

COMPLIANCE AND CONTROL AUDIT REPORT

Department of Transportation

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
July 1998**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (in-

cluding the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Lana Oleen, Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

Representative Eugene Shore, Vice-Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

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LEGISLATURE OF KANSAS
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July 1, 1998

To: Members, Legislative Post Audit Committee

Senator Lana Oleen, Chair
Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

Representative Eugene Shore, Vice-Chair
Representative Richard Alldritt
Representative Doug Mays
Representative Ed McKechnie
Representative Dennis Wilson

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Department of Transportation.

This report includes several recommendations for improvement in the oversight monitoring of subrecipients. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

**Question 1: Did the Department of Transportation's
Financial-Management Practices Ensure That It Complied
With State and Federal Spending Restrictions?**

The Department has established adequate procedures to ensure that it complies with State and federal spending restrictions.page 2
The Department's practices identify restrictions on the use of moneys, account for each type of restricted moneys separately, and provide for supervisory oversight to ensure proper spending. Further, the Department effectively applied these procedures during fiscal year 1997.

**Question 2: Did the Department of Transportation's Procedures
Ensure That Local Agencies Spent Moneys Appropriately?**

The Department's oversight practices generally are adequate to ensure that local entities spend moneys correctly.page 4
It has established appropriate oversight procedures, including monitoring program objectives, conducting on-site reviews, requesting documentation for most expenses, and requiring audits of some local agencies.

Because of inadequate supporting documentation, the Department may have reimbursed some inappropriate local agency costs.page 5
Although the Highway Safety program staff required supporting documentation for most local agency expenses, they didn't receive appropriate documentation for local agency salaries. Because federal grants have specific requirements in this area, these costs may not be allowable as charges to the program.

In addition, Nonurbanized Public Transportation program staff didn't receive adequate documentation for operating expenses of the local agencies. Lack of documentation wouldn't be as important if the Department had received audit reports from these local agencies as required. However, audit reports weren't requested because the Department's program manager just recently became aware of this requirement.

Conclusion page 6

Recommendation page 6

APPENDIX A: Agency Response page 7

This audit was conducted by Jerry Fair. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Fair at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (785) 296-3792, or contact us via the Internet at: LPA@mail.ksleg.state.ks.us.

DEPARTMENT OF TRANSPORTATION

The Legislative Division of Post Audit has conducted compliance and control audit work at the Kansas Department of Transportation covering fiscal year 1997. Compliance and control audits identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Department ensures that restricted moneys are properly used, and on its oversight of grants to local agencies. The audit addresses the following specific questions:

- 1. Did the Department's financial-management practices ensure that it complied with State and federal spending restrictions?**
- 2. Did the Department's procedures ensure that local agencies spent moneys appropriately?**

To answer these questions, we identified applicable legal spending restrictions and standard financial-management practices. We also reviewed the Department's written procedures, interviewed appropriate Department personnel, and reviewed a sample of grants to local agencies to see if the Department's procedures were consistent with those practices. In conducting this audit work, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

Our findings are discussed on the following pages.

Did the Department of Transportation's Financial-Management Practices Ensure That It Complied with State and Federal Spending Restrictions?

The Department's financial-management practices generally are well designed, and the way they're being applied is likely to ensure that restricted State and federal funds aren't misspent. Among other practices, the Department has established a system of review by various staff, and accounts for each type of restricted moneys separately.

The Department Has Established Adequate Procedures to Ensure that It Complies with State and Federal Spending Restrictions

To avoid duplicating audit work performed during the Statewide audit, we focused our reviews of federal programs on two smaller programs—Public Transportation for Nonurbanized Areas, and State and Community Highway Safety. During fiscal year 1997, the Department of Transportation spent more than \$4.5 million of federal moneys on these programs.

Most of the Public Transportation for Nonurbanized Areas money is “passed through” to local agencies to assist with operating expenses and vehicle purchases in communities that don't have sufficient public transportation. The Department uses State and Community Highway Safety moneys to promote safety activities such as alcohol abuse information programs, and child safety seat awareness.

The Department also spent about \$636,000 in State moneys on the Elderly and Disabled Coordinated Public Transportation Assistance Program in fiscal year 1997. These State moneys, provided by motor fuel taxes, are used to develop, improve, or maintain transportation systems for the elderly and handicapped. The Department spends these moneys in conjunction with the federal public transportation programs.

To comply with applicable restrictions, and to limit the State's potential future financial liability for misspending any federal funds, the Department should take steps to ensure that these restricted moneys are spent properly. To do this, the Department should have put in place certain financial-management practices, including the following:

- identifying any restrictions on the use of its moneys, particularly those restrictions imposed by law or regulation
- accounting for each type of restricted money separately from other moneys, so that the Department knows how each type of restricted money is spent

- requiring supervisory oversight to ensure that costs charged to a program actually were incurred by that program

To find out the Department's practices in this area, we interviewed Department officials, reviewed written procedures, and examined a sample of applicable documents. We found that the Department's practices were well designed and operated consistently with the "good practices" outlined above.

Did the Department of Transportation's Procedures Ensure That Local Agencies Spent Moneys Appropriately?

Federal regulations require the Department to ensure that its subgrantees are aware of, and adhere to, requirements imposed on them by federal laws and regulations. We found that the Department generally has established adequate practices to ensure this occurs. However, some improvements are necessary. Our findings are summarized below.

The Department's Oversight Practices Generally Are Adequate to Ensure That Local Entities Spend Moneys Correctly

During fiscal year 1997, the Department transferred most of its \$2 million in State and Community Highway Safety moneys and more than \$2 million in Public Transportation for Nonurbanized Areas moneys to local entities. Highway safety moneys funded traffic safety programs. Public transportation moneys were used to pay a portion of local agencies' operating expenses and equipment purchases.

The Department is responsible for ensuring that local entities properly use these federal moneys. To do so, the Department should have put in place certain oversight practices. Those practices would include the following, as applicable:

- reviewing and approving local spending plans
- conducting on-going monitoring of financial and performance reports, including review of expenditure documentation
- conducting on-site reviews to ensure that the entity is spending moneys appropriately
- requiring the local agencies to obtain periodic independent audits
- following up on and resolving any discrepancies noted by the reviews and audits

To find out the Department's practices in this area, we interviewed appropriate agency officials, reviewed written procedures, and examined a sample of applicable documents. Our review focused on whether oversight procedures existed, and their likely effectiveness in revealing any misspending.

We found the Department generally has established appropriate oversight procedures, including monitoring program objectives, conducting on-site reviews, requesting documentation for most expenses, and requiring audits of some local agencies. However, those procedures may not always be adequate to ensure that local agencies spend moneys appropriately.

Because of Inadequate Supporting Documentation, The Department May Have Reimbursed Some Inappropriate Local Agency Costs

Although the Department requires supporting documentation for most local agency expenses it reimburses and obtains audits of some local agencies, reimbursements of unsupported expenses and a lack of audits can leave the Department at risk of paying for inappropriate local agency costs.

The Department didn't receive required documentation for some local agency salaries paid under the Highway Safety Program. One not-for-profit local agency we reviewed that got money for drug awareness programs received reimbursement for 35% of an administrator's salary and 60% of an accountant's salary. Although the Department's contract with this local agency called for that agency to provide documentation supporting salary costs claimed for reimbursement, it didn't provide it. Instead, the Department reimbursed the agency based on reported wages.

Applicable federal requirements limit salary costs to the amount paid for time actually spent on each program. Those requirements further specify that, for salary costs to be allowable charges to federal grant moneys, those costs must be documented properly. Employees who work on more than one program must document the amount of time actually spent on each program.

When Department staff recently asked this local agency for documentation of staff time spent on federal projects, the agency responded that those records don't exist. Without the required supporting documentation, the Department can't be sure that it's paying federal grant moneys for the appropriate share of employees' salaries. In fact, lack of supporting documentation technically makes these salaries not allowable as charges to federal grant moneys.

The Department's staff used Public Transportation for Nonurbanized Areas Program moneys to reimburse local agency operating expenses without reviewing supporting documentation for those expenses. The local agencies receiving these moneys are usually county operated or not-for-profit agencies which provide transportation services for the elderly or disabled. These agencies sent the Department monthly summaries of their operating expenses, including some minimal salary expenses, as the basis for reimbursement. The Department's grant manager had always considered such summaries to be adequate documentation, and authorized reimbursement on that basis. However, because no actual bills or time summaries were reviewed, it's possible that the Department reimbursed these local agencies for inappropriate expenses.

One other way the grant manager could have assured himself about the appropriateness of local agency expense reimbursements would have been through annual audits and follow-up on any applicable findings. However, the program manager didn't request audit reports from local agencies. The program manager just recently became aware of the applicable federal audit requirement, and is now requesting audit reports from all applicable local agencies.

Conclusion

Federal regulations make the Department of Transportation responsible for any inappropriate spending of federal moneys passed through to a local agency. Because Department staff didn't request adequate documentation for local agency expenses, they may have reimbursed those local agencies for inappropriate spending. Further, because in some cases staff didn't request or review audit reports, they wouldn't have been aware of inappropriate spending that might have been identified by independent auditors. In either case, the Department would be responsible for repaying moneys to the federal programs if there were any inappropriate spending.

Recommendation

1. To provide for adequate oversight of federal funds that are passed through to local agencies, the Department of Transportation should do the following:
 - a. request documentation of expenses claimed for reimbursement, at least on a random basis
 - b. request specific documentation of hours worked on the federal projects for salaries claimed for reimbursement
 - c. ensure that required audit reports are received and reviewed

APPENDIX A

Agency Response

On June 19, 1998 we provided copies of the draft audit report to the Department of Transportation. Its response is included as this appendix.

STATE OF KANSAS



KANSAS DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY OF TRANSPORTATION

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Bill Graves
GOVERNOR

E. Dean Carlson
SECRETARY OF TRANSPORTATION

June 26, 1998



Ms. Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson St., Suite 1200
Topeka Kansas 66612-2212

Dear Ms. Hinton:

The Kansas Department of Transportation (KDOT) appreciates the opportunity to respond to the draft audit report which focused on how KDOT ensures that restricted moneys are properly used, and on its oversight of grants to local agencies. KDOT's response will address grants made by the Bureau of Transportation Planning's Office of Public Transportation and the Bureau of Traffic Safety. KDOT agrees with your recommendations and provides the following comments:

Recommendation

1. To provide for adequate oversight of federal funds that are passed through to local agencies, the Department of Transportation should do the following:
 - a. request documentation of expenses claimed for reimbursement, at least on a random basis

Response:

Office of Public Transportation

Staff is encouraged by the Federal Transit Administration to do on-site visits with each transportation provider receiving grant funds. KDOT is in the process of implementing more frequent on-site visits in the fall of 1998. As part of the on-site visit the staff will routinely review documentation of expenses claimed for reimbursement.

Bureau of Traffic Safety

Not Applicable.

- b. request specific documentation of hours worked on the federal projects for salaries claimed for reimbursement**

Office of Public Transportation

Staff members, while doing on-site visits, will review documentation of salaries claimed for reimbursement.

Bureau of Traffic Safety

The local not-for-profit agency was advised in writing on May 11, 1998, that Section 15, PAYMENTS of the Highway Safety Agreement "requires submission of appropriate documentation for reimbursement of eligible costs." Specifically, the letter instructed the contractor to modify subsequent monthly reimbursement vouchers to include the total number of hours worked per person. A copy of this correspondence is attached.

The Bureau of Traffic Safety also will instruct, in writing, all current and new contractors to include total number of hours worked with appropriate certification on each monthly reimbursement voucher.

- c. ensure that required audit reports are received and reviewed.**

Office of Public Transportation

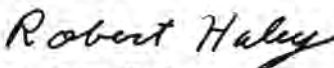
The Office of Public Transportation will require all transportation providers who are receiving over \$300,000 in total federal funds to provide a copy of their annual audit report for review and follow-up on any applicable findings related to agency expense reimbursements for FTA grant funds.

Bureau of Traffic Safety

Not Applicable.

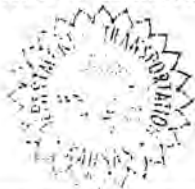
We appreciate the efforts of Legislative Post Audit to point out potential areas for improved performance in our programs, and we will incorporate your recommendations.

Sincerely,


for E. Dean Carlson
Secretary of Transportation

- c: R. Thornburg, Bureau of Traffic Safety
J. Tobaben, Bureau of Transportation Planning

STATE OF KANSAS



KANSAS DEPARTMENT OF TRANSPORTATION

E. Dean Carlson
Secretary of Transportation

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Bill Graves
Governor of Kansas

May 11, 1998

Mr. Bruce Beale, Director
DCCCA, Inc.
3312 Clinton Parkway
Lawrence, Kansas 66047

Dear Mr. Beale:

AL-97/99-98-02-01

Kansas Drunk Driving Prevention Program

Please reference Section 15. PAYMENTS of the contract referenced above. The provision requires submission of appropriate documentation for reimbursement of eligible costs. As stated, "Each invoice shall include the total number of hours by position at the rate quoted". . . . Currently, you provide a detailed summary of gross salaries/wages and fringe benefits for each position on the contract, at the percentage of time each position is allocated to the project. Effective immediately, please modify your monthly reimbursement summary to include the total number of hours.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rosalie Thornburgh".

Rosalie Thornburgh, Chief
Bureau of Traffic Safety