

Department of Transportation

Selected Programs

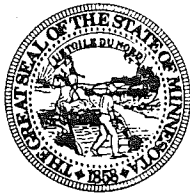
Statewide Audit Fiscal Year 1996

January 1997

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-6



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

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, 1996, 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 1996 financial statements and Single Audit. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon dated December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, 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 1997. The MnDOT internal auditors assist in performing Single Audit work and estimate issuing a separate report in March 1997. 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 auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. 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 January 31, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 27, 1996

Report Signed On: January 28, 1997

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(612)296-1727 • FAX (612)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Department of Transportation

Selected Programs Statewide Audit Fiscal Year 1996

Public Release Date: January 31, 1997

No. 97-6

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 Trunk Highway Fund appropriations, federal grants, and bond proceeds. Department expenditures for fiscal year 1996 totaled approximately \$1.4 billion. James N. Denn is the commissioner of the department.

Selected Audit Areas and Conclusions

Our audit scope included those areas material to the state of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996, 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 Fund grants, Municipal State-Aid-Street Fund grants, and bridge construction.

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 1996.

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.

Department of Transportation

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Construction	3
Chapter 3. State Aid	6
Chapter 4. Airport Improvement	8

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
Laura Peterson	Auditor
Fubara Dapper, CPA	Auditor
Anna Lamin	Intern

Exit Conference

The following staff from the Department of Transportation participated in the exit conference held on January 27, 1997:

Edwin Cohoon	Deputy Commissioner
Darryl Durgin	Deputy Commissioner
Barbara Sundquist	Director Finance and Administration Division
Richard Swanson	Director Office of Financial Management
Bonnie Kollman	Director of Financial Operations
Pat Olson	Accounting Supervisor

Chapter 1. Introduction

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 Trunk Highway Fund appropriations, federal grants, and bond proceeds. Department expenditures for fiscal year 1996 totaled approximately \$1.4 billion.

The primary objective of our 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 1996. The Statewide Audit is designed to also meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. We have an agreement with the MnDOT internal auditors to complete the Single Audit requirements.

Department of Transportation

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.

Table 1-1
Expenditures of Selected Programs
Fiscal Year 1996

Highway Planning and Construction-CFDA 20.205 (1)	\$375,151,000
Airport Improvement Program-CFDA 20.106 (1)	37,983,000
County State-Aid Highway Grants (2)	352,797,000
Municipal State-Aid Street Grants (2)	113,638,000
Bridge Construction Grants (2)	12,400,000

Sources: (1) Minnesota's Financial and Compliance Report on Federally Assisted Programs.
(2) State of Minnesota's Comprehensive Annual Financial Report.

Chapter 2. Construction

Chapter Conclusions

The Department of Transportation properly processed construction related expenditures and, when appropriate, collected federal reimbursement for a portion of the costs. The department complied with material state financial legal provisions related to the items tested. The department also complied with general and specific federal requirements for the Highway Planning Research and Construction Program (CFDA 20.205).

The Department of Transportation (MnDOT) is responsible for the construction and maintenance of the state's highway system. The department expends funds mainly for highway and bridge construction and for the purchase of land in construction areas. Table 2-1 shows the various types of construction expenditures, the funding sources, and the amounts recorded in the state's financial statements for fiscal year 1996.

Table 2-1
Construction Expenditures and Funding Sources
Fiscal Year 1996

<u>Program</u>	<u>Funding Source</u>	<u>Amount</u>
Highway Construction	Trunk Highway Fund	\$297,353,000
Federal/County Road and Bridge Projects	Federal Fund	88,973,000
Right of Way	Trunk Highway Fund	39,912,000
Bridge Construction	Transportation Fund	12,400,000

Source: State of Minnesota's Comprehensive Annual Financial Report.

Following is a brief description of the construction programs.

- Highway construction -- Development and maintenance of the state's trunk highway system.
- Federal/county road and bridge projects --Administration and construction of local government roads and bridges. These projects are jointly funded by the federal government and counties or cities.
- Right of Way - Acquisition of right of way parcels of land necessary for the completion of projects on the state's trunk highway system.

Department of Transportation

- Bridge construction -- Construction and repair of bridges throughout the state. These projects are funded from bond sale proceeds.

MnDOT is also responsible for collecting and administering the federal share of jointly funded projects. The federal government provides various percentages of participation for approved projects related to highway construction, federal/county road and bridge projects, and right of way acquisitions. Federally approved projects are eligible for reimbursement under the Highway Planning and Construction Program (CFDA 20.205). MnDOT uses the state's accounting system (MAPS) to generate a weekly billing to the federal government for reimbursement of eligible costs on federally approved projects. The federal government wire transfers its share of the project costs to MnDOT. MnDOT deposited about \$179 million for highway construction projects and right of way acquisitions in the Trunk Highway Fund in fiscal year 1996. In addition, MnDOT deposited federal receipts of approximately \$61 million for the federal/county road and bridge projects in the Federal Fund.

Audit Scope and Objectives

The objectives of our audit work were to:

- Determine whether the department properly processed and recorded construction and right of way expenditures in the state's accounting system.
- Determine whether the department properly recovered the federal share of project costs for those projects that had federal participation.
- Determine whether the department complied with the rules and regulations that have a material effect on the program.

Audit Procedures and Results

We conducted interviews with key personnel to gain an understanding of the department's procedures for processing and recording construction and right of way expenditures, as well as the procedures for claiming reimbursement from the federal government for the federal share of jointly funded projects. On a sample basis, we tested the construction expenditures made from the Trunk Highway Fund and the Federal County Road and Bridge Account. We verified that the department properly recorded expenditures in the state's accounting system and that the department properly recovered the appropriate federal share for jointly funded projects. We also verified that the department properly processed and recorded right of way expenditures in the state's accounting system. Finally, we verified that the grant expenditures made from the Transportation Fund were properly supported and recorded in the state's accounting system.

We determined that the department properly recorded construction expenditures in the Trunk Highway Fund and the Federal County Road and Bridge Account. The department properly recorded right of way expenditures in the Trunk Highway Fund. Also, grant expenditures were properly recorded in the Transportation Fund.

Department of Transportation

The department properly requested and deposited the federal share of expenditures for jointly funded projects. However, MnDOT had some problems during the conversion phase when implementing the new federal aid billing system in fiscal year 1996. We found that for one project, the department had incorrectly entered it as a project that did not have federal participation. In another case, there was a project that had an incorrect federal participation rate entered into the federal aid billing system. In the first instance, the department did not recover about \$1,770,000 in federal reimbursement. In the second case, the department collected approximately \$190,000 more than it was entitled to. We believe that these errors were isolated and occurred as part of the conversion to the state's new accounting system. MnDOT has corrected these errors in the federal aid billing system. Currently, MnDOT has controls in place to ensure that the appropriate federal revenue is collected at the completion of its federally participating projects.

Federal regulations govern specific compliance features for its programs. The federal government categorizes these regulations as follows: types of services allowed or unallowed, eligibility, matching, level of effort and/or earmarking requirements, special reporting requirements, and special tests and provisions.

Several statutory and regulatory requirements govern federal financial assistance programs. The general requirements include: political activity, Davis-Bacon Act, civil rights, cash management, relocation assistance and real property acquisition, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

MnDOT internal auditors performed the Single Audit work on the specific compliance features for the Highway Planning and Construction Program (CFDA 20.205). MnDOT auditors interviewed agency personnel and tested transactions to verify compliance with the specific requirements of this program. We, together with MnDOT auditors, tested compliance with the general requirements. We reviewed and accepted the work of the MnDOT auditors. We concluded that MnDOT complied with the general and specific requirements for the Highway Planning and Construction Program.

Chapter 3. State Aid

Chapter Conclusions

The Department of Transportation properly processed and recorded state aid payments to counties and municipalities. State aid payments to counties during fiscal year 1996 totaled \$352,797,000, while state aid payments to municipalities totaled \$113,638,000. The department complied with the material financial related legal provisions for the items tested.

The Department of Transportation is responsible for making state aid payments to counties and municipalities for road construction and maintenance. The department processes payments for county state aid out of the County State-Aid Highway Fund, while aid to municipalities is paid from the Municipal State-Aid Street Fund. Highway user taxes and investment earnings provide the funding for these grants. The Departments of Revenue and Public Safety deposit fuel tax receipts and motor vehicle registration taxes into the Highway User Tax Distribution Fund. Minnesota Constitution Article XIV requires that the proceeds of the Highway User Tax Distribution Fund be transferred, in part, to the County State-Aid Highway Fund and the Municipal State-Aid Street Fund.

Distributions from the Highway User Tax Distribution Fund for fiscal year 1996 were \$291,586,000 to the County State-Aid Highway Fund and \$84,868,000 to the Municipal State-Aid Street Fund. Once a year, the department, through a Commissioner's Order, allocates the amounts received in the two funds to the counties and municipalities of the state. Minn. Stat. Section 162 governs the state aid system and describes the manner in which the department is to allocate the funds to the counties and municipalities. Counties and municipalities then submit plans for various projects that the department must approve prior to work beginning. MnDOT grants the funds to the counties and municipalities after projects are authorized. Most funds are granted at the beginning of an approved project with a final percentage of the estimated costs withheld until completion and final certification of the project. Fund balances in the County State-Aid Highway Fund and the Municipal State-Aid Street Fund are carried forward to subsequent fiscal years until projects are authorized, grant funds are advanced, and the final distribution is made for completed projects.

Audit Scope and Objectives

Our audit objectives were to:

- Determine whether the department properly processed and recorded state aid payments.
- Determine whether the department complied with material finance-related legal provisions.

Department of Transportation

Audit Procedures and Results

We conducted interviews with key personnel to gain an understanding of the department's procedures for processing and recording state aid expenditures, as well as the procedures for allocating funds to the two state aid funds, and further to the counties and municipalities who receive the state aid allocations. On a sample basis, we tested the state aid expenditures made from the two state aid funds. We verified that the expenditures were properly recorded in the state's accounting system. We also verified that the distributions from the Highway User Tax Distribution Fund were made in the proper percentages to the appropriate funds.

We determined that the department properly recorded state aid expenditures in the County State-Aid Highway Fund and the Municipal State-Aid Street Fund. We also determined that the department appropriately transferred funds from the Highway User Tax Distribution Fund to the County State-Aid Highway Fund and the Municipal State-Aid Street Fund, as required by the Minnesota Constitution and Minnesota Statutes.

Chapter 4. Airport Improvement

Chapter Conclusions

The Department of Transportation properly processed and recorded airport improvement grant payments during fiscal year 1996. The department materially complied with general and specific federal requirements for the Airport Improvement Program (CFDA 20.106).

The Airport Improvement Program (CFDA 20.106) is a federal program with the objectives of assisting sponsors, owners, or operators of public use airports in the development of a nationwide system of airports to meet the needs of civil aeronautics. Local governments submit proposals for federal assistance to the Department of Transportation for review and approval. The Department of Transportation is responsible for administering the program for the state. Federal participation in projects can range from 75 to 90 percent depending on the project. Total federal expenditures for the program for fiscal year 1996 were \$37,983,000.

Audit Scope and Objectives

The audit objectives were to:

- Ascertain whether the department properly processed and recorded airport improvement grant payments.
- Determine whether the department complied with rules and regulations that have a material effect on the program.

Audit Procedures and Results

Federal regulations govern specific compliance features for its programs. The federal government categorizes these regulations as follows: types of services allowed or unallowed, eligibility, matching, level of effort and/or earmarking requirements, special reporting requirements, and special tests and provisions.

Several statutory and regulatory requirements govern federal financial assistance programs. The general requirements include: political activity, Davis-Bacon Act, civil rights, cash management, relocation assistance and real property acquisition, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

MnDOT internal auditors performed the single audit work on the specific compliance features for this federal program. MnDOT auditors interviewed agency personnel and tested transactions to verify compliance with the requirements of this program. We, together with MnDOT auditors, tested compliance with the general requirements. We reviewed and accepted the work of the MnDOT auditors. We conclude that the department properly processed and recorded airport improvement grant payments. We also conclude that MnDOT is in compliance with the general and specific requirements governing the Airport Improvement Program (CFDA 20.106).