OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Transportation

Fiscal Years 2001 through 2003

AUGUST 26, 2004 **04-34**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Lieutenant Governor Carol Molnau, Commissioner
Minnesota Department of Transportation

We have audited selected areas of the Minnesota Department of Transportation (MnDOT) for the period July 1, 2000, through June 30, 2003. Our audit scope was limited to the following activities in the department's central office: professional and technical service expenditures and use of permanently assigned state vehicles. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected MnDOT for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of MnDOT's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.

The standards also require that we plan the audit to provide reasonable assurance that MnDOT complied with financial-related legal provisions that are significant to the audit. In determining MnDOT's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of MnDOT's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. On a test basis, we examined evidence supporting the department's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 15, 2004

Report Signed On: August 20, 2004

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Steven Johnson, CPA, CISA	Senior Auditor
John Hakes, CPA	Senior Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Transportation at an exit conference on August 11, 2004:

Carol Molnau	Commissioner
Doug Differt	Deputy Commissioner
Robert McFarlin	Assistant to the Commissioner
Kevin Gray	Division Director
Randy Halvorson	Division Director
Marthand Nookala	Division Director
Robert Winter	Division Director
Scott Peterson	Office of Finance
Pam Tschida	Office of Finance
Terry Lemke	Office of Finance
Mary Prescott	OST Division
John Howard	Metro District
Ron Gipp	Director of Internal Audit
Larry Kienitz	Audit Supervisor, Internal Audit

Report Summary

Key Conclusions:

MnDOT's professional and technical service expenditures were accurately recorded and complied with applicable legal provisions and management's authorization. However, we noted some concerns with the MnDOT central office's management of permanently assigned state vehicles.

Key Findings:

- MnDOT's central office did not establish appropriate controls over the use of permanently assigned vehicles. (Finding 2, page 8)
- MnDOT did not effectively use its internal financial systems to ensure compliance with federal regulations and state policies governing use of permanently assigned vehicles. (Findings 3 and 4, pages 10 and 11)

The audit report contained 4 audit findings relating to internal control and legal compliance.

Audit Scope:

Audit Period:
Fiscal Years 2001-2003

Selected Audit Areas:
MnDOT Central Office:
- Professional and technical service expenditures
- Use of state light weight vehicles

Agency Background:

The department's mission is to improve access to markets, jobs, goods and services, and improve mobility by focusing on priority transportation improvements and investments that help Minnesotans travel safer, smarter, and more efficiently.

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Chapter 1. Introduction

The Minnesota Department of Transportation's (MnDOT's) mission is to improve access to markets, jobs, goods and services, and improve mobility by focusing on priority transportation improvements and investments that help Minnesotans travel safer, smarter, and more efficiently. The department's vision is having a coordinated transportation network that meets the needs of Minnesota's citizens and businesses for safe, timely, and predictable travel.

MnDOT is divided into eight regional areas: Duluth, Bemidji, Brainerd, Detroit Lakes, Rochester, Mankato, Willmar, and the Minneapolis/St. Paul metropolitan area. These eight districts manage the majority of the department's day-to-day operations, including highway construction projects, maintenance, and highway right of way issues. During the audit period, Elwyn Tinklenberg served as the commissioner of MnDOT until his resignation in October 2002. Douglas Weiszhaar served as the acting commissioner through December 2002. Lieutenant Governor Carol Molnau is the current commissioner of the department.

The department manages nearly 12,000 miles of the trunk highway system and approximately 5,700 bridges. In addition, the department provides funding to local governments to maintain the county highway and municipal street systems. Finally, the department oversees the state's railroads, commercial waterways, aeronautics, public transit, and motor carriers.

The department's primary source of funding comes from the Trunk Highway Fund, which receives revenue from fuel taxes, motor vehicle registration fees, motor vehicle sales taxes, and federal grants. The department also receives funding from the State Airport Fund and the General Fund.

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Chapter 2. Professional and Technical Service Expenditures

Chapter Conclusions

The Minnesota Department of Transportation's central office's internal controls provided reasonable assurance that it accurately recorded professional and technical service expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization. However, we found two employees from the business service and support section that had incompatible security access into the state's accounting system.

For the items tested, the department's central office complied with significant finance-related legal provisions concerning professional and technical services.

Audit Objectives

Our review of the department's central office's professional and technical service expenditures focused on the following questions:

- Did the central office's internal controls provide reasonable assurance that it accurately recorded professional and technical service expenditures in the accounting records, and that it complied with applicable legal provisions and management authorization?

- For the items tested, did the central office comply with significant finance-related legal provisions governing professional and technical service expenditures?

Background and Overview

During the three-year audit period, the Minnesota Department of Transportation's central office paid approximately $190 million for professional and technical services, such as architectural and engineering services. The department's consultant services section processed nearly 70 percent of those expenditures and assisted other MnDOT divisions in procuring professional or technical services. The consultant services section employees coordinate the process for soliciting and awarding contracts, encumbering the contract funds in the state's accounting system, and paying contractor invoices.

In addition to the consultant services section, various other sections procured professional and technical services by soliciting and awarding contracts. Generally, these sections used the services of the department's business services and support section to encumber contract funds and pay contractor invoices in the state's accounting system.

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The Department of Administration delegated certain contracting authority to MnDOT’s Office of Contract Management. The Office of Contract Management ensures that all contracts meet legal and policy requirements and effectively carry out the department’s strategic goals. During the majority of the audit period, the Department of Administration delegated authority to the Office of Contract Management for professional and technical service contracts up to $10 million. Based on a revised memorandum of understanding, signed in April 2003, the delegated authority was reduced to $1 million.

Finding and Recommendation

1. The department did not adequately restrict two employees’ access to the state’s accounting system.

Two employees in the department’s business service and support section had the ability to both encumber funds and make disbursements in the state’s accounting system (MAPS). We reviewed the security clearances of three business service and support section employees who work with professional and technical service contracts. Two of these employees had incompatible clearances to the system. The department gave these two employees access to both the encumbrance and disbursement functions because the employees performed back up duties for other users in their section. By giving an employee access to both the encumbrance and disbursement functions in MAPS, the risk of errors and irregularities increases. At a minimum, if restricting access is not feasible, an independent person should review the activity processed by users with incompatible access.

Recommendation

- *The department should enhance controls in the business service and support section by restricting accounting system access or developing effective mitigating controls.*

Chapter 3. Use of Permanently Assigned State Vehicles

Chapter Conclusions

The Minnesota Department of Transportation's central office did not establish effective controls over the use of permanently assigned vehicles. The department's management did not document its determination of eligibility and authorization of permanently assigned vehicles and did not adequately track or monitor the users of assigned vehicles. MnDOT did not comply with the Department of Administration's policy on the personal use of state vehicles or the Internal Revenue Service's commuting rule. In addition, the department's employees assigned take-home vehicles did not consistently report their daily use of the vehicle on the department's time-keeping system. Finally, the department did not reconcile certain mileage differences reported on its RCA system for permanently assigned take-home vehicles with those reported on its M4 fleet management system.

Audit Objectives

Our review of the department's use of assigned state vehicles focused on the following questions:

- Did the central office's internal controls provide reasonable assurance that it accurately recorded the use of permanently assigned state vehicles in the accounting records, and that it complied with applicable legal provisions and management's authorization?

- For the items tested, did the central office comply with statutory provisions governing use of assigned state vehicles for commuting?

Background and Overview

MnDOT's Office of Maintenance is responsible for overseeing the department's fleet of both heavy and lightweight equipment. Heavy equipment includes snowplows, graders, and other large machinery. Lightweight equipment includes automobiles, pickups, and vans. Various locations throughout the central office had direct responsibility for their assigned fleet.

In the fall of 2002, MnDOT management identified 244 employees who were assigned "take-home" vehicles. Central office employees had 76 of those vehicles. In 2003, the new administration reduced the number of take-home vehicles to 144, of which 49 were assigned to central office employees.

Department of Transportation

Minn. Stat. Section 16B.55 specifically restricts the use of state vehicles for commuting, except under certain circumstances, which have been approved by the agency head or the designee of the agency head. The statute provides that:

> *A state vehicle may be used only for authorized state business. A state vehicle may not be used for transportation to or from the residence of a state employee, except…*
>
> *(1) On a day which it may be necessary for the employee to respond to a work-related emergency during hours when the employee is not normally working;*
>
> *(2) If the employee has been assigned the use of a state vehicle for authorized state business on an extended basis, and the employee's primary place of work is not the state work station to which the employee is permanently assigned;*
>
> *(3) If the employee has been assigned the use of a state vehicle for authorized state business away from the work station to which the employee is permanently assigned, and the number of miles traveled, or the time needed to conduct the business, will be minimized if the employee uses a state vehicle to travel to the employee's residence before or after traveling to the place of state business; or*
>
> *(4) If the employee is authorized to participate in a ridesharing program…*

We focused our review on state vehicles permanently assigned to employees at various central office locations; specifically, the commissioner's office, electrical services, motor carrier, program delivery group, program support group, state aid group, land management, aeronautics, electronic communications, materials and road research, and construction and contract administration.

Findings and Recommendations

2. MnDOT did not adequately control and monitor the use of permanently assigned state vehicles.

The department did not adequately control and monitor the use of permanently assigned state "take home" vehicles at its central office locations. The department's management did not adequately document its determination of eligibility and authorization for take-home vehicles. In addition, the department does not have an adequate process in place to periodically monitor an employee's continued eligibility.

Currently the department has not identified in its fleet management system those central office employees that have been assigned a state take-home vehicle. According to MnDOT policy guidelines, assigning take-home vehicles to employee's that meet the eligibility requirements of Minn. Stat. Section 16B.55 is the responsibility of the department's individual office managers and supervisors. However, information associating an employee with a take-home vehicle has not been recorded in the department's fleet management system. As a result, it is difficult for the department to collectively manage and monitor its take-home vehicles centrally. In fact, in April 2003, the department had to request its central office managers and supervisors to manually provide a listing of employees that were assigned take-home vehicles in order to analyze and reduce the number of take home vehicles within the department.

In January 2004, the Department of Administration issued a Fleet Expenditure Reduction Plan as required by the 2003 Legislature. One goal of the plan was to improve the management of personal use of state vehicles for all state agencies by monitoring personal use and trends. The Department of Administration plans to implement an enterprise-wide fleet management database to aid in this goal, and the platform for the new system is the M4 system or the update version M5. To prepare for the transition to this new enterprise-wide fleet management database, MnDOT should also begin tracking or identifying employees, including those employees assigned permanent take-home vehicles, using vehicles on the M4 system.

In addition, the department's individual office managers and supervisors did not adequately document the basis for assignment of take-home vehicles. In our discussions with management, we learned that this is a collaborative process between the employee requesting the vehicle and their supervisor. The managers or supervisors "approval" or authorization is based on applying the policy guidelines to the request. We were also told that this process is a verbal process, and no documentation was prepared to support the appropriate exceptions under Minn. Stat. Section 16B.55, or the reasons why the manager or supervisor assigned vehicles to individual employees.

The department also did not have a formal monitoring process in place to ensure that an employee assigned a take-home vehicle continues to meet the eligibility requirements of Minn. Stat. Section 16B.55 and the department's internal policies. Although MnDOT's policy guideline for assigned take-home vehicles provides for periodic monitoring of continued eligibility, the department does not have an adequate documentation process in place to indicate whether such periodic monitoring actually occurred. We were told that there is no formal review process, although this may be occurring on an informal basis. The policy guideline indicated the responsibility for follow up rested with the office director/transportation district engineer.

Since the authorization and monitoring processes were not adequately documented, we were not able to determine if the department is in complete compliance with Minn. Stat. Section 16B.55. However, we sampled and reviewed job descriptions and discussed responsibilities with supervisors for 11 central office employees who were assigned take-home vehicles. We concluded that the job responsibilities of those individuals were consistent with the statutory provisions defining when state vehicles can be used for commuting. It is important that the department monitor its assigned vehicles to ensure continued compliance with statutory requirements and department policies.

Recommendations

- *The department's managers and supervisors should document their determination of eligibility and authorization for permanently assigned vehicles. Copies of documentation should be forwarded to the commissioner or designee as the basis for establishing an assigned take-home vehicle listing on the fleet management system.*

- *The department should develop a periodic review process to verify that employees who are assigned take-home vehicles continue to meet the eligibility requirements of Minn. Stat. Section 16B.55.*

3. MnDOT did not effectively utilize its resource consumption application (RCA) system to ensure compliance with state policies.

MnDOT did not ensure that its employees who had permanently assigned vehicles complied with the Department of Administration's policies or the Internal Revenue Service's commuting rule. Specifically, the value of the personal use of employer-provided vehicles must be included in employee wages reported on the W-2, wage and tax statement form. Personal use includes commuting to or from the employee's home to their regular work site. We noted that 30 of 53 central office employees assigned take-home vehicles did not report any personal use of a state vehicle on the resource consumption application (RCA) system. This system is the department's timesheet and vehicle usage reporting system. Each pay period, employees are supposed to record both their business and personal use of state equipment on the RCA system. The RCA system interfaces with the state's payroll system (SEMA4). SEMA4 applies the IRS mandated $1.50/per one-way or $3 per round trip commute to the employee's W2 form. For this system to appropriately capture and document compliance with both IRS and state policy, employees must record both their business and personal use of assigned take-home vehicles on a daily basis. Supervisors must also review to determine that the appropriate entries are made.

In August 2003, the MnDOT management established a new guideline to use when assigning a vehicle to an individual employee. The guideline defined an assigned vehicle as "any vehicle whose operation is predominantly performed by one individual employee, or at times by other employees under the knowledge or permission of that one individual employee." The guideline also provided two circumstances under which assignment of a vehicle would be made to an individual employee: When a vehicle is equipped with specialized equipment that is required for an employee to carry out their primary work responsibilities, or when the assigned vehicle will meet a minimum daily business usage need of 150 days per year (as measured by the RCA system equipment usage reporting).

Our review of RCA data and discussions with supervisors indicated that employees often recorded several days worth of business usage as one day on RCA. For example, one employee recorded the two-week business usage of his vehicle the last day of each pay period. During the audit period, this employee's total miles per pay period, as recorded on the system, ranged from

145 to 2,850 miles. The employee recorded the 2,850 miles as one day's business usage. One supervisor we interviewed informed us that when the department gave RCA training, the instructors said employees could lump several days of business usage into one day each pay period. Another supervisor informed us that his staff only recently began recording vehicle usage in the RCA system. Because the department's employees do not consistently report their business usage on the RCA system on a daily basis, it is doubtful that the department can apply the 150 days per year criteria for continued eligibility determination. Also, because the department does not require employees to log the use of their assigned vehicles, we could not determine how often employees actually took the assigned vehicles home.

Recommendation

- *Employees should record their business and personal commute usage of state vehicles in the RCA system for the day on which the travel occurs, not as a summary total at the end of the pay period. Supervisors should review time sheets to determine that daily entries to the RCA system for business and personal commute usage are being made.*

4. MnDOT did not identify the reasons for significant mileage differences between information recorded on its vehicle usage and fleet management systems.

As a part of our review of permanently assigned take-home vehicles, we questioned the accuracy of the miles reported by employees in the RCA system as compared to the miles reported on the department's M4 fleet management system. The M4 system tracks each vehicle unit, including permanently assigned take-home vehicles, and updates the vehicles total miles driven each time the vehicle is fueled. At each fueling, the employee must enter the unit number of the vehicle and its odometer reading. Employees must also remember trip information (personal and business mileage) for a separate entry into the RCA system. We compared the miles recorded in the RCA system to the miles reported in the M4 system for a few selected vehicles and noted substantial differences, as shown in Table 3-1.

Table 3-1
Sample Mileage Comparison
Fiscal Years 2001 through 2003

Unit No.	RCA miles	M4 miles	Difference
200410	58,808	74,565	15,757
99420	18	61,686	61,668
99677	32,821	40,484	7,663
98443	13,938	21,309	7,371
200215	14,303	80,141	65,838

Source: Resource Consumption Application and M4 systems.

To ensure the accuracy of the RCA system, the department should analyze the vehicle usage in both systems to identify unusual or unexpected trends.

Recommendation

- *The department's management should periodically analyze the RCA and M4 systems' vehicle usage data and follow up on any discrepancies or unusual trends.*

Status of Prior Audit Issues
As of March 15, 2004

March 19, 2004, Legislative Audit Report 04-17 examined the department's activities and programs material to the State of Minnesota's *Comprehensive Annual Financial Report* and the Single Audit for the year ended June 30, 2003. The scope included the state's infrastructure, right-of-way land, federal revenue, county highway and municipal street state-aid grants, federal airport improvement grants, and federal nonurbanized area formula transit grants. This report contained three findings. We will follow up on these findings in the fall of 2004 during our audit of the State of Minnesota's *Comprehensive Annual Financial Report* and Single Audit for the year ended June 30, 2004.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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Minnesota Department of Transportation

Transportation Building
395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

August 18, 2004

James Nobels, Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you and your staff for taking the time to review the summary audit that included professional and technical services expenditures and use of state lightweight vehicles. My staff and I appreciate your effort and we are committed to satisfactory resolution of the findings. Following is a list of Mn/DOT staff that will be responsible for working to resolve your findings.

Finding 1 – The department did not adequately restrict two employees' access to the state's accounting system.

Responsible People: Kevin Z. Gray, Finance and Administration Division Director; Pam Tschida, Administrative Manager, Finance and Administration

Resolution Date: begin August 2004 and ongoing.

Finding 2 – Mn/DOT did not adequately control and monitor the use of permanently assigned state vehicles.

Responsible People: Deputy Commissioner

Resolution Date: December 2004

Finding 3 – Mn/DOT did not effectively utilize its resource consumption application (RCA) system to ensure compliance with state policies.

Responsible People: Kevin Gray, Finance and Administration Director; Scott Peterson, Finance Office Director; Rich Peterson, Human Resources Director

Resolution Date: August through December 2004.

Finding 4 – Mn/DOT did not identify the reasons for significant mileage differences between information recorded on its vehicle usage and fleet management systems.

Responsible People: Kevin Gray, Finance and Administration Director; Marthand Nookala, Operations, Safety and Technology Division

Resolution Date: January 2005 and ongoing (tentative, based on success of actions under Finding 3).

Thank you for the opportunity to respond to your findings and recommendations. We will be monitoring the progress to resolve your findings. Please contact Terry Lemke at 651-296-7070 for follow-up information and activity.

Sincerely,

/s/ Carol Molnau

Carol Molnau
Lieutenant Governor/Commissioner of Transportation

Douglas Differt
Kevin Gray
Marthand Nookala
Scott Peterson
Pam Tschida
Rich Peterson
Terry Lemke