

DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

MAY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-18

DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: May 14, 1993

No. 93-18

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, payroll, airport improvement federal program, and highway planning and construction federal program.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

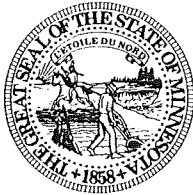
- Some sections of the department need to improve controls over payroll.

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

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, 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 for the the year ended June 30, 1992. 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 at June 1992.

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 transaction 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, regulations, contracts, and grants. 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. 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, regulations, contracts, and grants. 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:

- Trunk Highway Fund construction,
- Federal County Road & Bridge account expenditures,
- Highway Planning and Construction federal program,
- Airport Improvement federal program,
- County State Aid-Highway Fund Grants,
- Municipal State Aid-Street Fund Grants,
- Loans from local governments, and
- Payroll.

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

Our study and evaluation disclosed the conditions discussed in finding 1 involving the internal control structure of the Department of Transportation. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.


A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition described above is not a material weakness.

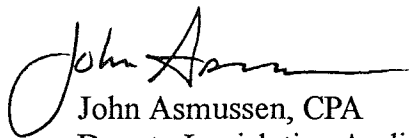
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Transportation at the exit conference held on April 7, 1993.

The results of our tests indicate that, except for the issue discussed in finding 2, with respect to the items tested, the Department of Transportation 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 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 May 14, 1993.

We thank the Department of Transportation staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 2, 1993

Report Signed On: May 7, 1993

Department of Transportation

Table of Contents

	Page
Introduction	1
Current Findings and Recommendations	2
Agency Response	3

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
Tony Toscano	Auditor-in-Charge
John Wicklund, CPA	Senior Auditor
Amy Jorgenson	Senior Auditor
Carrie Brown	Intern
Todd Froelich	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following Mn/DOT staff on April 7, 1993:

Ed Cohoon	Deputy Commissioner
Barbara Sundquist	Assistant Commissioner, Finance & Administration
Ron Hoffman	Assistant Commissioner, Intermodal Programs
Richard Swanson	Director, Office of Financial Management
Bonnie Kollman	Director, Financial Operations
George Kieffer	Director, Systems & Administrative Services
Paul Bergman	Contract Administration Engineer
Paul Jensen	Operations Division, Building Unit Manager
Jeanne Chasteen	Operations Division, Planning & Coordination
Gary Workman	Construction & Maintenance, Metropolitan District
Ron Gipp	Director, Audit Section
Elaine Berger	Internal Audit Unit
Sharon Bolin	Internal Audit Unit
Deb Didier	Internal Audit Unit
Larry Kienitz	Internal Audit Unit
Dave Wolvert	Internal Audit Unit

Department of Transportation

Introduction

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 1992 were approximately \$392 million. The primary source of revenue is federal grants of which the department received approximately \$243 million in fiscal year 1992.

Central office expenditures for fiscal year 1992 totaled approximately \$981 million. Main program expenditures are as follows:

Municipal State Aid-Street Fund grants	\$ 72,761,000
County State Aid-Highway Fund grants	237,193,000
Highway Planning and Construction - CFDA 20.205 ¹	356,464,000
Other Trunk Highway Fund Construction	171,169,000
Airport Improvement - CFDA 20.106	19,795,000
Payroll	67,485,000
Loan Payments	<u>5,346,000</u>
Total	<u>\$930,213,000</u>

¹Federal County Road and Bridge expenditures of \$48,825,000 are included in the total expenditures for Highway Planning and Construction CFDA 20.205.

Source: Minnesota Comprehensive Annual Financial Report, for the year ended June 30, 1992; Minnesota Financial and Compliance Report on Federally assisted Programs for the year ended June 30, 1992; Statewide Accounting Receipt Materiality Analysis.

Current Findings and Recommendations

1. Some sections of the Department of Transportation need to improve controls over payroll.

The Communications, Right of Way, and State Aid sections in the Department of Transportation (Mn/DOT) central office need to segregate the personnel and payroll processing functions. In each of the three locations one person is responsible for maintaining the personnel files, inputting the payroll, signing the payroll certification report and distributing the payroll warrants.

Strong internal controls require separation of duties to ensure that no one person is responsible for an entire process. In order to achieve the proper separation of duties, the payroll and personnel functions should be separated. Also, an additional person should be involved in the payroll process to receive and distribute the payroll warrants.

Recommendation

- *Mn/DOT should ensure that all locations within the central office maintain adequate separation of duties over payroll.*

2. PRIOR FINDING NOT RESOLVED: Mn/DOT has not implemented a current indirect cost plan.

Mn/DOT has not submitted an indirect cost plan to the Department of Finance or the Federal Highway Administration for the years ended June 30, 1991 and 1992. Indirect cost plans allow Mn/DOT to recover the portion of administrative costs related to federal programs. Mn/DOT has not submitted plans for 1991 and 1992 because the 1989 and 1990 plans have received only provisional approval by the Federal Highway Administration. Mn/DOT is currently working on the 1991 and 1992 indirect cost 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. Failure to submit a current indirect cost plan results in Mn/DOT absorbing a larger share of the project costs.

Recommendation

- *Mn/DOT should continue to 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

May 5, 1993

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

Re: Legislative Audit for the year ended June 30, 1992

Dear Mr. Nobles:

This letter is in response to the preliminary audit report for the Department of Transportation for the year ended June 30, 1992.

Our staff concurs with both findings, and has initiated actions to satisfy the intent of the recommendations as follows:

FINDING 1

Effective immediately, the Communications, Right of Way and State Aid Sections will segregate personnel and payroll processing functions. The office manager in each section will continue to maintain the personnel files. The responsibilities for payroll input, payroll certifications and payroll warrant distribution will each be assigned to other employees within the sections.

FINDING 2

The indirect cost plans for the years ended June 30, 1989 and 1990 have been approved by the Department of Finance and the Federal Highway Administration. The plans for the years ended June 30, 1991 and 1992 have been completed and will be submitted to the Department of Finance and the Federal Highway Administration shortly. The plan for the year ended June 30, 1993 is also near completion. That will bring us up to date and subsequent reports will be prepared in a timely manner.

I believe the above actions will successfully resolve the findings of this audit.

Sincerely,

Edwin H. Cohoon
Deputy Commissioner