



Minnesota Department of Transportation

Memo

Office of Audit
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February 12, 2008

To: Carol L. Molnau, Lt. Governor/Commissioner
Lisa J. Freese, Deputy Commissioner

From: Daniel E. Kahnke, CGFM
Audit Director

A handwritten signature in black ink that reads "Daniel E. Kahnke". The signature is written in a cursive style and is positioned over the printed name of the sender.

Subject: Audit of OMB Circular A-133
Single Audit Compliance Requirements
Fiscal Year 2007
Audit Report No. 08-800-27
(Responses Included)

This is the final audit report of the above stated subject. This includes the original audit report and the written responses from appropriate assistant commissioners.

This is being released in accordance with Administrative Procedure 2.84-3-P-1A on audit follow-up. Requests for copies of the audit report will be responded to by furnishing this final version of the audit report.



Minnesota Department of Transportation

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December 3, 2007

To: Carol L. Molnau, Lt. Governor/Commissioner
Lisa J. Freese, Deputy Commissioner

From: Daniel E. Kahnke, CGFM
Audit Director

Handwritten signature of Daniel E. Kahnke

Subject: Audit of OMB Circular No. A-133
Single Audit Compliance Requirements
Fiscal Year 2007
Audit Report No. 08-800-27

As agreed upon with the Office of the Legislative Auditor, we have audited the Minnesota Department of Transportation's (Mn/DOT's) compliance with specific Single Audit Compliance Requirements for the following federal financial assistance programs for the year ended June 30, 2007.

Table with 3 columns: Program, CFDA, Amount (Millions). Rows include Highway Planning and Construction (\$587.8) and Airport Improvement Program (\$70.7).

In auditing compliance with regulations relating to federal award expenditures for the Highway Planning and Construction Program and Airport Improvement Program, we conducted a financial audit as described in the Government Auditing Standards 2.05(e), published by the Comptroller General of the United States.

Mn/DOT management is responsible for compliance with these requirements. Mn/DOT Office of Audit is responsible to express an opinion on compliance with these requirements based on the audit.

We audited the Single Audit Compliance Requirements for the following: Highway Planning and Construction and Airport Improvement as outlined in the Office of Management and Budget (OMB) Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The audit was conducted per discussion and agreement with the Office of the Legislative Auditor. This included a review for compliance with the Letter of Agreement and Stewardship Plan between the Federal Highway Administration and Mn/DOT.

The requirements and principles of OMB Circular No. A-87 (Cost Principles for State, Local, and Indian Tribal Governments) and 49 CFR Part 18, the "Common Rule" were part of the audit. The audit of compliance with these requirements was conducted in accordance with Generally Accepted Auditing Standards (GAAS), developed by the American Institute of Certified Public Accountants (AICPA); the Government Auditing Standards (otherwise known as the "Yellow Book"), issued by the Comptroller General of the United States; and OMB Circular No. A-133.

Those standards and OMB Circular No. A-133 Compliance Supplement require the planning and performance of the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Mn/DOT's compliance with these requirements. We believe that our audit provides a reasonable basis for our opinion.

The audit included an assessment of internal controls over the collection and use of federal funds related to the following areas: Construction and Contract Administration, Federal Aid, Right of Way, Aeronautics, and selected Mn/DOT district and city/county highway construction projects.

In planning and performing the audit, we evaluated Mn/DOT's internal controls over compliance with requirements for the two federal financial assistance programs. Mn/DOT management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

A sound internal control structure should provide management with reasonable, but not absolute, assurance that OMB Circular No. A-133 Compliance Supplement requirements are met and Mn/DOT policies and procedures are followed. The internal control structure can become inadequate or ineffective because of either changes in operating conditions or deterioration of the effectiveness of the design or implementation of policies and procedures.

Our audit finding statements relate specifically to the A-133 Compliance Supplement. The following discussion describes the applicability of the A-133 Compliance Supplement to the Single Audit in general and Findings I through VI for this year specifically. These findings and other audit results were discussed as applicable with project management and personnel from Mn/DOT districts, as well as cities and counties.

We also discussed the findings and other audit results as applicable with management and personnel from the following offices: Aeronautics, Construction and Innovative Contracting, Environmental Services, Finance, Land Management, Materials and Road Research, and the State Aid for Local Transportation Division.

The A-133 Compliance Supplement Part 1 indicates that the audit should recognize that there may be provisions of contract and grant agreements that are not specified in law or regulation and, therefore, the specifics of such are not included in the Compliance Supplement.

Accordingly, the audit includes reasonable procedures to ensure that compliance requirements are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by the audit. Reasonable procedures consist of discussion with Mn/DOT personnel and review of contract and grant agreements and compliance with the associated requirements.

A-133 Compliance Supplement suggested audit procedures apply to many different federal programs and are necessarily general in nature. We are expected to exercise judgment to determine whether the Compliance Supplement suggested audit procedures are sufficient, or whether additional or alternative audit procedures are needed. The Compliance Supplement can only be considered “safe harbor” if additional provisions of contract and grant agreements are identified and considered as part of the audit.

A-133 Compliance Supplement Part 1 also states that we have responsibility under Generally Accepted Government Auditing Standards (GAGAS) for other requirements when specific information comes to our attention that provides evidence concerning the existence of possible noncompliance that could materially affect Mn/DOT’s major programs. American Institute of Certified Public Accountants (AICPA) Audit Guide - Government Auditing Standards and Circular A-133 Audits, requires us to include in the findings and questioned costs material noncompliance (\$10,000 or more) with laws, regulations, and contracts related to the Highway Planning and Construction and Airport Improvement programs.

Finding V addresses environmental compliance and involves individual contract items valued at less than \$10,000; it is included in the findings and questioned costs due to the public relations risk as well as the risk of fines and enforcement action from the Minnesota Pollution Control Agency (MPCA).

A-133 Compliance Supplement Part 3

The A-133 Compliance Supplement Part 3 reiterates that suggested audit procedures are provided to assist auditors in planning and performing the audit, and advises us to exercise judgment to determine if additional or alternative audit procedures are needed.

A-133 Compliance Supplement Part 3 A. Activities Allowed or Unallowed

The A-133 Compliance Supplement Part 3 reiterates that suggested audit procedures are provided to assist auditors in planning and performing the audit, and advises us to exercise judgment to determine if additional or alternative audit procedures are needed. The A-133 Compliance Supplement Part 3, A. Activities Allowed or Unallowed requires the audit to identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. On this basis, the conditions cited in all of the Findings are considered to be activities unallowed.

A-133 Compliance Supplement Part 3 B. Allowable Costs/Cost Principles

The A-133 Compliance Supplement Part 3 B. Allowable Costs/Cost Principles, through OMB Circular A-87, requires us to evaluate if costs are reasonable and necessary; conforming to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations; and adequately documented. On this basis, the conditions cited in all of the Findings are not considered to constitute allowable costs and are described in Attachment III as questioned costs.

A-133 Compliance Supplement Part 3 M. Subrecipient Monitoring

The A-133 Compliance Supplement Part 3 M. Subrecipient Monitoring requires the monitoring of subrecipient activities to provide reasonable assurance that subrecipients of federal funding (airports, cities, and counties) administer Federal awards in compliance with requirements. The Single Audit includes an evaluation of compliance with requirements for the Airport Improvement Program, in addition to the Highway Planning and Construction Program.

For the Highway Planning and Construction Program, the Letter of Agreement and Stewardship Plan between Federal Highway Administration (FHWA) and Mn/DOT indicates that Mn/DOT retains its responsibilities under federal law and regulations for all activities delegated to cities and counties. The Letter of Agreement and Stewardship Plan also indicates that Mn/DOT will provide the necessary processes, approvals, oversight, and review to ensure that delegated projects receive adequate supervision and inspection, and that they are completed in conformance with approved plans and specifications and applicable federal requirements.

The State Aid for Local Transportation Division provides technical assistance to cities and counties for highway construction, including training for Right of Way acquisitions. This assistance could improve future compliance with requirements. Ongoing subrecipient monitoring is needed to achieve compliance with requirements by cities and counties, especially since personnel with less experience and knowledge regarding the requirements are becoming increasingly involved in project management. Findings I, II, IV, and V fall under this part of the Compliance Supplement.

A-133 Compliance Supplement Part 3 N. Special Tests and Provisions

The A-133 Compliance Supplement Part 3 N. Special Tests and Provisions states that specific requirements unique to each Federal program are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Part 3 N. Special Tests and Provisions requires us to identify any additional compliance requirements which could be material, and indicates that reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on a major program shall be included in the audit.

The A-133 Compliance Supplement Part 3 N. Special Tests and Provisions also refers to the A-133 Compliance Supplement Part 4, Agency Program Requirements, for specific compliance requirements, audit objectives, and suggested audit procedures.

The A-133 Compliance Supplement Part 4 requires Mn/DOT to have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications. The Part 4 also requires an evaluation of the sampling and testing program. Findings I, II, and IV fall under this part of the Compliance Supplement. We also considered whether Mn/DOT was managing or utilizing its resources in an economical and efficient manner and whether Mn/DOT was effective in achieving its program objectives.

Attachments and Exhibits

Exhibit I provides a list of the construction projects reviewed during the audit. Exhibit II describes specific items included in the construction project material testing review portion of the audit. See Attachment I for Other Internal Control Issues Discussed With Management.

We do not audit the same projects from the previous year's audit a second time when conducting follow-up on findings from the previous year's Single Audit. Instead, we audit different projects each year. If we identify the same findings, they are considered repeat findings at the Highway Planning and Construction Program or Airport Improvement Program level, applicable and of relevance to the entire Mn/DOT and state. Concerns repeated from the Fiscal Year 2006 Single Audit Report No. 07-800-54 are noted within and at Attachment II, Audit Follow up of Prior Year's Findings.

5 of 6 findings for this year were repeats from last year. This might be an indication that increased accountability and greater emphasis on measurements of performance related to compliance with requirements is needed. For example, any poor performance of management, engineers, and other employees needs to be reflected on their annual performance reviews. This will provide incentives to make sure that Mn/DOT is complying with requirements.

Attachment III lists questioned costs, which totaled \$30.3 million. We questioned project costs for instances of significant noncompliance with requirements per state or federal law, project proposals, Mn/DOT requirements, or a combination thereof. Questioned costs do not fully describe the significance of compliance with requirements, maintaining the public trust, and good public relations.

Carol L. Molnau
Lisa J. Freese
December 3, 2007
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In our opinion, except for the above concerns and the issues discussed in Findings I through VI, the Minnesota Department of Transportation substantially complied with the provisions referred to in the scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Transportation had not complied, in all material respects, with those provisions.

cc: K. Z. Gray
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EXHIBIT I

**Highway Construction Projects Reviewed
Fiscal Year 2007**

State Project Number	Federal Project Number	Project District	Location	Engineer	Contract Amount	Amount in FY 2007
TRUNK HIGHWAY PROJECTS						
3115-60	HPP-NH MN15 (101)	1	TH 169	Kevin Rohling	\$7,398,941	\$3,870,742
6005-55	NH 0002 (318)	2	TH 2	Todd Vonasek	\$3,585,469	\$4,118,748
8612-11	STPX 8605 (079)	3	TH 241	Jim Labo	\$14,484,740	\$11,294,325
7610-07	NH-STP 0059(301)	4	TH 59	Dan Kuhn	\$5,692,155	\$4,018,544
5508-84	BAP-NH 0052 (315)	6	TH 52	Jai Kalsy	\$37,950,500	\$22,797,734
0704-81	STP-HSIP 0705 (110)	7	TH 22	Chad Fowlds	\$4,062,726	\$5,478,710
6280-304	BAP-IM 0354 (253)	ME	TH 35	Tom Krier	\$102,843,346	\$45,490,552
2774-7264	STATE FUNDS	ME	TH 62	Elizabeth Benjamin	\$841,368	\$857,411
1017-12	NH 0212 (308)	MW	TH 212	Jon Chiglo	\$237,893,000	\$82,978,303
2771-31	HPP MN11 (101)	MW	TH 81	Dan Penn	<u>\$36,295,817</u>	<u>\$14,904,021</u>
TRUNK HIGHWAY PROJECT TOTALS					\$451,048,062	\$195,809,090
CITY/COUNTY PROJECTS						
129-119-05	STPX 3107 (002)	1	City of Grand Rapids	Tom Pagel	\$3,040,000	\$129,061
69-616-43	HPP MN32 (101)	1	St. Louis County	Marcus Hall	\$5,189,909	\$2,950,546
60-602-17	TIMP 6006 (146)	2	Polk County	Rich Sanders	\$5,267,051	\$3,001,913
73-601-42	HPP MN36 (101)	3	Stearns County	Mitch Anderson	\$19,337,625	\$1,644,759
03-622-29	STPX 0306 (081)	4	Becker County	Brad Wentz	\$1,423,549	\$1,202,543
176-125-06	STPX 8505 (029)	6	City of Winona	Brian DeFrang	\$13,878,091	\$5,443,829
34-610-15	STPX 3406 (040)	8	Kandiyohi County	Gary Danielson	\$2,204,146	\$1,586,324
164-080-09	STPX 6202 (105)	ME	City of St. Paul	John Maczko	\$14,711,226	\$6,787,550
27-716-03	BRSTP 2701 (113)	MW	Hennepin County	Gary Erickson	<u>\$6,653,438</u>	<u>\$1,329,800</u>
CITY/COUNTY PROJECT TOTALS					\$71,705,035	\$24,076,325
ALL PROJECTS REVIEWED GRAND TOTAL					\$522,753,097	\$219,885,415

The above 19 highway construction projects were all field audited. State Project 2774-7264 involved bridge lead paint removal and residue disposition only. The 9 City/County Projects audited were all Delegated Contract Process (DCP) projects.

EXHIBIT II
Material Testing Review
By Project By Bid Item
Fiscal Year 2007

State Project Number	Location	Project Bid Items Reviewed
TRUNK HIGHWAY PROJECTS		
3115-60	TH 169	Aggregate Base Class 6 Structural & Bridge Slab Concrete Concrete Wearing Course
6005-55	TH 2	Type SP 12.5 Wearing Course Mixture Aggregate Base Class 6
8612-11	TH 241	Concrete Pavement Standard and Irregular Width Structural Concrete & Structural Concrete HE Epoxy Coated Reinforcement Bars Dowel Bars Concrete Coring
7610-07	TH 59	Select Granular Borrow Aggregate Base Class 5 Type SP 12.5 Wearing Course Mixture
5508-84	TH 52	Concrete Pavement
0704-81	TH 22	Aggregate Base Class 3 & 5 Type SP 12.5 Wearing and Non Wearing Course Mixtures
6280-304	TH 35	Select Granular Borrow Aggregate Base Class 6 Concrete Pavement Standard and Irregular Width Structural Concrete Concrete Coring Dowel Bars Structural Steel
1017-12	TH 212	Grading & Roadways
2771-31	TH 81	Structural Concrete
CITY/COUNTY PROJECTS		
129-119-05	City of Grand Rapids	Type SP 12.5 Wearing and Non Wearing Course Mixtures Aggregate Base Class 5 Select Granular Borrow
69-616-43	St. Louis County	Aggregate Base Class 5 Embankment Special & Embankment Special I
60-602-17	Polk County	Type SP 12.5 Wearing and Non Wearing Course Mixtures
73-601-42	Stearns County	Structural & Bridge Slab Concrete Reinforcement Bars & Epoxy Coated Reinforcement Bars
03-622-29	Becker County	Type MV3 Non Wearing Course Mixture Aggregate Base Class 5
176-125-06	City of Winona	Type SP 12.5 Wearing and Non Wearing Course Mixtures Aggregate Base Class 5
34-610-15	Kandiyohi County	Type SP 12.5 Wearing and Non Wearing Course Mixtures Aggregate Base Class 5
164-080-09	City of St. Paul	Cast-in-Place Concrete
27-716-03	Hennepin County	Structural & Bridge Slab Concrete

The above items were reviewed for compliance with materials testing requirements. Concerns were discussed with the State Aid Engineer, State Construction Engineer, Office of Materials and Road Research Director, and project personnel. State Project 2774-7264 involved only bridge lead paint removal and residue disposition; material testing requirements were not reviewed for this project.

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Materials control for grading and base items needs improvement. **Finding I: Pages 1 through 5**

Added management action and attention were needed for materials control for concrete. **Finding II: Pages 6 through 8**

Controls over contract changes related to cost coding for federal participation and reasonableness of costs requires additional attention. **Finding III: Pages 9 through 12**

Improvements in compliance for bituminous materials control are needed. **Finding IV: Pages 13 through 15**

Environmental compliance for National Pollutant Discharge Elimination System (NPDES) permit weekly erosion control inspections, asbestos abatement; lead paint removal and disposition, and withholding for erodible acres needs improvement. **Finding V: Pages 16 through 21**

Need to properly record liabilities in financial statements. **Finding VI: Pages 22 and 23**

Attachment I: Other Internal Control Issues Discussed With Management - Pages 24 through 28

Attachment II: Audit Follow up of Prior Year's Findings - Page 29

Attachment III: Questioned Costs – Pages 30 and 31

FINDINGS

The following findings are considered financial and compliance in nature. Findings are intended to assess if financial operations are properly conducted; if financial data is presented fairly; and if all applicable laws, regulations and administrative requirements are followed.

FINDING I- MATERIALS CONTROL FOR GRADING AND BASE REQUIRES ADDED ATTENTION AND IMPROVEMENT

Planning and conducting testing as required helps to ensure that materials will perform as designed. Significant concerns were identified with compliance for testing requirements for grading and base contract items.

Materials Did Not Meet Specifications

For State Project 69-616-43 Embankment Special valued at \$631,000, 5 of 13 (38%) Quality Assurance (QA) #200 sieve gradations failed to meet specification. 4 of 7 (57%) additional QA gradations taken to verify corrective action taken failed also. Gradation test reports were not labeled in a manner to allow Audit, project, or OMRR personnel to correlate gradations taken to verify corrective action to failing gradations. This created uncertainty regarding how much failing and uncorrected material remained in the roadway.

In the contract special provisions, project personnel revised the gradation requirement for Embankment Special to not more than 7% (passing the 1 inch sieve) passing the #200 sieve. Normally, not more than 12% (passing the 1 inch sieve) can pass the #200 sieve. Project personnel explained that this special provision language was standard practice; the more restrictive 7% requirement provided for better drainage and led to a less frost susceptible pavement.

Project personnel agreed that material failing to meet requirements was left in the roadway. Project personnel indicated that for a past project, similar but more isolated failures had occurred, a hydrometer analysis was completed to assess drainage, and a supplemental agreement for a negotiated price reduction was done.

Supervisory project personnel indicated that they were not aware of the gradation failures on State Project 69-616-43. The supervisory project personnel felt that the material would perform but acknowledged that they did not get what they paid for, so there should be a price reduction.

OMRR personnel indicated that when there is failing grading and base material that can not be corrected because pavement has been placed over it, the Grading and Base Engineer is contacted and a recommended price reduction is given. The Standard Specifications and project proposal special provisions did not include a price reduction schedule for failing materials for Embankment Special. The Standard Specifications for Construction, Specification 1512 states that work done contrary to the instructions of the Engineer will be considered unauthorized and will not be paid for under the provisions of the Contract.

OMRR personnel felt that corrective action should be documented. Project diaries did document several attempts to blend the material, but the effectiveness of this corrective action was not apparent, given the failures of the gradations taken to verify the corrective action.

During the audit on July 26, 2007, we recommended that project personnel contact the Office of Materials and Road Research (OMRR) to obtain a recommended price reduction. As of October 16, 2007, project personnel had not contacted OMRR.

Density

For State Project 1017-12, 393 of 1,619 (24%) required Quality Control Testing for density had not been performed for Grading and Roadways Suitable Materials valued at \$1.2 million. Project documentation indicated that this testing shortfall would be rectified later.

Project personnel felt that the test rolling would help ensure quality because it was required by specification. The specification, in addition to requiring test rolling, requires Quality Control Testing, Quality Assurance Testing, and Verification Testing.

Project personnel did not assess any deductions for failure to perform the Quality Control Testing. Design Build Contract Book 1, Section 11.5 allows Mn/DOT to deduct from amounts owed to the contractor for Nonconforming Work or a Breach of the Contract by the Contractor.

The A-133 Compliance Supplement defines reasonable costs as adequately documented. The documentation requirement per the Schedule of Materials Control and contract special provisions for Grading and Roadways includes Quality Control Testing results proving that the material meets specification.

For State Project 6280-304, 8 of 33 (24%) required Quality Assurance density tests were missed for Select Granular Borrow valued at \$2.5 million. Project personnel agreed that the tests were required.

Grading and Base Reports

For State Project 69-616-43 Aggregate Base Class 5 valued at \$235,000, Embankment Special I valued at \$649,000, and Embankment Special valued at \$631,000, the Preliminary Grading and Base report was not completed and sent in to the OMRR as required by the Grading and Base Manual. Project files included a memo (instead of the Preliminary Grading and Base Report) that had not been sent in to the OMRR. This condition was also noted during an audit of another project for St. Louis County during the Fiscal Year 2006 Single Audit. Project personnel indicated that the report had been discussed but was not completed and sent in due to oversight.

The Preliminary Grading and Base Report was also not completed and sent in to the OMRR for State Projects 0704-81, 3115-60, 03-622-29, and 34-610-15. Project personnel either were not aware of the requirement or did not act to meet the requirement.

OMRR personnel explained that the Preliminary Grading and Base Report documents project personnel's plan for testing grading and base materials, and serves as a tool for field personnel regarding the number of tests needed. Sending the report into the OMRR gives the OMRR an opportunity to review the plan for correctness.

Certification of Aggregates and Granular Materials

For State Project 0704-81, the Contractor's Certification of Aggregates and Granular Materials was not provided by the Contractor to the Engineer prior to placement of and payment for Aggregate Base Class 3 valued at \$242,000 and Aggregate Base Class 5 valued at \$231,000. Project personnel indicated that they were not familiar with the requirement, which is described in the Standard Specifications for Construction and contract special provisions.

Similar conditions were noted for State Projects 129-119-05, 3115-60, 34-610-15, and 176-125-06. Project personnel either were not aware of the requirement or did not act to meet the requirement.

In the Certification of Aggregates and Granular Materials, the Contractor attests to the Engineer that grading and base materials delivered to the project conform to specifications. The certification includes a summary of the number of Quality Control (QC) gradations and a statement that the contractor understands that the grading and base materials will be sampled and tested by the Agency, with any needed corrective action required at the Contractor's expense.

Quality Control (QC) Gradations

For State Project 69-616-43, 20 of 55 (36%) QC gradations were not done prior to placement of and payment for Aggregate Base Class 5. The gradations must be done per the Schedule of Materials Control and submitted by the Contractor to the Engineer prior to placement of and payment for grading and base items per the Standard Specifications for Construction and contract special provisions. Project personnel felt that the contractor had sent in the additional 20 gradations, but the gradations could not be found in project files.

Similar conditions (required gradations not done and submitted prior to placement and/or payment) were noted for State Projects 176-125-06, 129-119-05, 0704-81, 03-622-29, 34-610-15, and 3115-60. Project personnel either were not aware of the requirement or did not act to meet the requirement.

In submitting QC gradations prior to placement of and payment for aggregate base material as required, the Contractor proactively provides evidence to the Engineer that the material meets specification. For all projects missing QC gradations, Quality Assurance (QA) gradations were taken after the material was placed and results met requirements.

Moisture Content

For State Project 34-610-15, 10 Quality Assurance (QA) moisture tests were not taken for Aggregate Base Class 5 valued at \$201,000. These tests are required by the Schedule of Materials Control. Project personnel were confident that the 5% minimum moisture requirement was met.

For State Project 6280-304, 17 of 33 (52%) QA moisture tests applicable to Select Granular Borrow; 3 of 11 (27%) moisture tests applicable to Select Granular Borrow (MOD); and 10 of 10 moisture tests for Aggregate Base Class 6 were not taken. Project personnel agreed that the tests were required.

Finally, required QA moisture tests were also not done for State Project 69-616-43. Project personnel felt that compaction was satisfactory. Office of Materials and Road Research personnel explained that moisture content tests, which verify that the 5% moisture minimum, help to ensure that satisfactory compaction is achieved.

Percent Crushing

Percent Crushing tests required by the Schedule of Materials Control were not done for 6 projects. Project personnel felt confident that the 10% minimum crushed material required by the Standard Specifications for Construction was met. For one of the 6 projects in question, State Project 69-616-43, results of a Quality Assurance percent crushing test performed during the audit met the 10% minimum requirement.

State Aid for Local Transportation personnel questioned the need for percent crushing testing when project personnel were confident that requirements would be met without performing the testing. OMRR personnel explained that performing percent crushing tests is necessary to help ensure that the aggregate base is stable.

Aggregate Quality

Aggregate Quality tests required by the Schedule of Materials Control were not done for aggregate base items for 6 of 8 State Projects reviewed. Project personnel felt that they were familiar with aggregate sources and were confident that maximum shale content and Los Angeles Rattler Loss requirements per the Standard Specifications for Construction were met.

State Aid for Local Transportation personnel questioned the need for aggregate quality testing. OMRR personnel felt that aggregate quality testing is needed, but were willing to consider exceptions to the requirement for aggregate sources with a long history of meeting requirements.

Materials Certification Exception Summary

For State Project 129-119-05, exceptions to testing requirements were not listed on the Materials Certification Exception Summary. The Grading and Base Manual and State Aid for Local Transportation Division Technical Memorandum No. 00-SA-03 require these exceptions to be listed on the Materials Certification Exception Summary. Project personnel stated that they did not realize that missed tests needed to be listed on the Materials Certification Exception Summary.

Listing missed tests on the Materials Certification Exception Summary assures conformance with the approved plans, specifications, special provisions, and the Schedule of Materials Control, as well as documenting resolution to nonconformance.

Recommendations

1. Operations Division Director and State Aid for Local Transportation Division Director, in consultation with the Engineering Services Division, advise cities, counties, and districts to comply with requirements for grading and base materials control.
2. State Aid for Local Transportation Division Engineer advise St. Louis County Engineer to contact the Office of Materials and Road Research Grading and Base Engineer to address and resolve failing materials for State Project 69-616-43.

Responses to Recommendations

Recommendation 1

Operations Division

The Operations Division Director, in consultation with the State Aid for Local Transportation and Engineering Services Division, will continue to instruct the districts of the necessity to comply with testing requirements for grading and base materials as indicated in the Schedule of Material Control. The districts will emphasize these requirements and the importance of material control testing at district construction meetings and through departmental training.

Recommendations 1 and 2

State Aid for Local Transportation Division

The following actions will be taken:

- SALT will use forums (Annual City and County Conferences, District meetings, Newsletters, and Training Sessions) to communicate non-compliant findings.
- A detailed review by the County Engineer and his professional staff of the corrective actions on State Project 69-616-43, determined the material substantially complied with the design criteria. The District State Aid Engineer did contact St. Louis County to advise them that the services of OMMRR are available; however, the District State Aid Engineer respects and agrees with the decisions made by the County Engineer. The contractor was required to remove and replace 5000 CY of unsuitable material and to blend the substantially compliant material to achieve a homogeneous mixture - all at no additional cost to the county. Therefore, the material was considered acceptable and the project construction continued. On future projects, St. Louis County will modify the contractor quality control (QC) gradation testing rate from 1/source to 1/4000 tons.

FINDING II – CONCRETE MATERIALS CONTROL REQUIRES ADDED SUBRECEIPIENT MONITORING

State Project 164-080-09 involved a transit hub, including a parking garage. Significant concerns were identified in the following areas relevant to materials control for concrete. Project personnel suggested that Mn/DOT provide a summary of standards for material testing for parking garages for use during project development.

The lack of project documentation made it very difficult to form an overall opinion regarding adequacy of the number of tests taken or test results. We feel that additional subrecipient monitoring is needed for this type of project due to the high risk of noncompliance as described below.

Verification Gradations

For State Project 164-080-09, verification aggregate gradation testing was not done for Cast-in-Place Concrete valued at \$4.5 million. The contract special provisions called for compliance with the most stringent requirements between the American Institute of Architects (AIA) standards and Mn/DOT Schedule of Materials Control. The Schedule of Materials Control requires verification aggregate gradation testing. With this contract language in place, the verification aggregate gradations should have been done.

Project personnel indicated that under AIA standards, verification aggregate gradations are not typically done. Mn/DOT State Aid Division personnel and city project personnel felt that the AIA standards should apply for projects related to the International Building Code (IBC) and the Schedule of Materials Control should apply for Trunk Highway projects.

For projects with federal Highway Planning and Construction Program funding, the requirements of 23 Code of Federal Regulation (CFR) 637.205 and 637.207, including the requirement to verify contractor testing with agency testing, apply. The Minnesota Federal Aid Authorization/Agreement for the project documented federal Highway Planning and Construction Program funding. This meant that the contractor Quality Control aggregate gradation tests should have been validated by verification sampling and testing.

Air and Slump Tests

For State Project 164-080-09, project documentation reviewed for September 15, 2006 to February 6, 2007 involving 55 days of production for Cast-in-Place Concrete showed 15 of 137 (11%) failing and uncorrected slump tests and 4 of 134 failing and uncorrected air tests. The air and slump tests were assessed as failing based on acceptable ranges listed on the tests. These acceptable ranges varied for the same concrete mixtures, so it is possible that the number of failures could be different.

Additional project management oversight was needed to improve the consistency of documentation regarding acceptable ranges for test results, address the failures, and document the basis for accepting the concrete as satisfactory.

Test and Inspection Log

For State Project 164-080-09, a test and inspection log was not prepared and maintained as required by the contract special provisions. The log serves to document the following: test dates, work tested, date test results were transmitted to the Architect, and identification of agency or inspector conducting the test. Project personnel acknowledged that the log was not maintained.

Concrete Tickets

Concrete tickets documenting placement of the Cast-in-Place Concrete were not available in project files. As a result, we were not able to calculate daily and project total Cast-in-Place Concrete produced and placed. The tickets would aid in developing the Test and Inspection Log. The A-133 Compliance Supplement requires costs to be documented in order for those costs to be considered reasonable. Project personnel indicated that the contractor had the tickets.

Contract Language

The contract language for State Project 164-080-09 included statements that appeared contradictory to the requirements of 23 CFR 637.205 and 637.207. For example, the contract General Requirements state “Contractor is responsible for coordinating and scheduling all necessary testing and inspections directly with the inspection agency or local authorities”. Also, the contract Quality Requirements require the contractor to provide quality assurance and quality control services.

To achieve compliance with the 23 CFR 637.205 and 637.207, state transportation departments should perform Quality Assurance (QA) and/or verification testing themselves or hire an outside firm to do so and retain control of the contract with that firm. The contractor or contractor’s representative should conduct quality control (QC) testing. Project personnel indicated that when they wrote the contract, they received input from Mn/DOT State Aid Division.

Concrete Mixture Types

For State Project 164-080-09, 10 of 17 concrete mixture types were not approved by design personnel. Approval of concrete mixes helps to ensure that the mixes are correct. We asked for the 10 approved mix designs in question and they were not provided.

Recommendation

State Aid for Local Transportation Division Director, in consultation with the Engineering Services Division:

- a. Verify and provide assurance that the Cast-in-Place Concrete for State Project 164-080-09 meets requirements and will perform as designed.
- b. Meet with city and county project personnel prior to the start of work on projects and discuss compliance with requirements for areas found to be at high risk of noncompliance with requirements, including transit hub projects with parking garages.
- c. Instruct and advise cities and counties to comply with 23 Code of Federal Regulations 637.205 and 637.207 and contract special provisions related to material testing in general and material testing for concrete specifically.

Response to Recommendation

State Aid for Local Transportation Division

- The District State Aid Engineer (DSAE) in the Metro District will ask the St. Paul City Engineer to provide any information they have to substantiate the concrete quality for State Project 164-080-09. If the St. Paul City Engineer is able to recreate the concrete delivery schedule, the source (plant) that provided the concrete, and the concrete mix designation/design; the Metro DSAE and the Mn/DOT Office of Materials will work with St. Paul to retrieve any test documentation that may provide assurances that the materials incorporated into the concrete mixture, and ultimately into the project, met requirements. If this effort does not provide adequate information, the Mn/DOT Office of Materials will, upon request, assist the St. Paul City Engineer with the development of a sampling and testing program acceptable to the SALT director for the hardened concrete to determine the quality and acceptability of the Cast-in-Place concrete.
- SALT began a “just-in-time” program several years ago to address requirements with field personnel on high risk projects before they began. The practice has been successful. Unfortunately, we did not identify State Project 164-080-09 as a high risk project. Nevertheless, we will review all new building projects as potential “high risk” projects next year and take special “just-in-time” or other tactics to mitigate the risk.
- As a part of the risk management we need to eliminate duplicate, and possibly conflicting, specifications. Apparently, to comply with 23 Code of Federal Regulations 637.205 and 637.207 we need to use and enforce Mn/DOT Specifications. Therefore, it may be best to eliminate the AIA specifications, especially whenever such conflicts are apparent. We will address this issue on all building projects and advise cities and counties of the requirements of the need for compliance with 23 Code of Federal Regulations 637.205 and 637.207.

FINDING III – ADDITIONAL ATTENTION NEEDED TO ENSURE CONTRACT CHANGE COSTS ARE REASONABLE, NECESSARY, AND CODED PROPERLY FOR FEDERAL PARTICIPATION

Additional oversight was needed to help ensure that contract change costs for several projects were coded properly for federal participation, reasonable, and necessary. For State Project 1017-12, incorrect cost coding for federal participation valued at \$579,000 and credits not taken valued at \$1.5 million led to a total of \$2.1 million that should not have been billed for federal funding.

Cost Coding

For State Project 1017-12, 4 change orders totaling \$579,000 should have been cost coded as non-participating in federal funding but were coded as participating instead. State Project 1017-12 included a total of 80 change orders valued at \$5.2 million. Incorrect coding of contract change costs for federal participation was also noted during the Fiscal Year 2006 Single Audit.

In coding costs as participating or non-participating in federal funding, Office of Finance personnel rely on payment vouchers to specifically describe costs as participating or non-participating. The payment voucher provided to the Office of Finance for State Project 1017-12 did not describe any costs as non-participating.

Federal aid funds shall not participate in any cost which is not incurred in conformity with applicable Federal and State Law, the regulations in 23 CFR, and policies and procedures prescribed by FHWA.

Change Order Credits

For State Project 1017-12, 7 executed change orders reflecting a net reduction in payments (credits) to the contractor of \$1.5 million had not been included on the most recent payment voucher during the audit of the project in June 2007. The net effect is a \$1.5 million loan to the contractor.

The \$1.5 million in credits that has not yet been applied would not be considered reasonable and necessary costs under the A-133 Compliance Supplement. The credit amounts should not be costs to Mn/DOT. The credit amounts should be reductions in costs/amounts owed to Mn/DOT.

We were able to tell that the credits had not been applied by looking at the change order detail on the voucher. The change order detail on the voucher listed each change order number and the amount paid.

As of October 2007, project personnel had still not included the 7 change orders on the most recent payment voucher. The change order detail had been removed from the voucher and replaced with one summary total for all change orders, so we initially could not determine which change orders had been included in the voucher. We were able to separately obtain a description detailing which change orders had been included in the voucher.

Federal Highway Administration and Office of Construction and Innovative Contracting personnel felt that the credits should have been applied when the change orders were executed. Project personnel expressed concern about the financial impact on the contractor and characterized this as a reason for not taking the credits.

The expenses for State Project 1017-12 could be incorrect because the change orders (valued at a net credit amount of \$1.5 million) included \$1.2 million owed to the contractor and not taken in the correct fiscal year of 2006 when the change orders were executed. The Government Accounting Standards Board (GASB) Statement No. 34 requires expenses and revenues to be recorded correctly in financial statements.

Delay Costs

For State Project 8612-11, Supplemental Agreement No.1 valued at \$175,000 paid the contractor for delay of work due to untimely relocation of utilities. Project personnel felt that the delay was attributable to the utility company. Dates were not consistent for a Notice and Order and Long Form Permit initiated by Mn/DOT and required for relocation of utilities.

Mn/DOT was in charge of the terms of the permit and could have included different deadlines for accomplishing the work. This condition impacted the feasibility of attempting to recover costs associated with the delay. Since it appeared that Mn/DOT was responsible for the delay, the costs associated with the supplemental agreement were not considered necessary or reasonable per the A-133 Compliance Supplement.

Office of Construction and Innovative Contracting personnel felt that the contractor should be paid, and also acknowledged that based on the circumstances, participation in federal funding could be questioned.

Mn/DOT was attempting to improve controls by updating the Utility Manual and addressing the subject in project personnel meetings.

Cost Overrun

For State Project 0704-81, a milled bituminous road was destroyed after being driven on by bituminous delivery trucks and milling machines, resulting in the need for \$1.3 million in repairs. These costs, associated with 2 supplemental agreements, did not appear reasonable or necessary as defined by the A-133 Compliance Supplement, B. Allowable Costs/Cost Principles.

The soils letter for State Project 0704-81 indicates that traffic will not be allowed to run on the milled (bituminous) surface at a major intersection. The letter went on to indicate that if traffic is needed to be allowed to drive on a milled surface in other areas of the project, it should be kept to a minimum time period. Finally, the letter explained that the road does not have an aggregate base and does not have good support.

This information in the soils letter was carried forward to the project plan. However, project proposal special provisions did not restrict traffic at all on the milled bituminous surface. Consequently, the statement in the soils letter and the project plan was not enforced on the project. Per the soils letter, the project design would have worked if traffic had been restricted/not allowed on the milled surface.

Project personnel felt that this project was a learning experience and that they would handle it differently on future projects. They agreed that it was an area that Mn/DOT needed to look at closely because other districts did have future projects involving milling of bituminous surfaces.

Recommendations

1. Engineering Services Division Director and Operations Division Director, in consultation with the Finance and Administration Division, ensure that:
 - a. Supplemental agreements and design build project change orders include labeling describing proper cost coding for federal participation.
 - b. Design bid build supplemental agreement and design build change order costs are properly cost coded for federal participation based on the reasonableness and necessity of costs in accordance with the A-133 Compliance Supplement.

2. Engineering Services Division Director and Operations Division Director, in consultation with Finance and Administration Division Director ensure that credits are applied at the time design bid build supplemental agreements and design build change orders are executed.

Responses to Recommendations

Recommendation 1

Operations Division

The Office of Construction and Innovative Contracting is developing a process to ensure that Design Build projects include proper labeling to describe the appropriate cost coding for federal participation or non-participating.

Engineering Services Division

SP 1017-12 is a design build project. Change Orders #9, 10, 34, and 43 were properly coded on the paper copies. The field staff entered the change orders as “back sheet” items into a federal non-part group, as indicated on the paper copies of the change orders, although they did not mark the specific back sheet as non-part. The values of the change orders, therefore, do not show up on the front sheet of the voucher as Federal non-part, however, being as the groups are non-part, Finance can distinguish that the money is non-part. More investigating will be done into this issue. In the interim, proper coding will be addressed at the annual District meetings, Project Engineer/Supervisor meeting, Resident Engineer meeting, and Technician Conference. A process has been implemented for Design bid build projects utilizing a Field Operations software program to ensure proper cost coding for federal participation on supplemental agreements.

Financial Operations, Office of Finance, has implemented a random follow-up of supplemental agreement payments over \$500,000. Follow-up will include a “back-track” to ensure that payments were properly coded by the Construction Office and Project staff.

Responses to Recommendations (continued)

In addition, Attachment 1 (available upon request to us) is a flow chart identifying a new process that we are using in response to last year's audit. This began around the beginning of FY 07 in response to the problem we had on the 494 design build project. Note: For projects with Full Federal oversight with a Supplemental Agreement with a cost over \$100,000, the agreement goes to FHWA prior to adding the pay items. This is a change from the past where we input what we thought would be the participation. Additionally, we contact the Office of Finance if the original participation changes.

Recommendation 2

Operations Division

We concur that change order credits should be applied at the time the orders are executed. Additional guidance will be provided by the Office of Construction and Innovative Contracting at annual construction meetings to ensure that proper procedures are followed. In addition the Contract Administration Manual will be updated to specifically address this issue.

Engineering Services Division

Office of Construction and Innovative Contracting personnel felt that the credits should have been applied when the change orders were executed. Guidance is found in the Standard Specifications for Construction and Design Build Book One. Additional guidance will be given at annual meetings to ensure that credits are applied at the time design bid build supplemental agreements and design build change orders are executed. The Contract Administration Manual will be updated to specifically address the application of credit at time of execution of Change Orders or Supplemental Agreements.

8612-11 Action items: Utility Manual has been updated; Meetings have been scheduled to give guidance on Notice and Order issues.

0704-81 Note in Soils and Construction Notes in plan: 16. "Traffic will not be allowed to run on the milled surface at the intersection of T.H. 22 and Madison Avenue. If traffic is needed to be allowed to drive on a milled surface in other areas of the project it should be kept to a minimum time period as approved by the engineer."

OCIC does not feel the plan note provided by the district to the Contractor with enough information to properly bid the project for the circumstances encountered with the condition of the milled surface and believes that the district acted properly in executing supplemental agreements for the extra work.

FINDING IV – FURTHER IMPROVEMENTS NEEDED FOR COMPLIANCE WITH BITUMINOUS MATERIALS CONTROL REQUIREMENTS

Best Practices

For State Projects 03-622-29 and 6005-55 Test Summary Sheets included contractor Quality Control (QC) and agency test results, as well as review signatures as required. For State Projects 6005-55 and 0704-81, bituminous tickets included all required information. These best practices represent an ongoing trend of significant improvement in compliance with the bituminous specifications initially noted in the Fiscal Year 2006 Single Audit Report No. 07-800-54.

Ongoing Efforts

The State Aid for Local Transportation Division is providing an increasing level of communication and follow up to cities and counties regarding past audit findings and the need to comply with bituminous materials control requirements. As a result, improvements in compliance were noted.

Most of the specific exceptions to requirements identified this year were also noted in the Fiscal Years 2005 and 2006 Single Audit Reports. However, this year, fewer projects are noted each of the exceptions.

Continued and increasing communication and follow up will help ensure ongoing improvements in compliance with bituminous materials control requirements in the following areas.

Contract Language

For State Project 129-119-05, contract language required the contractor to arrange and obtain Quality Assurance (QA) testing. This is not in conformance with 23 CFR 637.203, 637.205, and 637.207. Normal procedures for quality assurance on a project would consist of Mn/DOT administering the testing themselves or hiring an outside firm and retaining control of that separate contract with regards to assurance to the quality control being conducted by the contractor or the contractor's representative. On the project, QA testing was performed by a consultant hired by the city. Project personnel indicated that the language was standard for other projects and had been developed by a committee.

Also for State Project 129-119-05, contract language eliminated reduced payment tables for individual and moving average failures for bituminous mixture. Project personnel stated that the contract language in question was standard and was used unknowingly.

Office of Materials and Road Research (OMRR) personnel indicated that Standard Specification for Construction, Specification 1512, was too arbitrary (work done contrary to the instructions of the Engineer will not be paid for under the provisions of the contract). OMRR personnel explained that the reduced payment tables provide uniformity and consistency to price reductions for failing individual and moving average test results. OMRR personnel also indicated the following: the price reductions try to recoup the potential loss in pavement life caused by the failing test results; the tables are in the specification for a purpose; and they would not be in favor of omitting the tables.

Quality Control, Quality Assurance, and Verification Testing

For State Project 176-125-06, verification Fine Aggregate Angularity (FAA), extraction/gradation, and mixture property tests, as well as the Voids in Mineral Aggregate (VMA) percentage calculation were not done for 1,059 of 11,389 (9%) tons of the SP 12.5 Non Wearing Course Mixture. The SP 12.5 Non Wearing Course Mixture was sampled, but the sample taken was not sent in to the Rochester District laboratory for testing.

For State Project 34-610-15, due to oversight, Asphalt Film Thickness (AFT) was not calculated for 1,207 of 9,218 (13%) tons of SP 12.5 Non Wearing Course Mixture valued at \$330,000 or 4,720 of 5,533 (85%) tons of SP 12.5 Wearing Course Mixture valued at \$216,000. With the assistance of Office of Materials and Road Research (OMRR) personnel, we calculated the AFT during the audit and found it to meet requirements. AFT is used in place of VMA to ensure adequate asphalt volume in parts of the state where aggregates absorb more asphalt, leaving less asphalt to coat the outside of the aggregate and hold the bituminous mixture together.

Also for State Project 34-610-15, an asphalt sample was taken but was not sent into the OMRR for testing. Project personnel initially felt that other samples of the same asphalt from the same plant had previously been sent in and tested, but subsequently found out that this was not the case.

Test Summary Sheets

For State Project 129-119-05 and 34-610-15, not all of the Test Summary Sheets included agency test results and review signatures. The Test Summary Sheets provide an immediate, visual reference regarding if contractor QC and agency verification test results fall within Job Mix Formula (JMF) limits and if QC-verification test result differences fall within tolerance. Project personnel indicated that not completing the Test Summary Sheets as required was an oversight.

Paving Restrictions

For State Project 176-125-06, 1,947 of 7,420 (26%) tons of Wearing Course Mix were placed after November 1. The placement was not directed in writing by the Engineer as required by the bituminous specifications. Project personnel indicated that wearing course mixture paving was done after November 1 because a stage was added to the project. Project records indicated that temperatures during the placement were well above freezing and no concerns were noted with bituminous density.

Ticket Information

For State Project 176-125-06, bituminous tickets did not include the mix design report number, mixture designation, delivery truck identification, tare weight, or street inspector's initials. Bituminous tickets for a total of 6 of 8 projects did not include the required information.

Project personnel did not authorize the exclusion of this information from bituminous tickets in writing; the specifications require written authorization. Additional project oversight was needed to ensure that bituminous tickets included the required information.

The mix designation (including the asphalt binder grade) or mixture design report number provides attestation that the correct mix design, including Job Mix Formula (JMF) changes, and the correct asphalt binder are incorporated into the bituminous mix.

In Fiscal Year 2004, State Aid for Local Transportation Division personnel coordinated with the Minnesota Asphalt Paver's Association (MAPA) in sending out a letter to MAPA members advising them of the need to include all required information on bituminous tickets.

This particular exception to requirements was also discussed in the 2003-2006 Single Audit Reports.

Recommendations

1. State Aid for Local Transportation Division Director and Operations Division Director encourage cities, counties, and districts to continue and emulate best practices.
2. State Aid for Local Transportation Division Director and Operations Division Director provide specific direction to cities, counties, and districts to ensure that requirements are met for bituminous materials control.

Responses to Recommendations

Recommendations 1 and 2

Operations Division

The Operations Division, in consultation with the State Aid for Local Transportation Division, will continue to emphasize the importance of compliance with bituminous material controls. This will be addressed through written communications, on-going departmental training and the sharing of best practices.

State Aid for Local Transportation Division

The following action will be taken:

- SALT will communicate Best Practices projects and practices whenever they have the opportunity (Newsletter, Annual City and County Engineer Meetings, Bituminous Training Sessions, and District meetings).
- Ron Bumann, SALT Construction Practices Specialist, will highlight Recommendation 1 and address all of the requirements mentioned in Recommendation 2 (of the audit) at bituminous and other training sessions throughout the state this winter and next spring.

FINDING V - IMPROVEMENTS NEEDED FOR COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS

Best Practices

For State Projects 03-622-29, 3115-60, and 0704-81, National Pollutant Discharge Elimination System (NPDES) Permit Erosion Control Inspection Logs were submitted as required. For State Project 69-616-43 and 60-602-17, a Notification of Intent to Perform a Demolition was submitted to the Minnesota Pollution Control Agency (MPCA) as required. For State Projects 69-616-43, 0704-81, 6280-304 erodible acres withholding was taken as required.

NPDES Permit Compliance

For State Projects 176-125-06, 6005-55, 129-119-05, 60-602-17, 69-616-43, 34-610-15, 164-080-09, and 8612-11, contractors did not complete (every 7 days) and submit all required NPDES Permit Erosion Control Inspection Logs to project personnel every 2 weeks as required. Project personnel did not submit Work Orders to contractors instructing them to complete and forward the inspection logs as required.

State Project 164-080-09 personnel provided the Erosion Control Inspection Logs at the project audit exit conference. In June 2007, the Ramsey Conservation District indicated that State Project 164-080-09 was in violation of the NPDES permit requirements related to erosion control.

State Project 176-125-06 personnel indicated that an Erosion Control Supervisor was not onsite for the first month of work, so the Erosion Control Inspection Logs were not completed. State Project 6005-55 explained that following up to ensure that the logs were not done was not a high priority because it was a bituminous overlay job. State Project 129-119-05 personnel indicated that they were not familiar with requirements.

For State Project 1017-12, the watershed district and the contractor noted that the same erosion control concerns were occurring on an ongoing basis without correction. Also, Mn/DOT Rochester District documented ongoing erosion control concerns in a quality assurance review. Project personnel and Office of Environmental Services personnel felt that erosion control efforts had improved.

Compliance concerns with NPDES permit requirements were previously noted in Single Audit Reports for Fiscal Years 2000 through 2006. Also, a June 13, 2001 Audit Advisory Memorandum addressed the importance of complying with NPDES permit requirements.

Minnesota Pollution Control Agency (MPCA) personnel emphasized that it was important to perform and document the weekly inspections required by the permit. The personnel explained that these actions would help agencies decrease exposure to MPCA penalties and enforcement action as well as Clean Water Act Section 505 lawsuits. In Fiscal Year 2007, MPCA issued \$75,000 in penalties to Mn/DOT for NPDES permit violations on a highway construction project.

Asbestos Disposition Documentation

For State Project 5508-84, a contractor removed the asbestos. All asbestos could not be accounted for. Asbestos quantities on inspection reports done prior to the removal did not match asbestos quantities on Regulated Waste Removal Reports. Documentation did not support the quantity difference between inspection reports and Waste Removal Reports. Some documentation could not be located. Project personnel indicated that some building materials had been stolen or vandalized.

Also for State Project 5508-84, Notifications of Intent to Perform a Demolition did not list all disposal sites.

The Asbestos National Emission Standards for Hazardous Air Pollutants (NESHAP), 40 Code of Federal Regulations (CFR) Part 61 requires asbestos containing waste material disposition to be properly documented.

Concerns regarding asbestos abatements and disposition were also noted in the Single Audit Reports for Fiscal Years 2005 and 2006.

Lead Paint Removal and Disposition Documentation

For State Project 2774-7264, the contractor sampled the bridge lead paint for 1 bridge; this practice did not comply with requirements. Project personnel sampled the bridge lead paint blasting residue for the other bridges slated for lead paint removal on the project. Finally, we were unable to verify that project personnel had received the Toxicity Characteristic Leaching Procedure (TCLP) test results prior to shipment of the bridge lead paint blasting residue. These practices were not in compliance with the contract special provisions.

State Project 2774-7264 personnel felt that they had reviewed the TCLP test results prior to shipment of the bridge lead paint blasting residue, but dates and times of TCLP test receipt relative to residue shipment could not be verified.

For State Project 3115-60, an inspection report identified flaking and chipping lead paint on a bridge guard rail and indicated that the paint was required to be removed from the bridge guard rail steel prior to demolition of the bridge. The project proposal special provisions indicated that the Contractor should furnish the Engineer written documentation as to the disposition of the guard rail steel. No documentation was available.

Minnesota Pollution Control Agency personnel expressed concern about the possibility that the paint was not removed prior to demolition and indicated that a contractor had been given a Notice of Violation (NOV) under similar circumstances. The NOV cited the contractor for allowing waste paint chips to be deposited onto the ice in the Minnesota River during a demolition, specifically citing M.S. 115.061, Duty to Notify and Avoid Water Pollution; MN Rules Chapter 7050.0210 Nuisance conditions prohibited; M.S 115E.02, Duty to Prevent Discharges; and MN Rules Chapter 7045.0566 Preparedness and Prevention.

Project personnel did not think that the paint was removed from the bridge railing prior to demolition. Project personnel commented that normally, painted bridge steel was removed to a remote site and then the paint was removed. Project personnel indicated that the inspection report was a technical report and they were not bound by its recommendations.

Supervisory project personnel did not know why the contractor did not remove the paint prior to demolition, and indicated that they would inform us if they were able to determine the disposition of bridge railing with lead paint. Project personnel felt that removal of the lead paint from the bridge railing should have been a separate contract bid item.

Erodible Acres Withholding

Improved compliance with withholding requirements for erodible acres is needed. For State Projects 03-622-29, 176-125-06, 6005-55, 129-119-05, 60-602-17, and 3115-60, project personnel did not withhold for erodible acres on partial payments as required by the Standard Specifications for Construction. The maximum potential withholding ranged from \$11,000 to \$330,000.

Project personnel offered the following reasons for not withholding for erodible acres. The correct requirements for withholding are noted in parenthesis.

The withholding for erodible acres specifically was not taken due to oversight and/or they were not familiar with the erodible acres withholding requirement.

The withholding was not typically done, was not required, and was just a tool to be used at the Engineer's option. (Office of Construction and Innovative Contracting personnel explained that the withholding is required per the Standard Specifications for Construction.)

The standard 5% retainage for the project as a whole was sufficient. This standard retainage does not specifically address erodible acres. (The requirement to withhold for erodible acres is a separate requirement specifically addressed in the Standard Specifications for Construction.)

The topsoil and seeding were done promptly after the grading. (This condition could reduce the amount of withholding but would not eliminate it because withholding is not released until the seeding is accepted.)

Recommendation

Operations Division Director and State Aid for Local Transportation Division Director, in consultation with the Engineering Services Division:

- a. Encourage cities, counties, and districts to continue and emulate best practices.
- b. Continue to instruct districts, cities and counties to comply with environmental requirements described by contract special provisions as well as State and Federal regulations.

Response to Recommendation

Operations Division

The Operations Division Director will instruct the districts to comply with environmental requirements as detailed in State and Federal regulations and described in contract special provisions. Continued improvement will be accomplished through training, the sharing of best practices and district level construction personnel meetings.

NPDES Permit Compliance

Metro District Response:

State Project 1017-12 has weekly erosion control inspections with MPCA representative and weekly erosion control meetings to review concerns on the project. The Erosion Control Manager and Mn/DOT do write Non-conformance reports for work that does not meet the requirements of the Watershed District Inspector. The Project did not receive any negative feedback from the MPCA representative during the construction season of 2007. The majority of the issues occurred in 2006. The Contractor hired more labor to address erosion issues. This work falls under the Contractor's quality control requirements and the Contractor is responsible for all actions associated with the NPDES permit.

District 3 Response:

District 3 acknowledges that on four occasions out of 50 required weekly inspections, they were not done on the seventh day as required by the NPDES permit. This was an oversight. Additional erosion and sediment controls were added in the field by the contractor and project personnel, and both the contractor and project personnel had a proper concern for this issue. Written Work Orders were not issued on these occasions because, when given verbal direction to conduct the necessary inspections, the contractor's Erosion Control Supervisor did so immediately. On this project, the NPDES Permit Inspection Logs were posted on the Field Office wall, and were available for review by project personnel at all times.

In the future, District 3 will make sure that inspections are performed in the timeframe and weekly reports completed as required by the NPDES Permit.

Asbestos Disposition Documentation

District 6 Response:

The audit states that discrepancies exist between the quantities of materials noted in the Inspection Reports, and the actual quantities removed. These discrepancies can be caused by estimates of quantities in the Inspection Reports differing from the actual amount present or hidden materials that were not located during the inspection but found during the removal.

Response to Recommendation (continued)

Operations Division

In the case of a building sale/move, not all asbestos materials needed to be removed. Following MPCA requirements, certain materials can remain within the structures if they are being moved, and not totally demolished.

The audit also states that not all of the reports and paperwork were available for the auditor to review. Initially some documents were not supplied at the first request, but during the audit all reports and documentation were provided.

Lead Paint Removal and Disposition Documentation

Metro District Response:

The audit report states that for SP 2774-7264, the contractor sampled the bridge lead paint for one bridge and Mn/DOT sampled the other four bridges that contained lead. The Specifications state, “The Department will sample the blasting residue and will deliver the samples from the bridge to a laboratory selected by the contractor”.

The Mn/DOT inspector was watching the contractor sample the blasting residue. The Mn/DOT inspector delivered the sample to the lab for Toxicity Characteristic Leaching Procedure (TCLP) testing. The Mn/DOT inspector informed the contractor that he was not to sample the residue because it was Mn/DOT’s responsibility.

The auditor was unable to verify that project personnel had received the Toxicity Characteristic Leaching Procedure (TCLP) test results prior to shipment of the bridge lead paint blasting residue. This practice was not in compliance with the contract special provisions.

Mn/DOT records show that the TCLP test results were faxed from the testing lab to the contractor. This information was given to the Mn/DOT inspector in the field as soon as it was received. All of the Manifests for the disposal of the bridges blasting residue show that the residue was shipped after TCLP test were received by the contractor, shown below:

<u>Bridge No.</u>	<u>Date of Fax</u>	<u>TCLP Test Date</u>	<u>Manifest Disposal Date</u>
27022	9/22/06	9/22/06	9/25/06
27021	9/22/06	9/22/06	9/25/06
27061	8/25/06	8/25/06	8/28 & 8/29/06
27521	8/31/06	8/31/06	9/6/06
27524	9/15/06	9/15/06	9/15/06

There is no special provision requirement that the Mn/DOT inspector is to record the date of when they received the TCLP test results. As shown by the dates in the above table, the fax date of the TCLP test from the lab to the contractor is the same date that Mn/DOT received the information. When this date is compared to when the manifest disposal date it shows that Mn/DOT received the information prior to shipment of the blasting residue.

Response to Recommendation (continued)

Operations Division

District 1 Response:

This requirement was an oversight by both the Contractor and project personnel at the time the bridge was removed. There is not a specific pay item that highlighted the documentation requirement and project personnel have not experienced seeing such a requirement included in this item in the past.

At the request of the Project Engineer, the Contractor submitted a letter to MPCA that reports how the lead based painted material was removed. In addition, the Contractor has submitted a completed form “Notification Form on Disposal of Bridge Steel”.

State Aid for Local Transportation Division

Actions which will be taken:

- SALT and District State Aid Engineers (DSAEs) will communicate “best practices” to city and county personnel (Annual City and County Engineers meetings, Newsletters, District Meetings, and Training Sessions).
- SALT and District State Aid Engineers (DSAEs) will communicate environmental requirements to cities and counties whenever they have an opportunity (District meetings, Newsletters, Training Sessions).

FINDING VI – NEED TO PROPERLY RECORD LIABILITIES ON FINANCIAL STATEMENTS

For State Project 5508-84, an accrual entry of \$779,000 at fiscal year end was not made to account for a liability incurred due to payments owed to the contractor. The payment owed to the contractor was not made due to payment limitations imposed by the project maximum payment schedule.

Project personnel indicated that they had not received guidance indicating the need to detail the liability on a monthly payment voucher so that the fiscal year end liability would be accrued. Project personnel indicated that they did not send in a copy of the Financial Management System Invoiced versus Paid Tabular Report detailing the liability.

Department of Finance Operating Policy and Procedure No. 0901-01 indicates that agencies must properly enter the date that goods and services are received for each payment so that the liability is correctly recorded in the year it was incurred. This matter was discussed with Office of Finance personnel in October 2007.

Recommendation

Finance and Administration Division Director and Operations Division Director coordinate to ensure that liabilities are correctly recorded in the fiscal year incurred.

Responses to Recommendation

Finance and Administration Division

Accurate information is the basis for making sound financial decisions. I concur with the auditor's finding and have directed my staff to take actions to resolve this issue. To date, actions have included meeting with Innovative Construction staff to create a process that properly identifies liabilities that are incurred beyond the payment curve that is established as a part of all projects. Their cooperatively developed response follows:

Staff from the Innovative Construction Office and the Office of Finance will collaborate to establish a process that includes steps to ensure that liabilities that occur ahead of the payment curve are properly documented, communicated, and entered on the Financial Statement. The following process will be established prior to the '08 construction season.

Actions:

Staff from Mn/DOT's offices of Innovative Construction and Finance met and determined the following actions to resolve this issue.

1. Office of Innovative Construction will notify Finance of any project that has a payment curve.
2. At the end of the fiscal year, IC will request project staff to produce a voucher that includes; a) total amount to be paid per contract; and, b) total amount obligated. Project staff forward the FY end voucher to IC and Finance.

Responses to Recommendation (continued)

Finance and Administration Division

3. Finance receives the voucher and electronically files the voucher information. When payment is made, the payment will be split coded according to the fiscal year the work was done. At this point, FY end information should be accurate – showing obligated amounts.
4. This will be implemented for the '08 construction season.

Operations Division

District 6 Response:

The liability at fiscal year end occurred due to a Maximum Monthly Payment Cap that was established by the Contractor as part of the Design-Build Proposal.

District personnel have been made aware that, in the future, outstanding liabilities present near the end of the Fiscal Year need to be further documented in communications with the Office of Finance so that said liabilities may be accounted for in accordance with required accounting practices. An “Invoiced vs. Paid” tabular report will be supplied to the Office of Finance in conjunction with regular invoicing data for future monthly payments on projects that contain a maximum Monthly Payment Cap.

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Mix Design

Bituminous specification 2360.4J requires use of aggregate proportions within 5% of the mix design at the start of production. Specification 2360.4J1a requires use of aggregate proportions within 10% of the mix design during production without a new Job Mix Formula (JMF). Project personnel requested clarification regarding whether these percentages were cumulative for all aggregate source proportion changes or if the percentages should be applied to each aggregate proportion and/or each change.

Schedule of Materials Control

The Schedule of Materials Control for design build projects defines Quality Control Testing (QCT) as sampled and taken by the contractor and Quality Assurance Testing (QAT) as sampled and taken by the agency. The Schedule of Materials Control for design build projects also calls for QAT tests to be done using a split sample taken by the Contractor. Mn/DOT needs to clarify this conflicting language. Also, there are separate Schedules of Materials Control for design build and design bid build projects. We feel that Mn/DOT should consider the benefits of one Schedule of Materials Control for all highway construction projects.

Weekly Concrete Reports

For State Project 6280-304, 6 of 6 required Weekly Concrete Reports were not completed and sent to the Office of Materials and Road Research (OMRR) as required for Concrete Pavement and Structural Concrete valued at \$1.5 million. This condition was also noted in the Single Audit Report for Fiscal Years 2004-2006. Project personnel felt that the reports were redundant. OMRR personnel felt that project personnel just needed to complete reports and send them in as required.

Contractor-Agency Test Result Tolerances

For State Project 0704-81, 24 of 24 required retests were not done. The retests were required due to contractor Quality Control (QC)-agency verification asphalt content, FAA, and gradation test result differences exceeding specification tolerances. The retests involved SP 12.5 Wearing and Non Wearing Course Mixtures valued at \$1.8 million. Project personnel agreed that the retests should have been done.

Office of Materials and Road Research personnel indicated that the purpose of retesting when QC-verification test result differences exceed specification tolerance is to confirm the results of the original verification test. Upon confirmation by retesting, verification test results are used for acceptance of bituminous mixture. Otherwise, QC test results are used for acceptance of bituminous mixture.

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Bituminous Plant Diaries

For State Projects 03-622-29, 6005-55, and 0704-81 a bituminous plant diary was not kept. State Project 03-622-29 personnel felt that a street diary was sufficient. State Project 6005-55 personnel indicated that a plant diary had been kept but was later lost. State Project 0704-81 personnel were concerned about conflicting information between the street diary and bituminous plant diary, so they kept only a street diary. State Project 0704-81 personnel also felt that on other projects, a bituminous plant diary was kept. This particular exception to requirements was also discussed in the Single Audit Reports for Fiscal Years 2005 and 2006.

The Contract Administration Manual, 5-591.390, requires each technician assigned as an inspector of a major phase of a contract such as grading, street, or plant inspection to keep a daily diary.

Asbestos Abatements and Dump Sites

For State Project 1017-12, project personnel self reported concerns regarding numerous asbestos abatements, demolitions, and dump sites, under the Minnesota Pollution Control Agency Voluntary Investigation and Cleanup (VIC) program. No opinion is expressed regarding compliance for this project with requirements for these asbestos abatements, demolitions, disposition of abated asbestos, and dump sites.

Treated Wood Disposition

For State Project 3115-60, an inspection report also documented 150-200 treated wood guard rail supports. The project proposal special provisions indicated that the Contractor should provide the Engineer all records (including invoices and scale tickets) regarding disposition of the wood within 30 days. Documentation regarding the disposition of the treated wood was not available in project files.

Creosote Piling Disposal

For State Project 3115-60, Work Order No. 11 called for disposal of creosote piling. The work order also indicated that the Manifest System shall be used, and that the manifests shall be signed by representatives from Mn/DOT, the transporter, and the landfill. Mn/DOT did not sign the manifest. The work order also stated that all scale tickets shall be kept. Scale tickets were not available in project files. Project personnel indicated that the signature on the manifest was overlooked. Project personnel also felt that an invoice for the disposal was sufficient documentation since the piling was hauled away in containers.

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OTHER INTERNAL CONTROL ISSUES DISCUSSED WITH MANAGEMENT

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Field Compliance Review on Labor Provisions

For multiple projects, the field compliance reviews were either missed entirely or done for some months and missed for others. For example, for State Project 3115-60, 7 of 10 required field compliance reviews were not done. Contract Administration Manual 5-591.320, Labor, requires project personnel to ensure compliance with the contract provisions by randomly interviewing employees (including subcontractor employees) each month and including the required information on the Field Compliance Review on Labor Provision form.

Poster Board

For State Project 8612-11, the required Federal Fraud poster, Federal Wage Rate Information poster, and Contract State Wage Determination were not available on the poster board. For State Project 176-125-06, the required Contract Federal General Wage Determination was not available on the poster board. These conditions were corrected during the audit. Finally, for State Project 6280-304, the poster board did not include the required Contract State Wage Determination.

Request to Sublet

For 4 projects reviewed, Requests to Sublet were not submitted for all subcontractors as required. For example, for State Project 34-610-15, there were no Requests to Sublet for all 7 subcontractors. This condition was also noted in the Fiscal Years 2005 and 2006 Single Audit Report. Standard Specifications for Construction, Specification 1801 requires the Contractor to submit Requests to Sublet at least 10 days before subcontractors intend to start work.

Mobilization

Contract bid item mobilization was not paid as required for 6 highway construction projects reviewed. This condition was also noted in the Fiscal Years 2005 and 2006 Single Audit Report. For example, for State Project 03-622-29, mobilization was paid by individual jobs within the highway construction project contract, rather than by the contract. As a result, a portion of the payment for mobilization was early and another portion was late.

Project personnel felt that it was correct to pay mobilization by individual jobs within the contract rather than by the contract as a whole. Engineering Services Division personnel confirmed that the correct method for paying mobilization is by the contract as a whole and not by individual contract jobs or groups.

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Supplemental Agreement Justification Letters

For State Projects 69-616-43, 176-125-06, 129-119-05, 6005-55, and 5508-84, justification letters were not done for supplemental agreements. This condition was also noted during the Construction Contract Changes Audit No. 07-900-105.

Work Done After Suspension

For State Project 03-622-29, we noted 2 payments in February and March 2007 for work done on a Lift Station valued at \$170,000 after the Engineer had suspended work for the winter in November 2006. The audit of this project was conducted in April 2007 and work had not yet been ordered or approved resumed by the Engineer. Standard Specifications for Construction, Specification 1803.4 states that work that has been suspended shall not be resumed until the Engineer so orders or approves.

Specification 1803.2 states that the contractor shall give the Engineer definite notice of intention to start work at least 24 hours in advance of beginning each major construction operation (the Lift Station was a major bid item). Project personnel indicated that the contractor notified them about progress on the Lift Station work in March 2007 after it was already in process.

Payment Timeliness

For State Project 34-610-15, \$1.3 million of \$1.6 million (81%) in partial payments exceeded 35 days from either the previous payment or the start of work per the Change in Contract Construction Status, with a range of 59 to 69 days for the late payments. Project personnel acknowledged that the payments were late and indicated that it was difficult to get inspectors into the office so that payments could be processed.

For State Project 129-119-05, \$407,000 of \$3.1 million (13%) in partial payments exceeded 35 days from either the previous payment or the start of work, with a range of 52 to 199 days. Project personnel indicated that they missed the cut off for city council meetings, delaying some of the payments. A considerable time lag between the completion of partial estimate vouchers and the issuing of checks was also noted.

For State Project 176-125-06, \$1.2 million of \$12 million (10%) in partial payments exceeded 35 days from either the previous payment or the start of work, with a range of 42 to 45 days. Project personnel indicated that they were trying to get the payments done in a timely fashion.

For State Project 60-602-17, a \$1.6 million partial payment, 30% of the \$5.3 million total paid for the project, was paid 41 days after the start of work. Although not in compliance with requirements, this extent of late payments represented an improvement over a prior audit. Project personnel indicated that they did not count the days worked by the contractor prior to the notification to start work date.

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1099 Forms

For State Project 27-716-03, 1099 Forms were not submitted for payments of \$600 or more to property owners. The State Aid Manual Chapter 5.2 and the Right of Way Manual 5-491.301.22 require the agency to send property owners a 1099 Form for reportable amounts of \$600 or more. The State Aid Division for Local Transportation needs to advise cities and counties to ensure that 1099 Forms are submitted to property owners as required.

County Financial Statement Accuracy

During the audit of State Project 73-601-42, it came to our attention that a financial statement asset account may be misstated. This matter was discussed with and referred to the Office of the State Auditor.

ATTACHMENT II

AUDIT FOLLOW UP OF PRIOR YEAR'S FINDINGS

Identified Concern in Fiscal Year 2006 <u>Single Audit Report No. 07-800-54</u>	Status	
	<u>Code</u>	<u>Notes</u>
Concrete Materials Control	2	A
Supplemental Agreement Coding	2	B
Subrecipient Monitoring for Bituminous Materials Control	2	C
Environmental Compliance	2	D
Subrecipient Monitoring for Payment Timeliness	2	E

Notes:

- A - Concrete Materials Control is discussed this year in Single Audit Report No. 08-800-27, Finding II.
- B - Supplemental Agreement Coding is discussed this year in Single Audit Report No. 08-800-27, Finding III.
- C - Subrecipient Monitoring for Bituminous Materials Control is discussed this year in Single Audit Report No. 08-800-27, Finding IV.
- D - Environmental Compliance is discussed this year in Single Audit Report No. 08-800-27, Finding V.
- E - Subrecipient Monitoring for Payment Timeliness is discussed this year in Single Audit Report No. 08-800-27, Other Internal Control Issues Discussed With Management.

Explanation of Status Codes

- 1 - Findings have been fully corrected.
- 2 - Findings not corrected or only partially corrected; discussed in this year's Single Audit Report.
- 3 - Findings not corrected or only partially corrected; discussed verbally with management.
- 4 - Findings are no longer valid or do not warrant further action.

ATTACHMENT III
QUESTIONED COSTS

Finding(s)	State Project	Contract Items	Amount	Reasons
I	69-616-43	Embankment Special	\$631,000	Note 2
		Embankment Special I	\$649,000	Note 2
		Aggregate Base (CV) Class 5	\$235,000	Note 2
I	6280-304	Select Granular Borrow (CV)	\$2,525,000	Note 2
		Select Granular Borrow (MOD)	\$370,000	Note 2
		Aggregate Base Class 6	\$524,000	Note 2
I	1017-12	Grading and Roadways Suitable Materials	\$1,171,000	Note 2
I	0704-81	Aggregate Base (CV) Class 3	\$242,000	Note 2
		Aggregate Base (CV) Class 5	\$231,000	Note 2
I	3115-60	Aggregate Base (CV) Class 6	\$91,000	Note 2
I	03-622-29	Aggregate Base (CV) Class 5	\$111,000	Note 2
I	34-610-15	Aggregate Base Class 5	\$201,000	Note 2
I	129-119-05	Aggregate Base (CV) Class 5	\$167,000	Note 2
I	176-125-06	Aggregate Base (CV) Class 5	\$287,000	Note 2
I	6005-55	Aggregate Base (CV) Class 6	\$60,000	Note 2
II	164-080-09	Cast-in-Place Concrete	\$4,523,000	Note 1
III	1017-12	Change Order Cost Coding	\$579,000	Note 8
III	1017-12	Change Order Credits	\$1,547,000	Note 11
III	8612-11	Supplemental Agreement No. 1	\$175,000	Note 9
III	0704-81	Supplemental Agreement Nos. 1 & 2	\$1,300,000	Note 9
IV	129-119-05	Type SP 12.5 Wearing Course Mixture	\$235,000	Note 3
		Type SP 12.5 Non Wearing Course Mixture	\$133,000	Note 3
IV	176-125-06	Type SP 12.5 Wearing Course Mixture	\$438,000	Note 3
		Type SP 12.5 Non Wearing Course Mixture	\$433,000	Note 3
IV	34-610-15	Type SP 12.5 Wearing Course Mixture	\$216,000	Note 3
		Type SP 12.5 Non Wearing Course Mixture	\$330,000	Note 3
IV	03-622-29	Type MV3 Non Wearing Course Mixture	\$129,000	Note 3
IV	60-602-17	Type SP 12.5 Wearing Course Mixture	\$1,074,000	Note 3
		Type SP 12.5 Non Wearing Course Mixture	\$626,000	Note 3
V	3115-60	Remove Old Bridge	\$10,000	Note 4
V	2774-7264	TCLP Test	\$2,000	Note 4
		Lead Substances Collection and Disposal	\$176,000	Note 4
V	176-125-06	Erosion Control Supervisor	\$10,000	Note 5
V	69-616-43	Erosion Control Supervisor	\$4,000	Note 5
V	1017-12	Environmental Management	\$169,000	Note 5
V	164-080-09	Erosion Control	\$9,000	Note 5
V	8612-11	Erosion Control Supervisor	\$5,000	Note 5
	Various	NPDES Permit/Erodible Acres Requirements		Notes 6, 10
V	5508-84	Building and Regulated Waste Removals	\$84,000	Note 7
Other	6280-304	Concrete Pavement	\$424,000	Notes 1, 14
		Structural Concrete	\$1,062,000	Notes 1, 14
Other	0704-81	Type SP 12.5 Wearing Course Mixtures	\$1,922,000	Notes 3, 14
		Type SP 12.5 Non Wearing Course Mixture	\$491,000	Notes 3, 14
Other	6005-55	Type SP 12.5 Wearing Course Mixtures	\$2,857,000	Notes 3, 14
Other	34-610-15	Late Payments	\$516,000	Notes 12, 14
Other	129-119-05	Late Payments	\$407,000	Notes 12, 14
Other	176-125-06	Late Payments	\$1,162,000	Notes 12, 14
Other	60-602-17	Late Payments	\$1,573,000	Notes 12, 14
Other	03-622-29	Lift Station	\$170,000	Notes 13, 14
Total			\$30,286,000	

The amount column represents the contract total for each questioned cost item. Usually the federal amount is 80-90% of this total.

ATTACHMENT III
QUESTIONED COSTS
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Notes:

1. Noncompliance with Concrete Materials Control requirements.
2. Noncompliance with the Schedule of Materials Control, Standard Specifications for Construction, and contract special provisions related to grading and base material testing.
3. Noncompliance with the bituminous specifications and the Code of Federal Regulations related to QC/QA testing.
4. Noncompliance with contract special provision requirements regarding handling and disposition of lead paint.
5. Noncompliance with General National Pollutant Discharge Elimination System (NPDES) Permit requirements.
6. Noncompliance with NPDES requirements was considered to apply to entire projects for State Projects 6005-55; 129-119-05; 60-602-17; and 34-610-15; we were unable to isolate specific contract item costs related to noncompliance.
7. Noncompliance with Federal requirements regarding building inspection, asbestos abatement, and building removal. For State Project 5508-84, this was accomplished under Agreements 87020, 83120, and 83116 and 2 associated Work Orders. These agreements and associated work orders covered 3 other State Projects and were valued at a total of \$336,000. We attributed 25% or \$84,000 of the costs to State Project 5508-84.
8. Contract change costs were incorrectly coded for federal participation; noncompliance with Code of Federal Regulations and Federal Highway Administration (FHWA) requirements outlined in the FHWA & Mn/DOT Letter of Agreement and Stewardship Plan.
9. Costs were not reasonable or necessary per the A-133 Compliance Supplement as described in the Finding and/or not in compliance with the General Accounting Standards Board Statement No. 34.
10. Noncompliance with the Standard Specifications for Construction related to Withholding for Erodible Acres as detailed in the Finding. We were unable to determine the exact amount impacted; the finding lists a range of \$11,000 to \$330,000. Multiple contract items could be impacted, each to an indeterminate degree.
11. \$1,547,000 million in credits (net reduction to contract payments) not included in the most recent payment voucher as described in the Finding.
12. Noncompliance with Minnesota Statute 471.425 regarding the need to make payments every 35 days. Amounts questioned in other findings under specific contract bid items were backed out of total amounts questioned for late payments.
13. Noncompliance with Standard Specifications for Construction.
14. These questioned costs are listed under Other Internal Control Issues Discussed With Management.