

**DEPARTMENT OF TRANSPORTATION  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1991**

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**MARCH 1992**

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



# DEPARTMENT OF TRANSPORTATION

## FINANCIAL AUDIT YEAR ENDED JUNE 30, 1991

Public Release Date: March 6, 1992

No. 92-16

### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Municipal State Aid-Street Fund grants, County State Aid-Highway Fund grants, Trunk Highway Fund federal revenue, Trunk Highway Fund construction, loans, federal county road and bridge account disbursements, service charges, airport improvement federal program, and highway planning and construction federal program.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### CONCLUSIONS:

We found the internal control structure to be effective.

We found one area where the department had not complied with finance-related legal provisions:

- The department has not implemented a current indirect cost plan.

The Mn/DOT internal audit unit was responsible for specific Single Audit compliance requirements.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Denn, Commissioner  
Department of Transportation

## **Audit Scope**

We have conducted a financial related audit of the Department of Transportation central office for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Transportation, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Transportation in effect during June 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Transportation are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Transportation's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The Department of Transportation 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. The internal auditors issued a separate report.

## **Management Responsibilities**

The management of the Department of Transportation is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

### **Internal Control Structure**

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Service charges;
- Municipal State Aid-Street Fund grants;
- County State Aid-Highway Fund grants;
- Airport Improvement federal program (CFDA 20.106);
- Highway Planning and Construction federal program (CFDA 20.205);
- Trunk Highway Fund construction;
- Loans from local governments; and
- Federal County Road & Bridge account disbursements;

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

### **Conclusions**

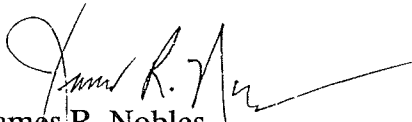
In our opinion, the internal control structure of the Department of Transportation, central office, in effect at June 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Department of Transportation, central office.

The results of our tests indicate that, except for the issue discussed in finding 1, with respect to the items tested, the Department of Transportation complied, in all material respects,

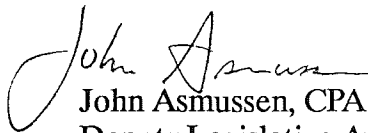
Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Mr. James Denn, Commissioner  
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nothing came to our attention that caused us to believe that the Department of Transportation had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Transportation. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 6, 1992.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 3, 1992

Report Signed On: March 2, 1992





## Department of Transportation

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### Audit Participation

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Pat Ryan	Senior Auditor
John Wicklund, CPA	Senior Auditor
Jay Wehking	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following staff on January 15, 1992:

James Denn	Commissioner
Ed Cohoon	Deputy Commissioner
Barbara Sundquist	Assistant Commissioner
Richard Swanson	Director, Office of Financial Management
Bonnie Kollman	Director, Financial Operations
Warren Skallman	Financial Reporting, Financial Operations
Wayne Murphy	State Construction Engineer
Ronald Gipp	Director Audit Section
Deb Didier	Mn/DOT Audit
Sharon Bolin	Mn/DOT Audit
Dave Wohlvert	Mn/DOT Audit



## Department of Transportation

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### Introduction

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The Department of Transportation (Mn/DOT) is a service and regulatory agency which develops and implements plans and programs for the operation of statewide transportation systems and facilities. Mn/DOT also provides grant-in-aid funds as well as technical assistance to counties, municipalities, and other local transportation authorities for highway, aeronautics, and public transportation purposes.

Total central office revenues for fiscal year 1991 were approximately \$368 million. The primary source of revenue is federal grants. Approximately \$256 million was received in federal grants and \$14 million in service charges for fiscal year 1991.

Central office expenditures for fiscal year 1991 totalled \$970 million. Main program expenditures are as follows:

Municipal State Aid - Street Fund grants	\$ 80,545,000
County State Aid - Highway Fund grants	234,237,000
Highway Planning and Construction - CFDA 20.205	\$293,286,373
Airport Improvement - CFDA 20.106	18,635,414
Other	<u>112,885,213</u>
Total Trunk Highway Fund Construction	424,807,000
Loan Payments	16,928,121
Federal County Road and Bridge expenditures	<u>45,018,962</u>
Total	<u>\$801,536,083</u>

Source: Minnesota Comprehensive Annual Financial Report, for the year ended June 30, 1991; Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1991.

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## Current Finding and Recommendation

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**1. The Minnesota Department of Transportation did not implement a current indirect cost plan.**

The Department of Transportation (Mn/DOT) has been unable to implement a new indirect cost plan since 1988. Mn/DOT has not received federal approval for its 1989 and 1990 proposed indirect cost plans. Also, Mn/DOT has not submitted an indirect cost plan to the Department of Finance or the Federal Highway Administration for the year ended June 30, 1991. We estimate that Mn/DOT would have received at least an additional \$250,000 in indirect costs if it had implemented an up-to-date rate.

Indirect cost plans allow Mn/DOT to recover the portion of administration costs related to the federal programs. Since October 1988, Mn/DOT has been using an indirect cost rate of 10.25 percent of direct costs. The Federal Highway Administration has not approved a new rate since then. In June 1990, Mn/DOT submitted indirect cost plans for fiscal years 1989 and 1990. The requested rates for 1989 and 1990 were 11.19 percent and 15.32 percent, respectively. Federal Highway Administration staff refuse to grant approval until the Mn/DOT internal audit staff complete an audit of the plan. The U.S. Department of Transportation order 4600.11A, dated September 1982, requires that plans with large fluctuations from previous years be audited. The Mn/DOT internal auditors started the audit, but have not completed it as of December 1991. Mn/DOT did not submit a 1991 plan, because the Federal Highway Administration has not approved the 1989 and 1990 plans.

Department of Finance Policy and Procedure 06:03:22 requires that state agencies receiving federal funds annually prepare an indirect cost plan. OMB Circular A-87 states that the federal cognizant agency is responsible for the negotiation and approval of the indirect cost plan. Mn/DOT should submit the indirect cost plan annually in accordance with state policy and federal requirements. Also, Mn/DOT should work with the Federal Highway Administration to consider provisional interim rates until the plans are approved.

### *Recommendation*

- *Mn/DOT should take the steps necessary to implement an up-to-date indirect cost plan.*



Minnesota  
Department of Transportation  
Transportation Building  
395 John Ireland Boulevard  
Saint Paul, Minnesota 55155

February 24, 1992

Mr. James Nobles  
Office of the Legislative Auditor  
1st Floor Centennial Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles

We have received the draft audit report your staff prepared concerning Department of Transportation accounting procedures and controls for fiscal year 1991. We appreciate the professional and constructive nature of your recommendation. Our response to your recommendation follows for inclusion in your report. Responses having to do with OMB Circular A-128 will be provided to Mn/DOT's Internal Audit Report, for inclusion in their report to you.

Current Finding and Recommendation:

Mn/DOT should take the steps necessary to implement an up-to-date indirect cost plan.

Response:

The Federal Highway Administration is withholding approval of the 1989 and 1990 indirect cost plans, pending completion of an audit of the rate development by the Mn/DOT Audit Section. The audit, currently under way, will not only hasten approval of the 1989 and 1990 rates, but will answer some questions which are key to rate development and indirect cost billings. Procedures will also be developed which should clarify plan preparation in the future. Work has been done on the 1991 indirect cost plan and can be completed shortly after the audit is accomplished.

We will make an effort to ensure that the action specified in the response is implemented in a timely manner.

Sincerely,

A handwritten signature in dark ink, appearing to read 'James N. Denn', is written over a horizontal line.

James N. Denn  
Commissioner