal participation so preparing this entry in a more timely manner is difficult. The Federal Highway Administration is aware of the problem and concurs with our current procedures. In the Federal Aid Unit, the TC50 CAS document will be signed by both a preparer and reviewer and entered within 5 working days of receipt of the notice.

Recommendation 2: The Adjustment F entry for \$11,193.63 on I-IR-IG 0393-06-057 was made March 14, 1990.

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,



Douglas H. Differt
Deputy Commissioner