

# Department of Transportation

## Selected Programs

### Fiscal Year 1995 Statewide Audit

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April 1996

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

96-14





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann H. Rest, Chair  
Legislative Audit Commission

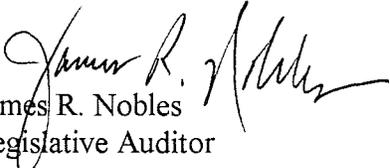
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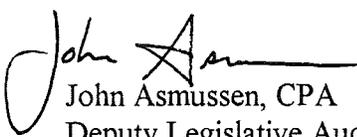
Mr. James N. Denn, Commissioner  
Department of Transportation

We have audited selected areas of the Department of Transportation (MnDOT) for the fiscal year ended June 30, 1995, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1995 financial statements and Single Audit. The Comprehensive Annual Financial Report for the year ended June 30, 1995, includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996. The MnDOT internal auditors assist in performing Single Audit work and issue a separate report. MnDOT estimates issuing this report in March 1996. Our audit scope also included selected audit areas, as part of our department level work. Therefore, we emphasize that this has not been a complete audit of all financial activities of MnDOT. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that MnDOT complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of MnDOT is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of MnDOT. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 5, 1996.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 12, 1996

Report Signed On: April 1, 1996



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## Department of Transportation

### Selected Programs Fiscal Year 1995 Statewide Audit

Public Release Date: April 5, 1996

No. 96-14

#### Agency Background

The Department of Transportation (MnDOT) is responsible to provide a balanced transportation system in Minnesota. The system includes aeronautics, highways, motor carriers, ports, public transit, railroads, and pipelines. The department funds its activities mainly from state appropriations, federal grants, and bond proceeds. Department expenditures for fiscal year 1995 totaled approximately \$1.3 billion. James N. Denn is the commissioner of the department.

#### Selected Audit Areas and Conclusions

Our audit scope included primarily those areas material to the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, and to the Single Audit objectives. It included the Highway Planning and Construction Program (CFDA 20.205), the Airport Improvement Program (CFDA 20.106), County State Aid-Highway Grants, Municipal State Aid-Street Grants, and the Bloomington Ferry Bridge construction. In addition, we reviewed employee overtime expenditures for fiscal year 1995.

We found that the Department of Transportation's financial activities for the programs included in the statewide audit scope are fairly presented in the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1995.

We found that the department complied with the general and program specific federal requirements for the Highway Planning and Construction Program and the Airport Improvement Program.

MnDOT could assist its management units by analyzing overtime usage throughout the department. The districts and divisions could then explore alternatives for making the optimum use of their salary budgets. Also, we found that the department did not consistently document the justification of overtime earned by MAPE and MMA employees.

Contact the Financial Audit Division for additional information.  
296-1235



# 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
Renee Redmer, LPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Fubara Dapper, CPA	Auditor
Laura Peterson	Auditor
Anna Lamin	Intern

### Exit Conference

The following staff from the Department of Transportation participated in the exit conference held on March 4, 1996:

James N. Denn	Commissioner
Edwin Cohoon	Deputy Commissioner/Chief Financial Officer
Patrick Hughes	Assistant Commissioner of Operations
Dick Swanson	Director of Office of Financial Management
Bonnie Kollmann	Director of Financial Operations
Linda Bjornberg	Director of the Office of Human Resources
Ron Gipp	Director of Audit Section
Larry Kienitz	Auditor



# Department of Transportation

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## Chapter 1. Introduction

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The Department of Transportation (MnDOT) is responsible to provide a balanced transportation system including aeronautics, highways, motor carriers, ports, public transit, railroads, and pipelines. James N. Denn is the commissioner of the department. MnDOT's statutory goals include 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 Department of Transportation funds its activities mainly from state appropriations, federal grants, and bond proceeds. Department expenditures for fiscal year 1995 totaled approximately \$1.3 billion. Our audit scope focused on selected expenditures of the department as shown in Table 1-1. These financial activities were material to the state's financial statements and to the Single Audit objectives.

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**Table 1-1**  
**Expenditures of Selected Programs**  
**Fiscal Year 1995**

Highway Planning and Construction-CFDA 20.205 (1)	\$275,167,610
Airport Improvement Program-CFDA 20.106 (1)	30,728,636
County State Aid-Highway Grants (2)	296,361,000
Municipal State Aid-Street Grants (2)	102,505,000
Bloomington Ferry Bridge Construction (2)	4,627,480
Employees Overtime (3)	5,449,090

Sources: (1) Minnesota's Financial and Compliance Report on Federally Assisted Programs.  
(2) State of Minnesota's Comprehensive Annual Financial Report.  
(3) Payroll transactions recorded on the statewide accounting system.

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The primary objective of the Statewide Audit is to render an opinion on the State of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1995. This includes whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

The Statewide Audit is designed to also meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. We enter into an agreement with the MnDOT internal auditors to complete the Single Audit requirements. The Single Audit Act established two additional audit objectives and requires us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program;
- the state has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

Our work in the Department of Transportation is completed as part of our audit to express an opinion of the state's fiscal year 1995 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996.

To address our objectives, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of financial transactions. We also relied on the MnDOT internal auditors to complete selected components of the Single Audit. The MnDOT internal auditor's report will include the conclusions on the Single Audit work. MnDOT estimates that it will issue this report in March 1996.

In addition to preparing those standard reports, we have developed some audit findings and recommendations. We reviewed employee overtime usage at the Department of Transportation. In Chapter 2, we discuss our findings regarding the usage of overtime at the Department of Transportation.

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## Chapter 2. Overtime Usage

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### *Chapter Conclusions*

*The Minnesota Department of Transportation (MnDOT) has the highest overtime costs of Minnesota state agencies and ranks third in total payroll. MnDOT delegates the responsibility for managing salary budgets to the districts and divisions in central office. MnDOT could assist its management units by analyzing overtime usage throughout the department. The districts and divisions could then explore alternatives for making the optimum use of their salary budgets.*

*MnDOT did not consistently document the justification of overtime earned by MAPE and MMA employees. Also, MAPE and MMA employees were allowed to exceed the maximum compensatory bank balances set forth in the respective bargaining agreements. MnDOT should develop overtime policies and procedures that establish the parameters for authorizing and documenting overtime to ensure the propriety of overtime paid.*

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MnDOT delegates the administration of the payroll process to each management unit (the districts and divisions in Central Office). MnDOT is organized into 25 Central Office units and 8 districts throughout the state. Each unit's management is responsible for authorizing and controlling its payroll and overtime usage. MnDOT's total payroll for fiscal year (FY) 1995 was \$176,930,875 which represents 12 percent of the state's total payroll. MnDOT ranks third in total payroll costs among state agencies. MnDOT's overtime expenditure was \$5,449,090 in FY 1995, the largest of any state agency, and represents 21 percent of the state's overtime. Table 2-1 shows MnDOT's overtime paid in FY 1995 and total payroll by district and Central Office.

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**Table 2-1**  
**Payroll Expenditures**  
**Fiscal Year 1995**

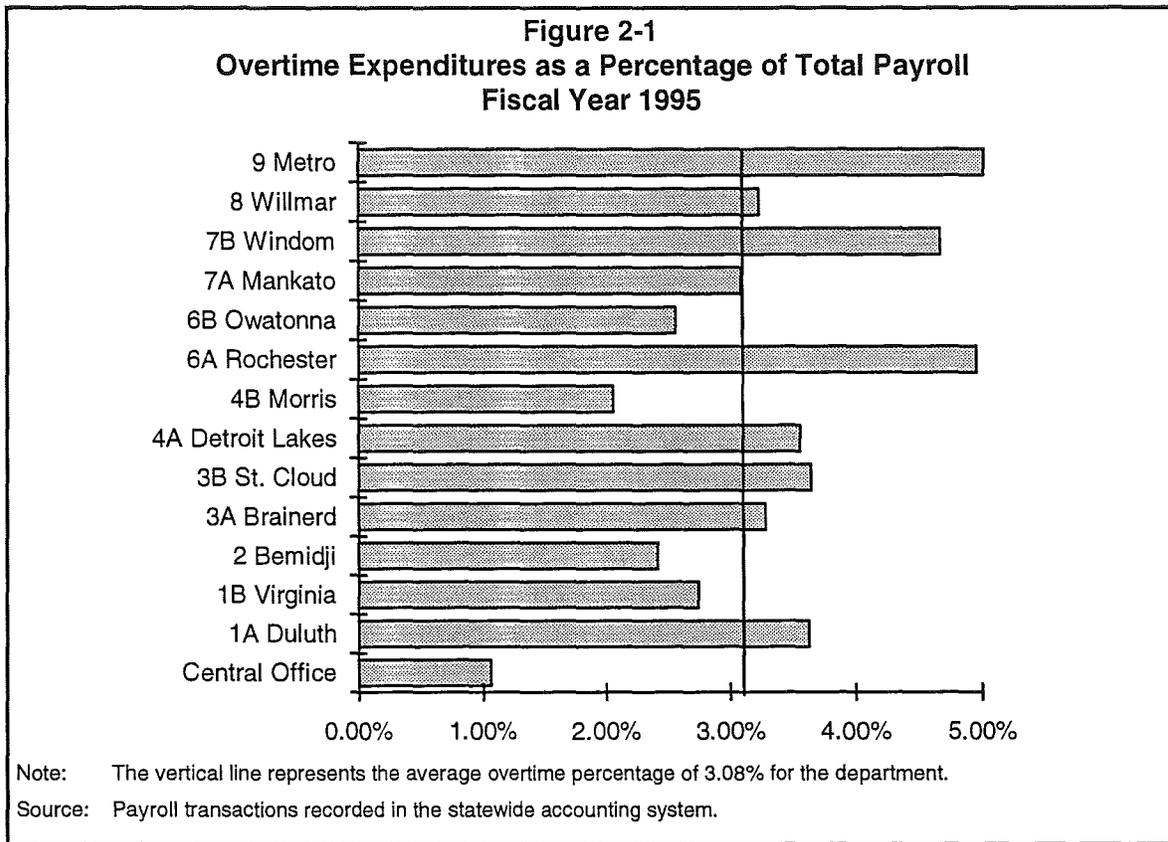
Unit	Overtime	Total Payroll
Central Offices	\$609,036	\$57,587,817
Dist. 1a: Duluth	399,931	11,017,735
1b: Virginia	82,933	3,020,325
Dist. 2: Bemidji	184,776	7,624,415
Dist. 3a: Brainerd	239,864	7,301,885
3b: St. Cloud	181,533	4,972,283
Dist. 4a: Det. Lakes	213,950	6,012,503
4b: Morris	44,132	2,137,476
Dist. 6a: Rochester	447,345	9,012,302
6b: Owatonna	98,050	3,816,024
Dist. 7a: Mankato	228,660	7,403,388
7b: Windom	148,646	3,182,950
Dist. 8: Willmar	236,436	7,309,067
Dist. 9: Metro	<u>2,333,792</u>	<u>46,532,698</u>
<b>Total Department</b>	<b><u>\$5,449,090</u></b>	<b><u>\$176,930,875</u></b>

Notes: Payroll amounts exclude employer paid taxes and benefits.  
District 5, Golden valley, was merged with Oakdale, now #9-Metro

Source: Payroll transactions recorded in the statewide accounting system.

Figure 2-1 shows that the overtime usage by the Metro, Windom, and Rochester districts is proportionately higher than other management units. Overtime usage in the 25 Central Office units ranged from 0 to 3.89 percent.

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### Audit Scope and Objectives

Our audit scope included overtime payments made in FY 1995 to AFSCME Council 6, Minnesota Association of Professional Employees (MAPE), and Middle Management Association (MMA) employees. AFSCME, MAPE, and MMA employees comprised 95 percent of MnDOT's total overtime expenditures.

Our audit objectives were to determine if MnDOT had adequate controls to ensure overtime paid to employees complied with the applicable bargaining agreements and to determine if MnDOT documented overtime properly.

### Audit Procedures, Tests, and Results

We reviewed timesheets and overtime documentation and made inquiries regarding 49 AFSCME employees who earned greater than \$10,000 in overtime during fiscal year 1995. These employees worked at the Metro, Rochester, Detroit Lakes, Willmar, and Bemidji districts and the Office of Communications. The AFSCME Council 6, 1993-1995 Master Agreement, Article 6, provides that an employee be compensated at a rate of time and one-half for all hours worked in excess of the established work day. We concluded from our testing that overtime paid to AFSCME employees complied with the bargaining agreement. MnDOT employs over 3,500 AFSCME workers. The average AFSCME employee had a base salary of \$27,443 during FY 1995 and earned an average of \$1,925 in overtime. This resulted in an average overtime percentage to base salary of 7.02 percent. Table 2-2 shows those AFSCME employees who earned the most overtime in FY 1995.

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**Table 2-2  
Highest Overtime Earned by Individual  
AFSCME Council 6 Employees - Fiscal Year 1995**

<b>Employee Classification &amp; District</b>	<b>Employee's Base Salary</b>	<b>Overtime Earned</b>	<b>Overtime % to Base Salary</b>
Senior Highway Tech. - Central Office	\$35,009	\$24,122	68.9%
Senior Highway Tech. - Rochester	36,574	21,264	58.1%
Intermediate Highway Tech. - Metro	31,764	19,541	61.5%
Senior Highway Tech. - Rochester	36,574	19,022	52.0%
Senior Highway Tech. - Rochester	36,574	18,579	50.8%

Source: Payroll transactions recorded in the statewide accounting system.

We also reviewed timesheets and overtime documentation, and made inquiries regarding 7 MAPE and 28 MMA employees from seven Central Office units and the Metro district who earned more than 100 hours of overtime in FY 1995. MnDOT employs nearly 450 MAPE and 330 MMA employees. We also made inquiries about written policies and procedures for overtime at four additional districts including Rochester, Detroit Lakes, Willmar, and Bemidji. MAPE and most MMA employees earn straight time for overtime worked, while a few MMA employees earn time and one-half. The average base salary for MAPE and MMA employees in FY 1995 was \$35,515 and the average overtime earned was \$1,425. This resulted in an average overtime percentage to base salary of 4.01 percent. Finding 1 discusses the results of our testing. Table 2-3 shows those MAPE and MMA employees who earned the most overtime in FY 1995.

**Table 2-3  
Highest Overtime Earned by Individual  
MAPE & MMA Employees - Fiscal Year 1995**

<b>Employee Classification, Bargaining Unit, and District</b>	<b>Employee's Base Salary</b>	<b>Overtime Earned</b>	<b>Overtime % to Base Salary</b>
Systems Programmer Senior - MAPE-Central Office	\$48,821	\$15,782	32.3%
Mgmt. Info. Systems Supr. 2 -- MMA-Central Office	36,298	12,345	34.0%
Systems Applications Manager - MAPE-Central Office	43,345	9,449	21.8%
Bldg. Maintenance Supr - MMA-Detroit Lakes	41,176	7,220	17.5%
Mgmt. Info. Specialist - MAPE-Central Office	28,042	6,991	24.9%

Source: Payroll transactions recorded in the statewide accounting system.

MnDOT should study its current practices related to personnel costs and explore alternative methods to ensure optimum use of its salary budget. During our testing of AFSCME employees, we noted that the majority of the employees earning the highest overtime worked on road construction projects. (Note Table 2-2.) We asked several managers if their districts have formally analyzed overtime usage to determine the cost effectiveness of hiring additional employees or using different types of scheduling as opposed to paying overtime. We were told that some managers discussed overtime options at staff meetings but did not formally document the costs of alternatives in the decision making process. As noted in Figure 2-1, the Metro, Rochester, and Windom districts incurred the highest overtime in relation to total payroll. District managers told us that many factors can affect the amount of overtime in a given year;

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highway construction projects and weather conditions were cited as the main factors influencing overtime costs. In cases where district managers implemented other options, we found that those districts had less overtime usage. For example, the Bemidji district cross trained winter maintenance workers for summer road construction. The Willmar district hired general laborers at a rate less than it paid highway technicians to assist in road construction projects.

Overtime can be a cost effective method of acquiring additional labor services. However, it can also be a costly practice if not managed carefully. MnDOT had not analyzed why some districts had a higher percentage of overtime than others. A periodic study and comparison of overtime usage would be a useful tool for assisting districts in managing their salary budgets.

**1. MnDOT did not adequately document the justification for overtime paid to its MAPE and MMA employees, and these employees were allowed to exceed the maximum compensatory bank balances.**

MnDOT did not consistently document the justification of overtime earned by MAPE and MMA employees at two of the seven Central Office units that we reviewed. At the Materials and Research Laboratory, 19 out of 28 (68 percent) of the timesheets that we reviewed did not contain overtime explanations. At the Construction and Contract Administration Unit, we found two MAPE employees who earned overtime but had no documentation explaining the special work assignment and the appointing authority's prior approval.

Also, MAPE and MMA employees were allowed to exceed the maximum compensatory bank balances set forth in the respective bargaining agreements. Four MAPE employees from the Central Office had compensatory banks that exceeded 80 hours. Two MMA employees had compensatory banks in excess of the maximum allowable hours. By carrying compensatory banks in excess of the maximum, MnDOT would incur higher costs for employees that later received an increase in the hourly pay rate.

The MAPE and MMA bargaining agreements provide the following overtime requirements.

- The 1993-1995 MAPE bargaining agreement Article 27, Section 5 states, "Employees may receive overtime at the rate of straight-time when assigned to a special work assignment which is in addition to their normal job duties and upon having received advance approval..." The 1993-1995 MAPE bargaining agreement Article 27, Section 6 states, "Each Appointing Authority may establish the maximum amount of hours that may be in the compensatory bank at a given time, provided the amount is not less than forty (40) nor more the eighty (80) hours."
- The 1993-1995 MMA agreement has different overtime provisions for employees depending on their type of position and salary range.
  - The first type of position earns overtime at a rate of time and one-half for all hours worked in excess of the established work day. The maximum compensatory bank is 120 hours.

## Department of Transportation

- The second type earns overtime at a rate of straight time for hours worked in excess of the normally scheduled pay period. The maximum compensatory bank is 120 hours.
- The third type earns overtime at a rate of straight time when assigned to a special project that is in addition to their normal work duties and upon receiving advanced approval. The maximum compensatory bank is 40 hours.

MnDOT does not have written guidelines to: 1) define "special work assignments" or "special projects" which clarify the types of projects eligible for overtime, 2) ensure proper documentation of the prior approval, nor 3) establish the MAPE maximum compensatory bank balances. MnDOT should establish the parameters for authorizing overtime for these employees to ensure the propriety of overtime paid.

### *Recommendations*

- *MnDOT should develop overtime policies and procedures for MAPE and MMA, including clarification of special work assignments and special projects. Also, the policies should establish the maximum compensatory bank for MAPE employees.*
- *MnDOT should ensure compliance with the bargaining agreements and departmental policies and procedures, including documentation of the appointing authority's prior approval and paying overtime in cash when employees reach the maximum compensatory bank.*



Minnesota Department of Transportation

Transportation Building

395 John Ireland Boulevard  
Saint Paul, Minnesota 55155-1899

March 20, 1996

James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Building  
658 Cedar Street  
St. Paul, Mn 55155

Dear Mr. Nobles:

We have reviewed the draft management letter which your staff has prepared concerning Department of Transportation accounting procedures and controls for Fiscal Year 1995. We appreciate the professional and constructive nature of the recommendations. Our responses to your recommendations follow for inclusion in your final report.

**Recommendation 1:**

Mn/DOT should develop overtime policies and procedures for MAPE and MMA, including clarification of special work assignments and special projects. Also, the policies should establish the maximum compensatory bank for MAPE employees.

**Mn/DOT Actions:**

We will develop an overtime policy and guidelines which will include clarification of special work assignments and special projects. The policy will establish the maximum compensatory bank for MAPE employees.

**Recommendation 2:**

Mn/DOT should ensure compliance with the bargaining agreements and departmental policies and procedures, including documentation of the appointing authority's prior approval and paying overtime in cash when employees reach the maximum compensatory bank.

**Mn/DOT Actions:**

When we develop the policy we will include requirements that

- 1) Overtime for MAPE and MMA employees must have written prior approval of the supervisor.
- 2) A cash payment will be made when an employee reaches the maximum compensatory bank.

After we have developed the policy, we will train managers and supervisors in the requirements of the overtime policy and guidelines.

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin H. Cohoon", written over a horizontal line.

Edwin H. Cohoon  
Deputy Commissioner/Chief Financial Officer