

Department of Transportation
Programs Selected for
Fiscal Year 1994 Statewide Audit

April 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-16

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
612/296-4708

Department of Transportation

Programs Selected for Fiscal Year 1994 Statewide Audit

Public Release Date: April 28, 1995

No. 95-16

Objectives:

- Review Internal Control Structure: Trunk Highway Fund construction, federal county road and bridge account expenditures, Highway Planning and Construction Program, Airport Improvement Program, County State Aid - Highway Fund grants, Municipal State Aid - Street Fund grants, and loans from local governments.
- Test compliance with certain finance-related 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.
296-1235



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 completed a financial related audit of selected programs of the Department of Transportation for the period July 1, 1993 to June 30, 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. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1994, financial statements and Single Audit (federal compliance 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 1994.

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 certain 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:

- Trunk Highway Fund construction,
- Federal county road and bridge account expenditures,
- Highway Planning and Construction Program (CFDA #20.205)
- Airport Improvement Program, (CFDA #20.106)
- 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.

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 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 internal control 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

The internal control structure categories that we examined included: Trunk Highway Fund construction, federal county road and bridge account expenditures, airport improvement grants, county state aid-highway fund grants, municipal state aid-street fund grants, and loans from local governments. We found no weaknesses involving the internal control structure and its operation in these areas.

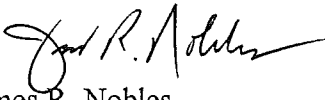
The results of our tests indicate that, with respect to the items tested, the Department of Transportation complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to

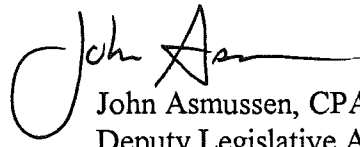
Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Mr. James Denn, Commissioner
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believe that the Department of Transportation had not complied, in all material respects, with those provisions, except for the minor matters that we reported to the management of the Department of Transportation at the exit conference held on April 3, 1995.

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 April 28, 1995.

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 3, 1995

Report Signed On: April 19, 1995

Department of Transportation

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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
Warren Bartz, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Fubara Dapper	Auditor
Trent Usitalo	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Transportation at the exit conference held on April 3, 1995:

Ed Cohoon	Deputy Commissioner
Barbara Sundquist	Director, Finance and Administration Division
Richard Swanson	Director, Office of Financial Management
Bonnie Kollman	Director, Financial Operations
Warren Skallman	General Ledger Supervisor
Gordy Kordosky	Director, Budget Section
James Lilly	Manager, Materials Engineering Section
Paul Bergman	Contract Administration Engineer
John Sandahl	Director, Engineering Services
Ron Gipp	Director, Internal Audit Unit
Larry Kienitz	Auditor
Dave Wolvert	Auditor

Department of Transportation

Background

The Department of Transportation (Mn/DOT) is charged in statute with providing a balanced transportation system including aeronautics, highways, motor carriers, ports, public transit, railroads and pipelines. Among the goals listed in Minn. Stat. Section 174.01 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. Table 1 summarizes the appropriations available to the department for fiscal year 1994, as shown in Laws of 1993, Chapter 266.

Table 1
Fiscal Year 1994 Appropriations

Funding Source:	<u>Amount</u>
Trunk Highway Fund	\$688,488,000
County State Aid-Highway Fund	246,890,000
Municipal State Aid-Street Fund	71,990,000
Airports Fund	16,884,000
General Fund	11,659,000
Environmental Fund	<u>200,000</u>
Total	<u>\$1,036,111,000</u>

Total department revenues for fiscal year 1994 were approximately \$376 million. The primary source of revenue is federal grants of which the department received approximately \$285 million in fiscal year 1994.

Department of Transportation

Department expenditures for fiscal year 1994 totaled approximately \$979,786,922. Table 2 summarizes the main program expenditures.

Table 2
Expenditures of Selected Programs
Fiscal Year 1994

Trunk highway construction	\$359,161,000
County State Aid-Highway Fund grants	253,880,000
Municipal State Aid-Street Fund grants	96,761,000
Federal/county road and bridge construction	79,516,993
Airport Improvement Program-CFDA 20.106	24,462,887
Transportation Fund grants	9,657,000
Loan payments	5,481,000

Note: The Highway Planning and Construction Program (CFDA #20.205) had total expenditures of \$349,742,282. Expenditures of \$231,682,425 are included in the Trunk Highway Construction total.

Sources: State of Minnesota Comprehensive Annual Financial Report for the year ended June 30, 1994; Statewide Accounting System Managers' Financial Report as of September 4, 1994; State of Minnesota Statement of Expenditures for CFDA 20.106, year ended June 30, 1994; and the Statewide Accounting System Anticipated and Actual Transfers Report as of July 1, 1994.
