

DEPARTMENT OF TRANSPORTATION

PROGRAMS SELECTED FOR FISCAL YEAR

1993 STATEWIDE AUDIT

MAY 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-18

DEPARTMENT OF TRANSPORTATION

PROGRAMS SELECTED FOR FISCAL YEAR 1993 STATEWIDE AUDIT

Public Release Date: May 4, 1994

No. 94-18

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Trunk Highway Fund construction, Federal County Road and Bridgeway expenditures; Airport Improvement federal program, County State Aid and Highway Fund grants, Municipal State Aid Street Fund grants, and loans from local governments.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found the internal control structure to be effective.

We found no departures from finance-related legal provisions.

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

FINANCIAL AUDIT DIVISION



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 audited selected programs of the Department of Transportation as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements and Single Audit federal programs. 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 outlined below and as further discussed in the Introduction.

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 selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. Our objective was to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Transportation. The work conducted in the department is part of our Statewide Audit and federal compliance Single Audit. The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the department during fiscal year 1993.

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

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

For 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. We tested and evaluated the design and operating effectiveness of the internal control structure as of June 1993, and other procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

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.

Conclusions

In our opinion, the Department of Transportation maintained an effective internal control structure over financial reporting as of June 1993.


We 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 13, 1994.

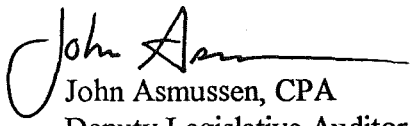
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Members of the Legislative Audit Commission
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The results of our tests indicate that with respect to the items tested, the Department of Transportation complied, in all material respects, with the 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 4, 1994.

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: March 7, 1994

Report Signed On: April 28, 1994

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Audit Participation

The following members of 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
Sonya Hill, CPA	Auditor
Christina Weiss	Auditor
Nataly Pugachevsky	Intern

Exit Conference

The following staff from the Department of Transportation participated in the exit conference held on April 13, 1994:

Ed Cohoon	Deputy Commissioner
Barb Sundquist	Director, Division of Finance and Administration
Dick Swanson	Office of Financial Management
Bonnie Kollmann	Director, Financial Operations
Ron Gipp	Audit Director
Larry Kienitz	Audit Manager

Department of Transportation

Background

The Department of Transportation (Mn/DOT) is charged with providing a balanced transportation system including aeronautics, highways, motor carriers, ports, public transit, railroads and pipelines. Among the goals listed in Minn. Stat. Chapter 174, Section 1, Subd. 2, are the following: -

- to provide safe transportation for users throughout the state;
- to provide multimodal and intermodal transportation that enhances mobility and economic development;
- to provide a reasonable travel time for commuters;
- to provide for the economical, efficient, and safe movement of goods to and from markets by rail, highway and waterway;
- to provide systems that encourage tourism;
- to maximize the benefits received for each transportation investment; and
- to increase high occupancy vehicle use.

The Table 1 summarizes the appropriations available to the department for fiscal year 1993.

Table 1
Fiscal Year 1993 Appropriations

<u>Funding Source:</u>	<u>Amount</u>
Trunk Highway Fund	\$757,774,000
County State Aid Highway Fund	242,000,000
Municipal State Aid Street Fund	67,000,000
Airports Fund	16,203,000
General Fund	8,683,000
Environmental Fund	200,000
Special Revenue Fund	<u>80,000</u>
Total Appropriation	<u>\$1,091,940,000</u>

Total department revenues for fiscal year 1993 were approximately \$448 million. The primary source of revenue is federal grants of which the department received approximately \$363 million in fiscal year 1993.

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Department expenditures for fiscal year 1993 totaled approximately \$1,024,880,516. Table 2 summarizes the main program expenditures.

Table 2
Main Program Expenditures

Trunk Highway Construction	\$440,776,000
County State Aid-Highway Fund Grants	280,911,000
Municipal State Aid-Street Fund Grants	105,174,000
Federal/County Road and Bridge Construction	71,530,692
Airport Improvement-CFDA 20.106	22,110,990
Transportation Fund Grants	7,178,000
Loan Payments	33,740,226

Note: The Highway Planning and Construction Program (CFDA #20.205) had total expenditures of \$383,805,445. Expenditures of \$270,310,980 are included in the Trunk Highway Construction total.
