OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Department of Transportation

Internal Control and Compliance Audit

July 1, 2008, through March 31, 2010

September 16, 2010 **Report 10-30**

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

September 16, 2010

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Legislative Audit Commission

Thomas Sorel, Commissioner
Minnesota Department of Transportation

This report presents the results of our selected scope internal control and compliance audit of the Minnesota Department of Transportation's central office and Duluth district for the period July 1, 2008, through March 31, 2010.

We discussed the results of the audit with the Department of Transportation's central office and Duluth district staff on August 30, 2010. The audit was conducted by Jim Riebe, CPA (Audit Manager) and Tracy Gebhard, CPA (Auditor-in-Charge), assisted by auditors Alex Weber, Emily Wiant, and Anna Solomka.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Minnesota Department of Transportation. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 16, 2010.

We received the full cooperation of the Minnesota Department of Transportation's central office and Duluth district staff while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
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Table of Contents

Report Summary

Conclusion

The Minnesota Department of Transportation's (MnDOT) central office did not have adequate internal controls to ensure that it safeguarded certain receipts, accurately recorded receipts in the accounting records, or properly managed employee use of state cell phones. The central office's internal controls were generally adequate to ensure it reimbursed employees for travel expenses in accordance with finance-related legal requirements and management's authorizations, and properly recorded those transactions in the accounting records; however, the department had some weaknesses in its controls to ensure that employees minimized some travel-related costs.

MnDOT's Duluth district generally had adequate internal controls for the selected administrative expenditures to ensure that it accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data. However, the district had some weaknesses in these areas.

MnDOT's central office and Duluth district generally complied with significant finance-related legal requirements; however, there were some specific instances of noncompliance related to protection of not public data, prompt deposits of receipts, and management of state-issued cell phones.

MnDOT partially implemented a prior audit recommendation – it improved its oversight of employee expense reimbursements but did not implement sufficient controls to adequately monitor employee cell phone use to ensure compliance with federal law and state and department policies.[1]

Key Findings

- MnDOT's central office did not assess the risks related to receipts and failed to implement fundamental internal controls in its receipt process. (Finding 1, page 9)
- MnDOT's central office did not adequately protect some not public data. (Finding 2, page 10)
- MnDOT's central office did not have documentation to support evidence of employee and supervisory review of some of its cell phone expenses. (Finding 4, page 13)

[1] Office of the Legislative Auditor, Financial Audit Division, Report 07-32, Minnesota Department of Transportation – Investigation of the Former Director of Homeland Security and Emergency Management, issued November 28, 2007.

Audit Objectives and Scope

<u>Objectives</u>

- Internal Controls and Compliance

<u>Period Audited</u>

July 1, 2008, through March 31, 2010

<u>Audited Areas</u>

Central Office:

- Selected Revenues[2]
- Cell Phone and Employee Expense Reimbursements

Duluth District:

- Supplies and Equipment
- Payroll, Cell Phone, and Employee Expense Reimbursements

[2] Selected revenues included aircraft registration tax, intergovernmental grants revenue, and restitution revenue.

Minnesota Department of Transportation Selected Scope Audit of the Central Office and Duluth District

Agency Overview

The Minnesota Department of Transportation (MnDOT) is the principal state agency responsible for developing and implementing policies, plans, and programs for highways, railroads, commercial waterways, aeronautics, public transit, and motor carriers. State statutes govern MnDOT operations.[3] According to MnDOT, its mission is "to provide the highest quality, dependable multi-modal transportation system through ingenuity, integrity, alliance, and accountability."

Appointed by Governor Pawlenty in April 2008, the department's commissioner is Thomas K. Sorel. The department is organized with a central office located in Saint Paul and eight regional district offices in Duluth, Bemidji, Brainerd, Detroit Lakes, Rochester, Mankato, Willmar, and the Minneapolis/Saint Paul metropolitan area. The central office manages the administration of MnDOT, and the regional district offices manage the majority of MnDOT's day-to-day operations, including highway construction projects, maintenance, and highway right-of-way issues. MnDOT employs about 5,000 staff. MnDOT receives funding primarily through the Trunk Highway Fund,[4] Federal Fund, and various special revenue funds. The central office grants a majority of these funds to local governments primarily for construction projects.

The central office collects a variety of revenue, including the following:

- Aircraft Registration Taxes – Every owner of aircraft in the state must register the aircraft with MnDOT and pay a registration tax based on the aircraft's list price and age.[5]

- Intergovernmental Grant Revenue – Local units of government often partner with MnDOT on highway construction and maintenance projects. Sometimes, MnDOT initially finances these joint projects and then

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[3] *Minnesota Statutes* 2009, Chapter 174.
[4] The Trunk Highway Fund is established in the state's constitution (Minnesota Constitution, Article XIV, Section 6) to be used solely for the construction, improvement and maintenance of highways and roads included in the state's trunk highway system and for the payment of principal and interest of any trunk highway bonds issued.
[5] *Minnesota Statutes* 2009, 360.59.

collects from the local government its share of the project's construction costs.[6]

- Restitution Revenue – The department collects payments for damages to MnDOT property, such as guard rails, highway lights, traffic lights, and signs.[7]

Table 1 recaps the aircraft registration taxes, intergovernmental grant revenue, and restitution revenue the department collected in fiscal year 2009.

Table 1
Minnesota Department of Transportation
Selected Revenues

	Fiscal Year 2009
Aircraft Registration Tax	$ 6,213,127
Intergovernmental Grant Revenue	22,930,511
Restitution Revenue	5,212,150
Total	$34,355,788

Source: Minnesota Accounting and Procurement System.

In 2007 we issued a report that cited weaknesses in the central office's internal controls over costs related to employee cell phones and travel reimbursements.[8] In response to that report, the department revised its business manual and provided training to employees and supervisors to improve its oversight of these employee-based costs. As of March 2010, the central office had approximately 1,500 employees.

Table 2 recaps the central office's expenditures for employee cell phones and expense reimbursements.

[6] *Minnesota Statutes* 2009, 174.02.
[7] *Minnesota Statutes* 2009, 161.20.
[8] Office of the Legislative Auditor, Financial Audit Division, Report 07-32, Minnesota Department of Transportation – Investigation of the Former Director of Homeland Security and Emergency Management, issued November 28, 2007.

Table 2
Minnesota Department of Transportation
Central Office
Cell Phone Expense and Employee Expense Reimbursements

	Fiscal Year 2009
Cell Phone Expense	$ 317,205
Employee Expense Reimbursements	975,053
Total	$1,292,258

Source: Minnesota Accounting and Procurement System.

The Duluth district includes the counties of Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, Pine and Saint Louis in northeastern Minnesota. The district has two main offices located in Duluth and Virginia and 19 truck stations located throughout the district. The district's responsibilities include the construction, improvement and maintenance of more than 1,600 miles of state highways and more than 600 state bridges. The district receives funding primarily from a central office allocation of money from the Trunk Highway Fund and uses a majority of the funds for payroll and other administrative expenses.

Table 3 recaps selected administrative expenditures for the Duluth district for fiscal year 2009.

Table 3
Minnesota Department of Transportation - Duluth District
Selected Administrative Expenditures

	Fiscal Year 2009
Payroll	$24,332,411
Supplies and Equipment	10,541,132
Cell Phone Expense	62,844
Employee Expense Reimbursements	261,339
Total	$35,197,726

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our selected scope audit of the Minnesota Department of Transportation included certain financial activities of the central office and the Duluth district. Our audit covered aircraft registration tax, intergovernmental grant, and restitution revenues, and cell phone and employee expense reimbursements at the central office. In addition, our audit included selected administrative expenditures (payroll, supplies and equipment, cell phone, and employee expense reimbursements) of the Duluth district.

This audit was an internal control and compliance audit, which focused on the following audit objectives for the period July 1, 2008, through March 31, 2010:

- Did MnDOT's central office have adequate internal controls to ensure that it safeguarded its receipts, accurately recorded its receipts in the accounting records, and properly managed employee use of cell phones and expense reimbursements in accordance with finance-related legal requirements and management's authorizations?

- Did MnDOT's Duluth district have adequate internal controls over the selected administrative expenditures to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorization, complied with finance-related legal provisions, and created reliable financial data?

- Did MnDOT's central office and Duluth district comply with significant finance-related legal requirements?

- Did MnDOT's central office resolve a prior audit finding related to its oversight of employee cell phone costs and expense reimbursements?

To meet the audit objectives, we gained an understanding of MnDOT's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions. In selecting our sample of transactions, we considered audit work performed by MnDOT's Office of Internal Audit as part of its continuous audit of cell phone and business expenses, and its recent work on purchases and inventory at the Virginia Office.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the home's internal controls.[9] We used state statutes, contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and MnDOT's internal policies and procedures as evaluation criteria over compliance.

Conclusion

MnDOT's central office did not have adequate internal controls to ensure that it safeguarded certain receipts, accurately recorded receipts in the accounting records, or properly managed employee use of state cell phones. The central office's internal controls were generally adequate to ensure it reimbursed employees for travel expenses in accordance with finance-related legal requirements and management's authorizations, and properly recorded those transactions in the accounting records; however, the department had some weaknesses in its controls to ensure that employees minimized some travel-related costs.

MnDOT's Duluth district generally had adequate internal controls for the selected administrative expenditures to ensure that it accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data. However, the district had some weaknesses in these areas.

MnDOT's central office and Duluth district generally complied with significant finance-related legal requirements; however, there were some specific instances of noncompliance related to protection of not public data, timely deposits of receipts, and management of state-issued cell phones.

MnDOT partially implemented a prior audit recommendation – it improved its oversight of employee expense reimbursements but did not implement sufficient controls to adequately monitor employee cell phone use to ensure compliance with federal law and state and department policies.

The following *Findings and Recommendations* further explain the exceptions noted above.

[9] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Findings and Recommendations

Finding 1

MnDOT's central office did not assess the risks related to receipts and failed to implement fundamental internal controls in its receipt process.

MnDOT's central office did not assess the risks related to receipts, as required by state policy. Had the central office completed a risk assessment, it could have identified and addressed the following significant control weaknesses and noncompliance with state policies.

- The central office did not adequately safeguard approximately $55 million of receipts collected from July 2008 through March 2010 for aircraft registration taxes, intergovernmental grants, and restitutions. Employees kept aircraft registration tax receipts in unlocked file cabinets until deposited. In addition, employees left intergovernmental grant and restitution receipts unattended and visible on their desks. Employees did not restrictively endorse checks for any of the three types of receipts until they prepared the deposit. Receipts left unsecured and unendorsed are at an increased risk of theft or loss.

- The central office did not promptly deposit receipts for aircraft registration tax and intergovernmental grants, as required by state statute.[10] It did not comply with the prompt deposit requirement in 15 of 20 aircraft registration tax deposits we tested. For example, it held two aircraft registration deposits totaling $120,000 for six days and a $26,000 intergovernmental grant receipt for five days before depositing those receipts. The statute requires daily depositing of receipts that exceed $250.

- The central office did not adequately separate duties for aircraft registration receipts. Employees who had physical custody of receipts and prepared the deposit also recorded the receipts in the aircraft registration system, could adjust late fees in the aircraft registration system, and approved refunds. By not adequately separating duties or developing mitigating controls, MnDOT increased its risk of potential error or fraud.

- The central office did not complete the necessary receipt reconciliations for any of the three types of revenues we audited. State policy requires reconciliations of the daily receipt log and bank deposit slip to actual receipts and to the state's accounting system, as well as a reconciliation between monthly deposit records and the state's accounting system.[11]

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[10] *Minnesota Statutes* 2009, 16A.275.
[11] Department of Management and Budget Policy 0602-03.

Employees stated that they reconciled the receipt log for aircraft registration tax receipts to the bank deposit slip and the actual receipts for aircraft registration tax receipts, but did not have documentation to support that reconciliation. The various receipt reconciliations help ensure that MnDOT appropriately deposits all receipts collected and accurately records those receipts in the accounting records.

Safeguarding and promptly depositing receipts, separating receipt duties, and performing key receipt reconciliations are fundamental internal controls to protect receipts from loss or theft. The state's policy on internal control requires that each agency head identify, analyze, and manage business risks that affect the entity's ability to maintain its financial strength and the overall quality of its products and government services. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor controls and report significant deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

Recommendations

- *MnDOT's central office should identify the financial risks related to its receipt process (including the risk of noncompliance with finance-related legal requirements), develop internal controls to mitigate those risks, and monitor the effectiveness of its internal controls on an on-going basis.*

- *MnDOT's central office should safeguard receipts before deposit and deposit receipts totaling $250 or more on a daily basis, as required by statute.*

- *MnDOT's central office should segregate employees' incompatible duties associated with aircraft registration tax receipts or develop mitigating controls.*

- *MnDOT's central office should complete the necessary receipt reconciliations required by state policy.*

Finding 2

MnDOT's central office did not adequately protect some not public data.

MnDOT's central office did not sufficiently protect some not public data it retained as part of its receipt process. Staff routinely copied checks that included not public bank account numbers and collected customer addresses and social security numbers related to its restitution receipts. MnDOT kept this not public data in unlocked file cabinets and cardboard boxes at its central office (where employees process a wide variety of receipts) and the department's offices at the downtown Saint Paul airport (where employees process aircraft registration taxes). Anyone with access to these offices would have access to this not public data.

Minnesota Statutes require that state agencies protect not public data and ensure that it is used for only the purposes originally stated to the individual at the time MnDOT collected the data.[12]

Recommendation

- *MnDOT should ensure not public data is adequately safeguarded or properly destroyed.*

Finding 3

MnDOT's central office and Duluth district did not ensure that they minimized certain employee travel costs and had adequate support for certain lodging costs.

MnDOT's central office and Duluth district did not have adequate internal controls to ensure that employees minimized certain mileage and lodging costs and provided sufficient documentation to support some lodging reimbursements. From July 2008 through March 2010, the central office had mileage and lodging expenditures totaling $1,038,142 and the Duluth district had $263,443.

The Duluth district had not conducted a cost benefit analysis before it allowed employees to incur significant mileage costs using their own vehicles. The cost benefit analysis would have determined whether it would have been more cost effective to provide these employees with a state-owned vehicle. Job duties for some MnDOT employees required significant travel. The Duluth district reimbursed one employee more than $12,000 for mileage costs for the period from July 2008 through March 2010.

The central office stated that it had done cost benefit analyses to compare the cost of employee's use of a personal vehicle to the cost of providing a state-owned vehicle; however, the office had not documented the analyses. For the period from July 2008 through March 2010, the central office reimbursed eight employees more than $10,000 each for mileage costs; one of the eight employees received over $25,400. Central office staff could not explain the costs effectiveness of the mileage reimbursement for some of these high mileage employees.

Also, the central office and the Duluth district may have reimbursed employees at a higher rate than necessary; employee bargaining agreements allow for, and sometimes require, paying a lower mileage rate if the department offers the employee use of a state car and the employee decides to drive a personal vehicle.

[12] *Minnesota Statutes* 2009, 13.355 and 13.40.

However, MnDOT has a department policy to always pay the higher mileage rate, which may conflict with the bargaining agreements.[13] Because the department did not offer these employees the use of a state-owned vehicle, it reimbursed the employees at a higher mileage rate.

The central office did not ensure that employees chose low cost lodging options, as required by department policy. Seven of eight lodging reimbursements we tested had no evidence the employee had received the reduced government rate for the lodging. (We verified that 10 of 11 hotels included in the lodging reimbursements we tested did offer government rates that ranged from 10 to 57 percent lower than standard room rates.) The department's business manual states, "Employees are encouraged to stay at facilities that are reasonably priced....Government and frequent visitor discounts should always be requested."[14] The central office did not provide employees with sufficient training to help them minimize lodging costs to the state and did not adequately monitor payments to determine if employees followed the department's policy.

The Duluth district did not require employees to submit itemized invoices for about $7,000 in long-term lodging reimbursements we tested that the district paid to three employees in the graduate engineer trainee program. This program requires employees to work at another location for an extended period. State policy and the department's business manual require employees to submit itemized receipts with their reimbursement requests to support the lodging costs.[15] The department reimbursed employees for these costs without itemized receipts supporting the legitimacy of the payments.

Recommendations

- *MnDOT's central office and Duluth district should conduct and document the cost benefit analyses to determine whether providing certain employees with state vehicles would be more cost effective than reimbursing these employees for mileage.*

- *Whenever cost beneficial, MnDOT's central office and Duluth district should:*
    - *Offer employees the use of a state vehicle and if an employee declines to use the state vehicle, the department should reimburse the employee at the lower mileage rate allowed or required by employee bargaining agreements.*

[13] Minnnesota Department of Transportation Business Manual, Chapter 5 Reimbursements.
[14] Minnesota Department of Transportation Business Manual, Chapter 5 Reimbursements.
[15] Department of Management and Budget Policy PAY0021 *Employee Business/Travel Expenses – Meals and Lodging,* and Minnesota Department of Transportation Business Manual, Chapter 5 Reimbursements.

- *Review its internal policy to always pay employees at the higher mileage reimbursement rate to ensure compliance with bargaining agreements.*

- *MnDOT's central office should take steps, such as training or monitoring, to ensure that employees choose lower cost options, such as the government rate when making lodging arrangements.*

- *MnDOT's Duluth district should require employees to submit lodging invoices to support reimbursements for long term lodging arrangements.*

Finding 4

Prior Finding Partially Resolved:[16] MnDOT's central office did not have documentation to support evidence of employee and supervisory review of some of its cell phone expenses.

The central office could not provide evidence of supervisory review and approval for 7 of 34 monthly cell phone invoices tested, and 3 of those exceptions also lacked evidence of employee review of the invoices to identify any personal phone calls. The exceptions pertained to several divisions within the central office. We had reported similar concerns to the department in a prior report issued in November 2007 and in its response the department stated it would update its procedures over cell phone expenses. However, without evidence of employee and supervisory review and approval of the invoices, the central office could not ensure that employees reviewed the invoices and reimbursed the department for any personal phone calls and that supervisors had reviewed and approved the cell phone invoices of their employees. From July 2008 through March 2010, the central office's cell phone expenditures totaled $568,000. State policy requires employees to identify personal phone calls and reimburse the state for those calls.[17] The policy also requires supervisory review and approval of monthly cell phone bills. In addition, the internal revenue service requires that the department maintain documentation to show that employees used the cell phones exclusively for business purposes and, therefore, not subject to taxation.[18]

[16] Office of the Legislative Auditor, Financial Audit Division, Report 07-32, Minnesota Department of Transportation – Investigation of the Former Director of Homeland Security and Emergency Management, issued November 28, 2007.

[17] Department of Administration *Cellular Telephone Use Addendum to the Statewide Policy: Appropriate Use of Electronic Communication and Technology.*

[18] Internal Revenue Service guidance on government employee cell phone usage, found at: http://www.irs.gov/govt/fslg/article/0,,id=167154,00.html.

Recommendation

- *MnDOT's central office should improve controls to ensure employees and supervisors review and approve monthly cell phone invoices and that it retains evidence supporting the different levels of review.*

Finding 5

MnDOT's Duluth district lacked an adequate segregation of duties over fixed assets and did not update its fixed asset inventory for some purchases.

MnDOT's Duluth district had the following significant internal control weaknesses for its fixed asset inventory processes:

- The district did not segregate incompatible fixed asset inventory duties. The employees responsible for maintaining the fixed asset inventory records also conducted the physical inventory of fixed assets in fiscal year 2009. State policy states employees taking the physical inventory counts not be the same employees responsible for reporting activity in the capital assets inventory system, unless others are involved.[19] The risk of errors and fraud increased when employees responsible for maintaining the inventory records also conducted the physical inventory.

- The district had not recorded three of seven fixed assets purchased from July 2008 through March 2010 in its inventory records and did not affix these assets with state property tags, in part because the district did not accurately record the purchases as fixed assets in the state's accounting system. These purchases included an October 2008 purchase of a pipeline inspection camera that cost approximately $16,540, and April and June 2009 purchases of navigational systems that cost $18,153, and $6,745, respectively. State policy requires agencies to include capital assets that cost $5,000 or more in an inventory listing.[20]

Recommendations

- *The district should separate fixed asset record keeping and physical inventory functions.*

- *The district should correctly record fixed asset purchases in the state's accounting system and then ensure it records the fixed assets in the inventory system and affixes the state property assets tags.*

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[19] Department of Administration's User Guide to State Property Management, page 2-8.
[20] Department of Administration's User Guide to State Property Management, page 2-1.

Minnesota Department of Transportation

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

September 10, 2010

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor, State of Minnesota
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

On behalf of the Minnesota Department of Transportation, I submit the following in response to the Office of the Legislative Auditor internal control and compliance audit of certain financial activities of the Central Office and the Duluth district for the period July 1, 2008 to March 31, 2010.

Finding and Recommendations:

Finding 1

MnDOT central office did not assess the risks related to receipts and failed to implement fundamental internal controls in its receipt process.

Recommendations

- MnDOT's central office should identify the financial risks related to its receipt process (including the risk of noncompliance with finance-related legal requirements), develop internal controls to mitigate those risks, and monitor the effectiveness of its internal controls on an on-going basis.
- MnDOT's central office should safeguard receipts before deposit and deposit receipts totaling $250 or more on a daily basis, as required by statute.
- MnDOT's central office should segregate employees' incompatible duties associated with aircraft registration tax receipts or develop mitigating controls.
- MnDOT's central office should complete the necessary receipt reconciliations required by state policy.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations. Control processes to be implemented before October 1, 2010:

- Office of Finance will document a financial risk assessment on handling receipts and develop internal controls to monitor and mitigate associated risks.
- Office of Finance and the Office of Aeronautics will safely secure and restrictively endorse all receipts at the time received. All receipts over $250 will be deposited within 24 hours.
- Office of Aeronautics has documented a process to segregate duties for registration receipt and recording. All aircraft registration tasks will have backup personnel.
- Office of Finance and the Office of Aeronautics will reconcile the daily receipts to the receipt deposit report generated from the accounting system.

Finding 2

The MnDOT central office did not adequately protect some not public data.

Recommendations

- MnDOT should ensure not public data is adequately safeguarded or properly destroyed.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations. Control mitigation processes implemented:

- Office of Finance locks all file cabinets and storage rooms that have files containing not public information.
- Office of Aeronautics not public data stored in file cabinets or computer applications are being destroyed as an on-going effort to safeguard not public information.

Finding 3

The MnDOT central office and Duluth district did not ensure that they minimized certain employee travel costs and had adequate support for certain lodging costs.

Recommendations

- MnDOT's central office and Duluth district should conduct and document the cost benefit analyses to determine whether providing certain employees with state vehicles would be more cost effective than reimbursing these employees for mileage.

- Whenever cost beneficial, MnDOT's central office and Duluth district should:
  - offer employees the use of a state vehicle and if an employee declines to use the state vehicle, the department should reimburse the employee at the lower mileage rate allowed or required by employee bargaining agreements;
  - review its internal policy to always pay employees at the higher mileage reimbursement rate to ensure compliance with bargaining agreements.

- MnDOT's central office should take steps, such as training or monitoring, to ensure that employees choose lower cost options, such as the government rate when making lodging arrangements.

- MnDOT's Duluth district should require employees to submit lodging invoices to support reimbursements for long term lodging arrangements.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations.

- Central Office and Duluth district will document a cost/benefit analysis on the use of vehicles and make recommendations for Mn/DOT Business Manual policy revisions to the Division Directors by December 31, 2010.

- Central Office will periodically communicate to office and district leadership Mn/DOT's Business Manual employee lodging requirements beginning October 1, 2010.

- Central Office has revised the graduate engineer long term travel expense policy. The Central Office Graduate Engineer Program Manager will ensure that new guidelines are implemented immediately.

Finding 4

Prior Finding Partially Resolved: The MnDOT central office did not have documentation to support evidence of employee and supervisory review of some of its cell phone expenses.

Recommendations

- MnDOT central office should improve controls to ensure employees and supervisors review and approve monthly cell phone invoices and that it retains evidence supporting the different levels of review.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations.

- Central Office will periodically communicate to office and district leadership Mn/DOT's Business Manual cell phone approval and retention requirements beginning October 1, 2010.

Finding 5

The MnDOT Duluth district lacked an adequate segregation of duties over fixed assets and did not update its fixed asset inventory for some purchases.

Recommendations

- The district should separate fixed asset record keeping and physical inventory functions.
- The district should correctly record fixed asset purchases in the state's accounting system and then ensure it records the fixed assets in the inventory system and affixes the state property assets tags.

Agency Response

The Minnesota Department of Transportation agrees with the recommendations.

- The Duluth district inventory supervisor will immediately implement changes in segregation of duties and procedures, and document these changes by September 30, 2010.
- The Duluth district inventory supervisor will work with Central Office to clarify procedures for assets purchased outside the district. Additionally, the inventory supervisor will review appropriate procedures with those recording fixed assets and affixing tags by September 30, 2010.

I appreciate the professional approach of your staff and the cooperative manner in which the audit was conducted.

Sincerely,

Thomas K. Sorel

Thomas K. Sorel
Commissioner

Cc: Jim Riebe, CPA, Audit Manager
Thomas Halverson, Chief Financial Officer
Pam Tschida, Division Director
Dan Kahnke, Audit Director