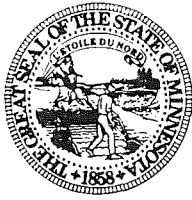


DEPARTMENT OF TRANSPORTATION
SELECTED SCOPE FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1993

SEPTEMBER 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-52



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 selected programs of the Department of Transportation for the period July 1, 1992 through March 31, 1994. We emphasize that this has not been a complete audit of all programs within the Department of Transportation, and that our audit was limited to only that portion of the financial operations 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 consider the internal control structure in order to plan our audit of the selected programs, and that we perform tests of the department's compliance with material provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

Internal Control Structure

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

- Right of Way land acquisitions
- Office of Aeronautics:
 - Flight line property tax
 - Aviation fuel tax
 - Aircraft registration tax
 - Air transportation billings
 - State airport grants
 - Administrative expenditures
- Minnesota Guidestar Program consultant and partnership expenditures

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Mr. James Denn, Commissioner
Page 2

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.

Management Responsibilities

Management of the Department of Transportation is responsible for establishing and maintaining the 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 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 internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in the conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions

The Office of Right of Way's process for acquiring property is time consuming and the costs of acquiring the property in many cases exceed the certified appraisal. The department does not have written policies or procedures to provide guidance for acquisition costs and time. The department also does not record interest costs separately from property acquisitions.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Mr. James Denn, Commissioner
Page 3

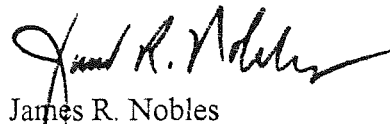
The Office of Aeronautics accurately processed grant payments, administrative expenditures, and receipts. However, the office did not verify that all airline flight property tax was deposited in the State Airports Fund.


The Minnesota Guidestar Office contracts with consultants in public, private, and academic entities to complete research under the federal Intelligent Vehicle - Highway Systems (IVHS) project. The office properly processed most consultant services and partnership agreement expenditures.

We also noted other matters involving the internal control structure and its operations that we reported to the department at the exit conference held on August 24, 1994.

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 distribution of the report, which was released as a public document on September 16, 1994.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 23, 1994

Report Signed On: September 13, 1994

Department of Transportation

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Right of Way Land Acquisitions	3
Chapter 3. Office of Aeronautics	9
Chapter 4. Minnesota Guidestar Office	13
Agency Response	15

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Margaret Jenniges, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Rhonda Regnier, CPA	Auditor
Karen Klein, CPA	Auditor

Exit Conference

The issues in this report were discussed with the following representatives of the Department of Transportation on August 24, 1994:

Edwin H. Cohoon	Deputy Commissioner
Richard R. Swanson	Director, Office of Financial Management
Bonnie Kollmann	Director, Financial Operations
James Wright	Director, Office of Minnesota Guidestar
Duane A. Haukebo	Assistant Director, Office of Aeronautics
Karl F. Rasmussen	Director, Office of Right of Way and Surveys
Ronald W. Gipp	Director, Internal Audit Unit
Larry Kienitz	Auditor

Chapter 1. Introduction

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 Governor appointed James N. Denn, the current commissioner, effective November 19, 1991.

Total department revenues for fiscal year 1993 were approximately \$1.3 billion. The primary sources of revenue were approximately \$830 million in license fees and gas taxes collected on behalf of the department by the Departments of Public Safety and Revenue. The department also received approximately \$363 million of federal grants in fiscal year 1993. We also extended our audit into the first nine months of fiscal year 1994 for both revenue and expenditures. For this audit, we concentrated on:

- Right of Way Land Acquisition - Chapter 2
- Office of Aeronautics - Chapter 3
- Minnesota Guidestar Office - Chapter 4

Department expenditures for fiscal year 1993 were over one billion dollars. The main expenditures of the department are for highway construction and for state grants to counties and municipalities for highway and street construction and maintenance.

Table 1-1 shows a breakdown of expenditures for fiscal year 1993.

Department of Transportation

Table 1-1
Department of Transportation
Expenditures by Major Types
Fiscal Year 1993

Grants	\$ 352,767,475
Construction	268,598,009
Payroll	222,894,749
Right of Way Property Acquisitions	37,556,692
Debt Redemption	29,239,226
Contractual Services	15,323,641
Other Expenditures	<u>98,500,723</u>
Total Expenditures	<u>\$1,024,880,515</u>

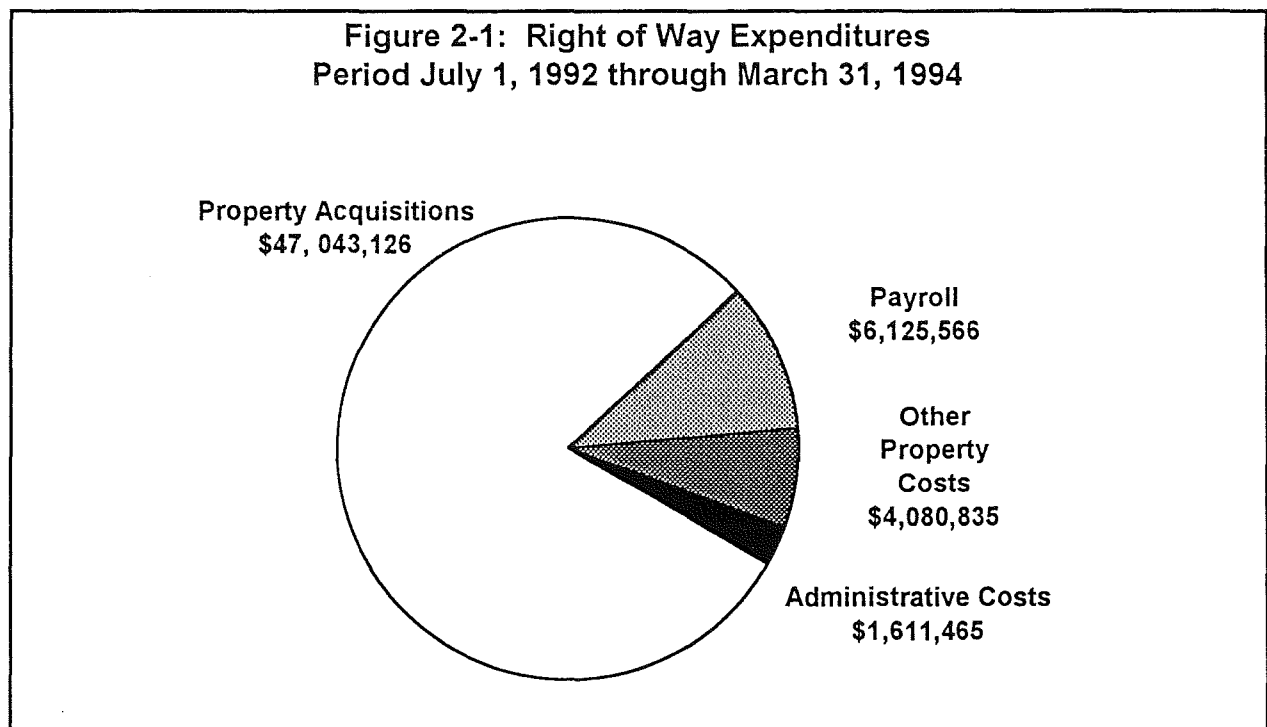
Source: Statewide Accounting System, Managers Financial Report as of September 3, 1993.

Chapter 2. Right of Way Land Acquisition

Chapter Conclusions

The Department of Transportation Office of Right of Way's process for acquiring property is time consuming and the costs of acquiring the property in many cases exceed the certified appraisal. The department does not have written policies or procedures to provide guidance for acquisition costs and the time it takes to resolve a property acquisition. Finally, the department does not record interest costs separately from property acquisitions.

The primary responsibility of the Office of Right of Way is to purchase property necessary for highway construction projects. Under Minn. Stat. Section 161.20, Subd. 2, the department may acquire property by gift, direct purchase, or eminent domain proceedings. Figure 2-1 shows the breakdown of Right of Way expenditures.



The Office of Right of Way attempts to purchase all property necessary for construction projects through direct purchase. Direct purchases occur when the property owner and Mn/DOT agree on the value of the property being purchased. Mn/DOT appraisers determine the value of the property being purchased. Mn/DOT obtains a second appraisal when the property value exceeds

Department of Transportation

\$100,000. Once the value of the property has been determined, the department contacts the property owner to finalize the transaction. The Right of Way Office has the authority to negotiate with the property owner and deviate from the appraised value in order to finalize the transaction. This process is known as an administrative settlement. It usually results from a property owner identifying something not considered in the appraisals or outdated appraisals. Settlements avoid the additional cost of a legal dispute.

If the property owner and the department cannot negotiate a purchase price, the department will pursue condemnation. Condemnation is a legal process for acquiring property needed for a public purpose. The condemnation proceedings begin when the department files a petition with the court administrator. The court appoints three qualified and impartial residents of the county in which the land is located to act as commissioners. They view each piece of property, hold valuation hearings, and determine the damages that the property owner will, in their opinion, sustain as a result of the taking. Once the commissioners' award is determined, either the property owner or the department may appeal to the district court. The courts hear the property acquisition case and determine the amount of the verdict from the evidence presented. Table 2-1 shows the activity for commissioner award appeals from July 7, 1992 to May 4, 1994:

Table 2-1
Commission Award Appeals
July 7, 1992 to May 4, 1994

	<u>Number of Parcels</u>	<u>Award Amount</u>
Beginning Balance July 7, 1992	92	\$5,741,653
Plus: Additional Appeals	<u>28</u>	<u>1,619,617</u>
Gross Appeals	120	7,361,270
Less: Settled Appeals (note 1)	<u>(65)</u>	<u>(5,124,181)</u>
Ending Balance May 4, 1994	<u>55</u>	<u>\$2,237,089</u>

Note 1: Amount of original commission award, not court judgment.

Source: Appeal Status Report.

During our review, we examined a sample of acquisitions made either by direct purchase or condemnation. According to our analysis, the direct purchases showed a wide variety in cost and time. Table 2-2 shows the percentage increase over the certified value paid for parcels and the average time it took to complete an acquisition.

Department of Transportation

Table 2-2
Sample of Direct Purchases
Cost and Time Statistics
July 1 1992 - March 31, 1994

Sample	Last Certified Value	Total of the Payments	Amount Difference	Percentage Increase Over Certified Value	Number of Days to Resolve
1	\$250,000	\$607,340	\$357,340	143%	747
2	5,654	5,654	0	--	1,766
3	6,800	8,800	2,000	29%	386
4	71,600	80,000	8,400	12%	119
5	25,600	25,600	0	--	239
6	38,600	38,600	0	--	139
7	1,500	1,950	450	30%	533
8	14,000	14,000	0	--	322
9	86,000	86,000	0	--	429
10	325,000	370,000	45,000	14%	234
11	9,300	11,000	1,700	18%	269
12	7,300	7,300	0	--	196
13A	442,913	521,069	78,156	18%*	1,331
13B	486,735	563,083	76,349	16%*	1,257
14	2,300	2,300	0	--%	272
15	45,000	50,100	5,100	11%	215
16	37,500	37,500	0	--	331
17	146,000	146,000	0	--	161
18	82,000	82,000	0	--	163
19	3,300	6,000	2,700	82%	295
20	95,000	95,000	0	--	105
21	40,000	40,000	0	--	224
22	\$77,000	\$77,000	0	--	153
23	900	900	0	--	248
24	36,500	36,500	0	--	218
Averages	<u>\$ 97,354</u>	<u>\$121,404</u>	<u>\$ 24,050</u>	<u>16%</u>	<u>414</u>

* Purchased from the Metropolitan Council under the Right of Way Acquisition Loan Fund.

Source: Right of Way Information System.

We also reviewed a sample of land parcels obtained through the condemnation process. Table 2-3 shows the percentage of increase over the certified value paid for the parcels sampled, and the average time it took to complete a condemnation purchase.

Department of Transportation

Table 2-3
Condemnations
Sample of Cost and Time Statistics
July 1, 1992 through March 31, 1994

Sample	Last Certified	Total	Amount	Increase Over	Number of Days to Resolve		
	<u>Value</u>	<u>Payments</u>	<u>Difference</u>	<u>Certified Value</u>	<u>Total</u>	<u>Mn/DOT</u>	<u>Court</u>
1	\$88,500	\$90,000	\$1,500	2%	1,441	980	461
2	600	700	100	17%	658	341	317
3	1,400	1,400	0	--	722	285	437
4	150	150	0	--	636	307	329
5	11,500	20,000	8,500	74%	535	465	70
6	53,400	54,642	1,242	2%	571	316	255
7	300	510	210	70%	614	521	93
8	3,400	3,522	122	4%	769	440	329
9	8,500	20,192	11,692	138%	783	717	66
10	31,000	51,500	20,500	66%	1,105	343	762
11	1,000	1,000	0	--	351	97	254
12	4,950	4,000	(950)	-19%	655	277	378
13	29,600	33,600	4,000	14%	1,823	528	1,295
14	300	1,437	1,137	379%	531	353	178
15	5,600	6,132	532	10%	874	382	492
16	2,100	4,900	2,800	133%	495	297	198
17	9,600	9,794	194	2%	795	466	329
18	250	2,602	2,352	941%	1,962	1,633	329
Averages	<u>\$14,008</u>	<u>\$17,005</u>	<u>\$2,996</u>	<u>102%</u>	<u>851</u>	<u>486</u>	<u>365</u>

Notes: (1) Condemnation are subject to appeal by the landowner, the department, or both.
 (2) Mn/DOT days indicate number of days until the acquisition process is given to the courts.
 (3) Court days are from the date the court order is filed to the award date.
 (4) Total payments awarded by the court may include interest payments back to the date Mn/DOT obtained the property rights. the last certified value represents only the principal amount that Mn/DOT certified to the property owner.

Source: Right of Way Information System.

Finally, we reviewed nine of the most costly parcels (all over \$500,000) acquired during our audit period. Table 2-4 compares the last certified value to the total payments, and shows the average time to complete the acquisitions.

Department of Transportation

Table 2-4
Nine of the Largest Property Acquisitions
Cost and Time Statistics
July 1, 1992 through March 31, 1994

Sample	Last Certified Value	Total Payments	Amount Difference	Increase Over Certified Value	Number of Days to Resolve		
					Total	Mn/DOT	Court
1	\$985,000	\$6,322,450	\$5,337,450	542%	2,852	642	2,210
2	2,593,000	4,642,296	2,049,296	79%	2,220	245	1,975
3	900,000	2,594,700	1,694,700	188%	*	*	*
4	75,000	720,478	645,478	861%	2,185	305	1,880
5	651,000	2,838,242	2,187,242	336%	6,281	4,489	1,792
6	1,350,000	1,510,000	160,000	12%	204	204	**
7	674,000	2,500,098	1,826,098	271%	2,574	97	2,477
8	442,913	521,069	78,156	18%	1,257	1,257	0
9	486,735	563,083	76,348	16%	1,331	1,331	0
Average			<u>\$1,561,641</u>		<u>1,964</u>	<u>672</u>	<u>1,292</u>

* Parcel is still pending ** Parcel was settled out of court.

Notes: (1) Sample items 1-7 went through the condemnation and appeal processes. Sample items 8 and 9 were direct purchases from the Right of Way Acquisition Loan Fund.
 (2) Mn/DOT days indicate number of days until the acquisition is given to the courts.
 (3) Court days are from the date the court order is filed to the reward date.
 (4) Total payments awarded by the court may include interest payments back to the date Mn/DOT obtained the property rights. the last certified value represents only the principal amount that Mn/DOT certified to the property owner.

Source: Right of Way Information System.

As shown in Table 2-4, the largest property acquisitions took the longest time to resolve and showed the largest increase over certified value.

Generally, we found compliance with procedures, but we are concerned about the lack of cost and time guidelines. We also are concerned about the recording of interest.

1. The department does not have adequate policies and procedures to provide guidance in determining a reasonable time and cost for acquiring property.

The Right of Way Manual does not have specific guidelines that set limits as to a reasonable time and payment for land acquisitions. The department needs to institute guidelines to govern administrative settlements. In addition, the department needs to review the acquisition procedures and determine whether land acquisition timelines are adequate.

During fiscal year 1993 and the nine months ending March 31, 1994, the department spent \$889,536 and \$532,806, respectively, on attorneys, expert testimony, outside appraisers, and abstractors from the Right of Way budget. The development of a policy could reduce these costs. We observed wide ranges in cost and time frames. We believe improved guidelines would provide consistency within the Office of Right of Way.

Department of Transportation

- *The department needs to institute policies and procedures to provide guidelines in determining an adequate amount of time and cost for property acquisitions.*

2. The department did not record interest paid on land purchases separately on the statewide accounting system.

Mn/DOT did not consistently record interest paid on right of way land acquisitions. The department used its own internal right of way information system to record purchases in addition to the statewide accounting (SWA) system.

The department recorded interest paid on land purchases as property acquisition. Interest was included in some of the final land acquisition settlements; however, the department did not always record the interest paid separately on the statewide accounting and its own systems.

In seven out of nine tested property acquisitions that included interest, approximately \$5.5 million was not recorded separately on the statewide accounting system. For the period July 1, 1992 through March 31, 1994, only \$15,657 in interest was recorded on the SWA System.

Recommendation

- *Mn/DOT should record interest costs separately on both the Statewide Accounting System and on the Right of Way Information System.*

Chapter 3. Office of Aeronautics

Chapter Conclusions

The Office of Aeronautics accurately processed state grant payments and administrative expenditures. Most State Airports Fund receipts were properly processed. However, Mn/DOT is not verifying that all airline flight property tax is deposited in the State Airports Fund.

The main purpose of the Mn/DOT aeronautics program is to further the public interest and aeronautical progress by providing for the protection and promotion of safety in aeronautics. Minn. Stat. Section 360.017 creates the State Airports Fund used for the operations of the aeronautics division. The fund derives revenues from three primary sources: airline flight property tax, aviation fuel tax, and aircraft registration tax. Table 3-1 summarizes the revenue and expenditures of the State Airports Fund.

Table 3-1
State Airports Fund Financial Activity
July 1, 1992 to March 31, 1994

	Fiscal Year 1993	Period July 1 to March 31, 1994
Revenues		
Airline Flight Property Tax	\$ 8,155,401	\$ 8,193,937
Aviation Fuel Tax	3,351,091	2,453,703
Airplane Registration Tax	1,945,955	891,606
Other	<u>2,498,086</u>	<u>1,692,970</u>
Total Revenue	<u>\$15,950,533</u>	<u>\$13,232,216</u>
Expenditures		
Grants	\$ 4,874,570	\$ 5,282,650
Payroll	2,325,525	1,563,705
Equipment	1,309,902	197,671
Rent	1,202,494	476,356
Professional/Technical Services	251,961	48,069
Travel	53,457	40,723
Other	<u>1,939,677</u>	<u>1,612,446</u>
Total Expenditures	<u>\$11,957,586</u>	<u>\$ 9,221,620</u>

Note: The fiscal year 1993 ending fund balance was \$23,395,256; the fund balance as of March 31, 1994 was \$23,319,122. The fund balances include all expenditures for prior fiscal years. Our table shows only the revenues and expenditures coded to fiscal year 1993 and fiscal year 1994 for the period ended March 31, 1994.

Source: Estimated Actual Receipts Report as of September 6, 1993 and April 1, 1994; the Managers Financial Report as of September 3, 1993 and April 1, 1994; and department prepared financial statements.

Department of Transportation

Revenues

The main source of revenue for the State Airports Fund is the airline flight property tax. The commissioner of the Department of Revenue levies the airline flight property tax on all airline companies doing business in the state. The rate of tax to be levied is to be sufficient to support the airflight property tax portion of each year's State Airports Fund appropriation. Minn. Stat Section 270.075, Subd. 1 states in part that "...The property tax portion of the state airport fund appropriation is the difference between the total fund appropriation and the estimated total fund revenues from other sources for the state fiscal year in which the tax is payable." The commissioner of transportation certifies to the commissioner of revenue the amount to collect. The Department of Revenue collects the tax and deposits it into the State Airports Fund. Mn/DOT did not verify that all airline flight property tax was properly deposited, as discussed in finding 3.

Another tax collected by the Department of Revenue for the State Airports Fund is the aviation fuel tax. This is an excise tax on aviation fuel paid by the users at the time of purchase. The Department of Revenue prepares monthly reports showing the amount of the taxes collected. Mn/DOT uses the reports to verify that the amount deposited in the State Airports Fund is proper. The aviation fuel tax was properly deposited in the State Airports Fund during the audit period.

The Mn/DOT Office of Aeronautics is responsible for collecting the aircraft registration tax and making deposits into the State Airports Fund. The tax is assessed on aircraft, except those used by airlines and government agencies, using the airspace over the state of Minnesota or the airports within the state. Taxes are due July 1 of each year and are based on the value of the aircraft. The Office of Aeronautics bills owners of aircrafts and deposits the receipts into the State Airports Fund. Aircraft registration tax was accurately computed and deposited into the State Airports Fund during the audit period.

The Office of Aeronautics also provides air transportation services for state government. State agencies wishing to use air transportation contact the air transportation section to schedule a flight. Mn/DOT bills the agencies for the share of the flight costs, based on the number of passengers and the distance traveled by the passengers. The rate charged is based on the costs of the air transportation section, including maintenance of the airplanes. The rate charged by the air transportation section is sufficient to cover all costs of the section. Receipts for air transportation during the audit period were properly deposited into the State Airports Fund.

3. Mn/DOT is not verifying that all airline flight property tax is deposited in the State Airports Fund.

Mn/DOT does not verify the amount of airline flight property tax deposited into the State Airports Fund to the amount certified to the Department of Revenue. This comparison is especially important, because the tax is over half of the revenue in the State Airports Fund. (See Table 3-1.)

Department of Transportation

The Department of Revenue collects the airline flight property tax for Mn/DOT and deposits it into the State Airports Fund. Mn/DOT certifies the amount to collect to the Department of Revenue. The Department of Revenue provides Mn/DOT with a listing of how much each of the airlines owes. Without comparing the total receipts to the amount certified to the Department of Revenue, Mn/DOT cannot be sure that it has received all airline flight property tax receipts. Mn/DOT will assume responsibility for collecting this tax in January 1995. Therefore, it is important that it develop effective accounts receivable procedures.

Recommendation

- *Mn/DOT should compare the airline flight property tax receipts to the amounts certified and work with the Department of Revenue to resolve any discrepancies.*

Expenditures

The major expenditure of the Office of Aeronautics is for airport grants. The grants are for the continued development and maintenance of the state airport system. Funding for the construction grants is two-thirds state and one-third local funding. Municipalities receive reimbursement as the project progresses and invoices are submitted. The maintenance grants are for the routine maintenance expenses of the airports. The local governments receive state reimbursement for documented allowable maintenance expenditures. Grant payments made during the audit period were properly documented and processed.

The administrative support section processes the Office of Aeronautics' general administrative expenditures. The expenditures consist mainly of rental payments, professional/technical services, supplies and materials, and travel. General administrative expenditures were properly processed during the audit period.

Department of Transportation

This page intentionally left blank.

Chapter 4. Minnesota Guidestar Office

Chapter Conclusions

The Minnesota Guidestar Office handles the federal Intelligent Vehicle - Highway Systems (IVHS) project. The office contracts with consultants in public, private, and academic entities to complete research and studies of travel needs. The office properly processed most consultant services and partnership agreement expenditures.

The Minnesota Guidestar Office handles the federal Intelligent Vehicle-Highway Systems (IVHS) project funded by the Federal Highway Research, Planning and Construction Program. The IVHS projects study the needs of travelers across the state. The Guidestar Office uses innovative technologies to address congestion concerns, increase transportation safety, increase efficiency of goods movement, and mitigate environmental impacts relating to transportation. The program is in its initial phase of researching technology and studying traffic needs. For fiscal year 1993, the office was awarded a federal grant of \$1 million with no required state match. For fiscal year 1994, its federal grant increased to \$10 million, but the state and private companies must provide varying levels of fiscal participation. The participation levels range from zero to fifty percent of specific project costs. The Guidestar Office contracts with consultants in public, private and academic entities to complete the research and studies of travel needs. The consultants bill the state as they perform the services. For these IVHS projects, the Guidestar Office received federal reimbursement of \$939,250 in fiscal year 1993. For the first three quarters of fiscal year 1994, the Guidestar Office received federal reimbursement of \$1,290,370 and federal funds of \$500,000 through the Regional Transit Board, which is working with the Guidestar Office on a research project.

Beginning July 1, 1994, legislation permitted the department to enter into cooperative contracts for research purposes. According to Minn. Stat. Section 174.02, Subd. 6:

The commissioner of transportation may enter into agreements with other governmental or nongovernmental entities for research and experimentation; for sharing facilities, equipment, staff, data, or other means of providing transportation related services; or for other cooperative programs that promote efficiencies in providing governmental services or that further development of innovation in transportation for the benefit of the citizens of Minnesota.

The Guidestar Office enters into unique contracts under this legislation. The cooperative contracts, referred to as "partnership agreements" by the department, specify each party's contribution to a research project. The state mostly contributes employee time, while other

Department of Transportation

parties may contribute employee time, equipment discounts, or software licenses. The partnership agreements are more complex than the consultant contracts due to the contributions. Partnership agreements also involve a partial exchange of money for services rendered. A party's contribution of previously owned materials will belong to the contributing party. The federal and state governments have all rights, title, interest, and copyrights to materials produced during the project. If Mn/DOT permits copyright by the partner, the federal and state governments have royalty-free, nonexclusive and irrevocable rights to reproduce, publish and use the project's materials.

As of March 31, 1994, contract expenditures were \$1,835,211 or about 63 percent of total Guidestar Office expenditures. Table 2-1 shows expenditures for the Guidestar Office during the period July 1, 1992 to March 31, 1994. During fiscal year 1993, the office expended \$963,447 in federal funding. For the first three quarters of fiscal year 1994, the office expended \$504,990 of state trunk highway money, \$72,520 of special revenue money, and \$1,348,016 of federal money. We concentrated our audit on the consultant and partnership expenditures.

Table 4-1
Guidestar Office Expenditures
From July 1, 1992 to March 31, 1994

	FY 1993 12 mo. end 6-30-93	FY 1994 9 mo. end 3-31-94	Total	Percent of total
Payroll	\$98,226	\$442,532	\$ 540,758	19%
Rent, printing and other services	0	100,403	100,403	3%
Consultant contracts	726,423	709,208	1,435,631	50%
Partnership agreements	0	399,580	399,580	14%
Communications	0	1,441	1,441	--
Employee travel and fees	34,833	26,476	61,309	2%
Office and capital equipment	51,189	236,286	287,475	10%
Highway and bridge costs	52,776	9,600	62,376	2%
Total expenditures	<u>\$963,447</u>	<u>\$1,925,526</u>	<u>\$2,888,973</u>	<u>100%</u>

Source: Statewide Accounting System Managers' Financial Report as of September 3, 1993 and March 31, 1994.

Overall, the Guidestar Office is properly processing and handling consultant and partnership contract expenditures. However, we are concerned with some current contracting practices. In one instance, we noted that Mn/DOT awarded a consulting contract on a "cost plus" basis. This type of contract allows the contractor to bill Mn/DOT for services at the employees' current rates of pay. We noted in the contract that the three highest paid employees working on the contract received pay increases ranging from 13.5 to 20 percent within the first year of the contract. The contractor incorporated the increased hourly rates into the billings. Although the contract complied with applicable legal provisions, we are concerned that this type of contract, without any salary increase maximums, could lead to inflated contract salary costs and reduced services. We will consider reviewing "cost plus" contracts further in a future audit.



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

September 8, 1994

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

RE: Legislative Audit for the Period July 1, 1992 - March 31, 1994

Dear Mr. Nobles:

This letter is in response to the preliminary audit report for the Department of Transportation for the period June 1, 1992 through March 31, 1994.

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

Finding 1

On parcels acquired through means other than direct negotiation, the majority of the time required to close out the parcels is spent in the District Court. Mn/DOT has no control over the scheduling of the court calendars, thus these types of property acquisitions will remain under jurisdiction of the court system.

In the last three years, for parcels acquired by direct negotiation, Mn/DOT has reduced the time required to deliver land for construction projects from 24-36 months to 12-18 months. Further quality improvement initiatives are under evaluation which may reduce this project delivery time further. Also, as a part of the QI process, Right of Way and Surveys has instituted new right of way cost estimating procedures which will commit District staff to specific projects at least one year out and will better define the cost management planning process.

Finding 2

Not recording the interest costs on property acquisitions in the Statewide Accounting System was an oversight. All interest costs, when detailed in the condemnation stipulation, are being recorded separately on the Statewide Accounting System and on the Right of Way Information System.

Mr. James R. Nobles
September 8, 1994
Page 2

Finding 3

Staff from the Department of Revenue and the Office of Aeronautics have met and agreed on procedures regarding the collection and receipt of the airline flight property tax. The Office of Aeronautics will be depositing the receipts of the airline flight property tax into the State Airports Fund and will keep an accounting of the receipts and compare these to the amounts certified by the Department of Revenue.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin H. Cohoon", with a long horizontal flourish extending to the right.

Edwin H. Cohoon
Deputy Commissioner