

DEPARTMENT OF TRANSPORTATION

PRIOR AUDIT FINDINGS

Federal Compliance Audit Findings:

Finding No. 11000200701:

Internal controls over accounting and reporting of federal grant expenditures were inadequate.

Auditee's Corrective Action Plan:

1. Recommendation was implemented.
2. Recommendation was implemented.

Finding No. 11000200702:

Controls did not exist to ensure that the SF-269A Financial Status Report was prepared and submitted for the Formula Grants for Other Than Urbanized Areas grant.

Auditee's Corrective Action Plan:

3. Recommendation was implemented.

Finding No. 11000200703:

Interest earned on Amtrak money was not accounted for properly.

Auditee's Corrective Action Plan:

4. Recommendation was implemented.

Financial Statement Audit Finding:

Finding No. 11000200704:

Internal control over the third-party billing process and associated accounts receivable was inadequate.

Auditee's Corrective Action Plan:

5. Recommendation was implemented.
6. Recommendation was implemented.

DEPARTMENT OF TRANSPORTATION
(Continued)

7. See Current Audit Finding No. 11000200802.
8. Recommendation was implemented.
9. Recommendation was implemented.
10. Recommendation was implemented.
11. Recommendation was implemented.
12. Recommendation was implemented.

State Audit Finding:

Finding No. 11000200705:

The South Dakota Department of Transportation (DOT) did not request reimbursement of federal fund expenditures on a timely basis.

Auditee's Corrective Action Plan:

13. See Current Audit Finding No. 11000200804.

Financial Statement Audit Finding:

Finding No. 11000200706:

Internal control over the year end inventory cutoff was inadequate.

Auditee's Corrective Action Plan:

14. See Current Audit Finding No. 11000200803.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Finding:

Finding No. 11000200801:

Internal Control was not adequate to ensure proper application of Amtrak Funds to allowable expenses.

CFDA Title: National Railroad Passenger Corporation - Amtrak
CFDA Number: 20.unknown

DEPARTMENT OF TRANSPORTATION
(Continued)

Federal Award Number:

Federal Award Year: Taxpayer Relief Act of 1997

Federal Agency:

Type of Finding: Significant Deficiency

Category of Finding: Allowable Costs

Questioned Costs: \$193,380.33

Analysis:

The State received payments totaling \$23,230,000 from the National Railroad Passenger Corporation (Amtrak) in fiscal years 1998 and 1999. These funds are to be accounted for and expended per the Tax Payer Relief Act of 1997. Section 977 (c) (2) of this act states:

Use of payment. – Each non-Amtrak State shall use the payment (and any interest thereon) solely to finance qualified expenses of the State.

Under Amtrak guidelines, airport improvement project expenditures are allowable costs. In fiscal year 2008 (FY2008) the Department transferred \$1.97 million from the Amtrak Fund to the Aeronautics Fund for the reimbursement of the State's share of airport improvement program expenditures from fiscal years 2002-2005. For thirty-eight projects included in the airport improvement program expenditures from fiscal years 2002-2005, the Department erroneously included project expenses paid by Local Governments totaling \$161,828.75. In addition, the Department overcharged the Amtrak Fund interest expense of \$31,551.58 relating to these projects. As a result, the Amtrak Fund was overcharged \$193,380.33.

RECOMMENDATIONS:

1. We recommend procedures be implemented to ensure Amtrak Funds are used for allowable expenses.
2. We recommend that the Aeronautics Fund transfer \$193,380.33 back to the Amtrak Fund.

Auditee's Corrective Action Plan:

1. Procedures are in place to ensure allowable expenditures are reviewed for Amtrak Funds. The specific issue with this finding is due to coding problems which had been corrected in a prior fiscal year to include a fund source that identifies the allowable expenditure.
2. Funds have been transferred back to the Amtrak Fund.

Financial Statement Audit Findings:

Finding No. 11000200802:

Internal control over the third-party billing process and associated accounts receivable was inadequate. This is the second consecutive audit to contain this finding.

DEPARTMENT OF TRANSPORTATION
(Continued)

Analysis:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published a report in 1992 that defined internal control as:

A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Control activities are a component of internal control which includes authorizations, approvals, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

The Department provides services to various governmental entities and then bills those entities for their share of the services provided. These are commonly referred to as third party billings. The Department's policy regarding third party billings states in part:

"To ensure bills are prepared timely.... Every third week of the month a review of the funding is done (review current bills and funding agreements)."

Our testing revealed that billings were not always prepared on a timely basis.

We found five instances, out of fourteen billings reviewed, where there was a lapse of two or more months from when the majority of costs were incurred until the billing was sent to the local government.

As a result, the state experienced an increased exposure to loss of assets, loss of potential interest income, and inaccurate accounting records.

RECOMMENDATION:

3. We recommend management provide adequate oversight to ensure compliance with the established policies and procedures that assure bills are sent in a timely manner.

Auditee's Corrective Action Plan:

3. a. Implemented a third-party billing procedure in January, 2008.
b. Implemented an internal audit review process of third-party billings.
c. Further updates to the policies and procedures are being made to reflect the specific instances where there are exceptions to the 30 day process.
d. Implemented monthly review of billing reports such as Current Bill, Accrued Unbilled, and Nonbillable Projects reports.

Finding No. 11000200803:

Internal control over the year end inventory cutoff was inadequate. This is the second consecutive audit to contain this finding.

DEPARTMENT OF TRANSPORTATION
(Continued)

Analysis:

An objective of accrual based accounting is to ensure that events that change an entity's financial statements are recorded in the period in which the event occurs, rather than in the period in which the event is recorded. Inventory cutoff procedures are designed to record transactions in the proper fiscal year. The balance of the inventory at the end of a fiscal year should represent the ending inventory amount.

The Department established the policy that all fiscal year 2008 (FY2008) inventory issuances and receipts be recorded on the accounting system by the close of business on June 30, 2008. Our testing of issuances and receipts for the last week of FY2008 and the first two weeks of FY2009 identified one receipt (totaling \$165,027) received in FY2008 and not properly recorded in FY2008 and fifteen receipts (totaling \$168,988) dated in FY2009 that were erroneously accrued into FY2008. As a result, the Department overstated inventory at year end.

Inventory is material to the Transportation Fund, which is a major fund of the State. The calculated potential adjustment was below the materiality threshold and therefore the financial statements were not adjusted.

RECOMMENDATION:

4. We recommend that the Department establish procedures and controls that ensure receipts are included in the inventory balance of the proper fiscal year.

Auditee's Corrective Action Plan:

4. a. The majority of the audit finding of \$165K out of the total of \$169K was due to a system problem in which the system did not handle a correction properly. Action is being taken to correct the system problem.
- b. The inventory analyst will monitor inventory issuances and receipts to ensure inventory transactions are included in the proper fiscal year.

State Audit Finding:

Finding No. 11000200804:

The South Dakota Department of Transportation (DOT) did not request reimbursement of federal fund expenditures on a timely basis.

Analysis:

The Department administers the Formula Grants for Other than Urbanized Areas grant (CFDA: 20.509) which is a reimbursement grant, where the Department expends state funds and bills the federal government to recover eligible costs.

Between 7/1/07 and 6/30/08, and after funds were authorized by the Federal Government, the amount eligible for reimbursement from the federal government exceeded \$1,000,000 for 22 days and the amount eligible for reimbursement from the federal government exceeded

DEPARTMENT OF TRANSPORTATION
(Continued)

\$2,000,000 on 10 of those days. If the Department had submitted reimbursement requests on a more frequent and timely basis, the state could have earned approximately \$10,515 of additional investment income in FY2008.

RECOMMENDATION:

5. We recommend federal grant expenditure reimbursement requests be prepared on a timely basis.

Auditee's Corrective Action Plan:

5. The DOT will submit the grant application within 5 business days after the notification of funding availability. When the grant application has been approved there is a 3 day waiting period per the federal guidelines then Finance will bill for the grant reimbursement. This process will be completed within 5 business days in order to collect on all prior costs that have been accumulated for the year.